# Hospitality Sector Council

# Pathway to recovery

# Opportunities for levelling up

This Interim report has been produced by the Recovery Working Group of the Council. Phase 2 of the work will provide additional economic analysis and take forward refinement of policy detail.

# Contents

## Executive summary

Government and the hospitality sector share a common interest in collaborating to deliver an economic recovery at the earliest opportunity. GDP figures demonstrate that economic recovery is accelerated when hospitality is open and trading without restrictions, and that the sector stifles economic growth when it cannot.

The Government's Hospitality Strategy, published in July 2021, sets out plans to work with the sector as it reopened and recovered from COVID. It sought to develop co-created solutions to bolster longer-term sectoral resilience and ensure a rapid return **to its role delivering jobs, growth and investment across the UK, as it had in the decade following the financial crash**. However, the strategy was predicated on a smooth reopening phase and a sustained period of trading over key profit-driving periods: summer holidays and the festive period, when over half of all annual revenues would be earned. This would enable businesses to restore balance sheets and cash reserves ahead of support measures being wound down from October 2021. That recovery period – breathing space to repair - did not happen.

Consequently, the Hospitality Council established a temporary Recovery Group to review priority actions in the Hospitality Strategy and to make short, sharp recommendations for how to reset the sector's recovery. It proposes reframing the Strategy towards **tackling inhibitors to fulfilling demand; cost price inflation; depletion of cash reserves**. A second full report will provide more detailed policy detail.

This ***interim*** *report* provides a snapshot state of the nation review of a sector that remains fragile. A sector that has not had sufficient trading to rebuild cash reserves to pre-pandemic levels; one hit by significant price inflation preventing profitable trading and facing suppressed demand due to a cost-of-living squeeze; one where the mid-quartile of companies – over 70% of outlets – are reporting flat sales and face a prolonged period of stagnation. The sector has borne a disproportionate burden during COVID, to keep the rest of the economy and society open, and this is reflected in this economic health check.

Government support for hospitality has been unprecedented throughout the COVID period. If we are to accelerate the recovery to repay that and help to pay down debts, it is vital that **the 70% of the sector currently flatlining is shifted into growth mode,** while also **underpinning the viability of more of the 23% of businesses in the bottom performing quartile**. A kickstart of those mid-cap businesses best primed for growth will ensure that the sector can rapidly play its part in delivering the Government's Levelling Up missions. A successful hospitality recovery will deliver substantial job creation, boost skills, wages and productivity growth, while creating desirable places in which to live, work and invest. More resilient businesses will better navigate the ongoing challenges of restarting global supply chains and help to insulate consumers from cost-of-living pressures.

**Collective actions to boost economic growth, improve productivity and deliver a resilient sustainable recovery**

1. Extend the 12.5% VAT rate and retain the £2m business rates relief cap, to insulate consumers from price increases and in recognition of the delay of the sector's recovery. The delay has been, at best, three months, but closer to six months for major cities and yet longer for those reliant on international travel.
2. Collaborate with OFGEM and business to alleviate energy price increases; examining payment deferrals and commercial prices caps.
3. Support jobs and skills by: allowing two more years to invest unspent apprenticeship levy pots thus boosting pathways to work; transforming the levy into a Skills Challenge Fund to boost upskilling and boost productivity.

We also set out a range of options of non-fiscal measures to support recovery and growth, which will be refined in Phase 2 of the Recovery Group's work.

## Introduction

This report identifies the major challenges facing hospitality and offers solutions to boost recovery following the pandemic. It recognises that Government's role is not to keep failing businesses afloat, but proposes how to optimise and accelerate the recovery of those best placed for growth. Those are the businesses most likely to deliver the levels of expansion, job creation and investment that we achieved in the decade after the financial crash. So, we prioritise the measures that will deliver a return to pre-pandemic levels of revenue and sector growth a year ahead of independents targets, as per the Tourism Recovery Plan. Similarly, we seek active engagement by the sector in the Levelling Up targets relating to a high skill, high wage economy, and creating places people want to live, work and invest in.

**Background to the Hospitality Strategy**

The initial Hospitality Strategy envisaged a swift sectoral recovery upon reopening and the lifting of all restrictions under the Government's Roadmap published in Spring 2021. The focus of the Council was on the medium to longer term. Accordingly, the Recovery Section's recommendations focused on helping the sector bounce back more quickly via limited, short-term measures: stimulating demand by through cutting red tape; managing costs through ring fenced rent debt solutions; and helping to access finance.

An assumption underpinning the strategy was that a move to unrestricted trading would trigger a rapid recovery to 2019 revenue levels. This would rebuild cash reserves over the summer, allowing a wind-down of Government support, as planned, from Sept/Oct 2021, with subsequent removal from March 2022, following unrestricted festive trading. Hence, the Council could focus on building resilience, repairing shattered balance sheets and cash reserves, as the recovery would be secured. Restrictions were lifted in July but the ability to trade at maximum capacity was impeded by unforeseen challenges around case numbers, staff shortages/absences and unprecedented supply chain disruption/suppression, pushing up costs, eroding margins and jeopardising recovery. In short, even by the first Hospitality Council meeting, it was clear that recovery could not be taken for granted and that urgent, additional actions would be needed to secure it.

The recovery section of the strategy was therefore revisited and reframed. An emergency group was established to **identify and quantify the critical issues impairing the pace and scale of the sector's recovery, and to develop practical, innovative solutions that could be swiftly implemented to address them**. The group was to focus on an initial six months from November through to April. In addition, it would pinpoint emerging medium- to long-term issues that would form a future workstream of permanent standing groups of the Hospitality Council. We have produced a long list of options which can be refined.

**The impact of Omicron**

The post-pandemic recovery's fragility was brought into sharper focus by the Omicron wave. This added greater impetus to the **central message of this Interim Report: that additional steps are needed as a matter of urgency to secure a sectoral recovery that cannot be taken for granted.**

The sector's ability to recover in line with the strategy's trajectory was already impaired and delayed during the summer/autumn reopening. Consumer confidence was weakened, labour shortages worsened, while cost push inflation and a squeeze on margins and cashflow meant that a successful Christmas was ever more crucial to recovery and rebuilding a cash buffer. Losing the most profitable trading weeks of Christmas and New Year, and the impact into Q1 2022 on confidence and cancelled bookings is substantive. December's trading is the equivalent of 3 month's normal trading and 25% of annual profits and any meaningful recovery will not now start until Easter. This therefore calls into question a central premises of the Strategy: **can government support be safely withdrawn given that the sector has not enjoyed the 9 months of recovered trading the strategy anticipated?**

December's loss in sales was estimated at c.40%, with walk-in hospitality down c. 30%. This was significantly worse in London and other city centres, with accommodation and events hit much worse, as parties were cancelled and international travel was restricted. Contract catering for business was severely impacted: at the start of December this was 49% down compared to 2019, falling to -62% by the end of the month, with offices closed and corporate events cancelled.

Omicron's impact will be felt at least into the first quarter of 2022. A Tourism Alliance survey showed that 49% of businesses are seeing bookings for Q1 2022 down more than 25%, with 24% of them seeing bookings more than halved. This follows an estimated £146 billion fall in tourism revenue from March 2020 to September 2021, according to Visit Britain.

The report highlights the commercial impacts on the sector arising from this disrupted trading and the loss of Christmas. It further highlights the new costs impacting from April 2022, when support is scheduled to be removed. This is particularly acute in terms of squeezed margins and profitability, and ultimately future viability. We also include preliminary assessments on mid-quartile performance and cost price inflationary pressures impacting on viability and the pace of recovery. These are included in the appendices and will be explored in more detail in the second phase of this report.

**Building the recovery in the short-term**

The figures starkly contrast a sector that was relatively buoyant pre-pandemic but which now sees many independent small and medium sized businesses struggling for post-pandemic survival. Simultaneously, larger companies are compelled to significantly reduce or halt major investment and capex decisions, which will have a wider effect through the supply chain and wider economy. We identify a mid-quartile of companies across all parts of the sector that are otherwise viable but currently show no growth in revenue in real terms and are still trading unprofitably. This mid quartile equates to 70% of hospitality outlets with a further 23% in the bottom performing quartile. Therefore, we have identified potential Government interventions that could provide much-needed breathing space and a boost to expedite mid quartile growth. Pre-pandemic, these mid-tier businesses were the ones opening new outlets at scale, boosting jobs and regenerating high streets and town centres. Failure to act would see this mid quartile left in a state of fragile recovery for longer, resulting in stagnation for 2 years, at best, as debt is paid down.

The report repeatedly demonstrates that the squeeze on margins from costs across the supply chain and labour will, unaddressed compel businesses to pass costs to consumers in Q1 2022. This is exacerbated by the scheduled return to a 20% rate of VAT. Inflation in the sector in November 2021 was already at 6% - ahead of the headline rate – and the size and scale of price increases being contemplated will both hit consumer demand and begin to significantly impact the rate of inflation. These price rises would add around **1.7 percentage points** to the CPI rate by April 2022, based on its 2019 weighting and predicted inflationary measures. Furthermore, these price increases will hit before the crucial start of the Easter trading period and summer season. Only sustained support for businesses, bridging this gap, will insulate consumers from a further cost of living squeeze, while operators continue to feel the impact of longer-term inflation. Increases in hospitality costs would have a higher impact than the expected increase in energy costs, hitting consumers in the pocket. Rising CPI will create a spiral effect in an already perfect storm. The scarce labour market will be exacerbated with inevitability higher wage demands, and CPI will feed into rising debt servicing costs, with so many businesses yet to clear rent debts accrued over the past two years.

We later examine the key priorities for short-term actions prior to April that could materially transform the sector's ability to recover and move out of emergency measures more rapidly. Given the economic due diligence analysis on the sector already carried out, we recommend recasting the recovery section of the Strategy to address: barriers to demand fulfilment; addressing cost inflationary pressures to minimise effects on consumer pricing; sustaining cashflow and building cash reserves. Tax pressures such as the proposed increase in the VAT rate to 20% and the rise in business rates, with a very small cap on reliefs, will be particularly damaging.

**Longer-term areas of action**

The report sets the scene for longer term Hospitality Council activity, by developing co-created solutions looking at industry measures to mitigate these pressures, how Government can support recovery, and the benefits of taking positive action in terms of the wider Government agenda. It then highlights areas for future consideration to be taken forward by other working groups.

**Collaborative action to kickstart the sector's recovery**

With positive, collaborative action, Government and hospitality can secure the sector's recovery over the next 3-6 months. This would accelerate hospitality's contribution to delivering the Government's Levelling Up objective and the Plan for Jobs. ONS figures for Q3 2021 – a 30.7% growth - demonstrate the substantive contribution that hospitality makes to the recovery of the economy. Support to ensure a sustainable hospitality recovery is critical to powering a return to GDP growth. **We know that Government expects further business failures following but this report's objective is to minimise those failures and to kickstart the mid quartile of businesses (70% of all venues), taking them out of flat-line growth and stagnation, and into recovery and reinvestment.**

The working group has grave concerns about the devastating effects that an adherence to the status quo would wreak. The industry would either feed into rampant inflation, if customers are able to sustain necessary price increases, or businesses will begin to lose customers. Business margins have been squeezed, and will be squeezed further, and business viability will be in question. This would inevitably impact investment in communities and our people.

UKHOSPITALITY

# Section 1

## i. Economic challenges and summary of industry profit and losses

The Recovery Group carried out a rapid due diligence review of the state of the sector's health in September 2021. This took account of the impact of waves of disrupted trading, consumer confidence and behaviour change, labour shortages and supply chain disruptions. A wealth of data from industry commentators, membership surveys and pan supply chain research commissioned by the major trade bodies were assessed and consolidated. The key findings are below and in the Appendices.

Hospitality businesses face widely recognised substantial challenges, which are likely to be magnified as Government support is withdrawn, as planned. A critical path analysis identified further roadblocks to recovery, or new pressures and costs to business, which would not fall within the newly defined recovery period (Nov 2021-Apr 2022). The chart and table identifying all the challenges facing the sector is set out in Appendix 1. **We recommend the Hospitality Council reviews whether the Omicron wave should prompt an extension of the recovery period timeframe.**

The Working Group decided to model these pressures using common template P&Ls to demonstrate the impact of decisions and support levels on typical businesses within the sector. This was used to determine and prioritise the immediate actions needed to secure recovery in the short term and return to the original Strategy focus of "measures required to bounce back stronger over the short-medium term and return to profitability and sustainability".

## ii. Methodology

The Recovery Group took the UKH Benchmarking Survey results from 2018 as a basis for five different business types to apportion costs based on specific scenarios. The assumptions are based on an 'individually managed', leasehold business (freehold and pub company tenant operations will vary - full details are in Appendix 2). The group then took actual business P&Ls, industry data and experience of individual operators within the group, testing it amongst peers to uprate the cost pressures (notwithstanding mitigating measures) that businesses have faced.

For this exercise, we **assumed that businesses have managed to retain their margins.** However virtually every business we consulted said that is simply impossible due to the size of the cost increases coming through the supply chain and the impact this is having on viability. If eroded margins were factored in, profit margins would be squeezed further, and we have included member research from UKHospitality on current and anticipated cost price inflation pressures on the main P&L lines in Appendix 3. These show input cost inflation of 13% across the sector, translating through into anticipated 11% price increases in Q1 2022, which in turn could add 1.7ppt to headline CPI.

The models are theoretical and there are a range of variables. Clearly, trading performance is not uniform across the sector. Some businesses will perform above assumed levels and others below that level. The models can be flexed to demonstrate the impact at different trading levels but are designed to provide a mid-quartile perspective. It is this part of the sector which is most sensitive to steps taken by government, rather than those smaller number of businesses which are already over performing or already sub-viable.

## iii. Results

The table below gives the output from this process for the five different business types. This is based on more detailed analyses that are shown in the appendix. It considers three scenarios: 2018, based on the initial benchmarking survey, an analysis of 2022 shadow accounts (on a like-for-like basis and including known additional new costs such as business rates, NIC and NLW) and a further analysis that includes COVID-specific costs.

These clearly demonstrate a substantial squeezing of margins across all sectors as costs begin to bite. These are exacerbated by 'hangover' costs from COVID. These are costs such as rent arrears, HMRC debt and the impact of COVID-related survival loans, and will vary from business to business, and some will have virtually no COVID costs from April 2022.

| | 2018 | | 2022 (exc. Covid costs) | | 2022 (inc. Covid costs) | |
|---|---|---|---|---|---|---|
| **Property type** | **Profit level** | **Profit margin** | **Profit level** | **Profit margin** | **Profit level** | **Profit margin** |
| £5k pw community pub | £9,100 | 3.5% | -£463 | -0.2% | -£8,057 | -3.0% |
| £10pw food led pub | £13,000 | 2.5% | -£15,150 | -2.8% | -£32,938 | -6.2% |
| £25k pw casual dining restaurant | £68,575 | 5.3% | £3,789 | 0.3% | -£38,439 | -2.9% |
| £40k pw accommodati on venue | £97,211 | 4.7% | £1,078 | 0.1% | -£56,799 | -2.7% |
| £40k pw nightclub | £118,639 | 5.7% | £35,874 | 1.7% | -£35,003 | -1.6% |

The data is net of VAT. As it stands VAT will be 20% in both scenarios, but we have mapped the impact of a reduced rate from April 2022, and this makes a substantial impact of business profitability and viability.

The reduced rate of VAT has been a lifeline for many hospitality businesses that benefitted from it. Around 70% of them passed this on in the form of price cuts – either in full or part – in summer 2020 to stimulate demand. It is clear from the industry sales data and projections of revenue that this led to an increase in the pace of recovery of between 2-3 weeks, only knocked off track by the introduction of tiers and the subsequent 2 lockdowns. Clearly with no or very low levels of trading, the VAT cut was then used more specifically to support jobs in the early stage of roadmap reopening. It is not the case, however, to say that it was not passed on again following full reopening in July. Wage rate inflation in the sector was then running at 11-13% and food price inflation at 3-5%. This was largely due to 2 years of costs (including NLW/NMW) being passed through with immediate effect - the reduced rate of VAT allowed businesses to avoid raising prices, which they would otherwise have done. The reduced rate was also undoubtedly a significant factor in helping businesses navigate variable trading levels arising from fluctuating cases and sustaining consumer confidence. This remains the case thereafter, as we enter a new phase of living with the virus in endemic form.

In our member survey asking about cost inflation and the impact on consumer pricing decisions in Q1, operators reported having to pass through an average 11% increase in prices. Around 40% of this price increase related to the VAT change - all said that they would increase prices by at least this amount. Of the remainder, two fifths of the increase related to energy costs and a fifth each to labour, food and drink and property.

Finally, we undertook a mid quartile analysis on a sample group of 5,000 hospitality businesses drawn from CGA sales data for pubs bars and restaurants. Much more granular analysis will be needed in phase 2 to expand on this, but the preliminary results are included in Appendix 4. They show a disproportionate spread of sites in the quartiles, with 23% of hospitality venues performing significantly below 2019 levels of revenue and viability in the bottom quartile but 70% of venues in the mid quartile showing flat levels of growth in real terms.

**Recommendation: retain the lower rate of VAT for 6 months, to reflect the slower, more fragile recovery in summer/autumn last year and the 3-month delay in recovery occasioned by the loss of Christmas. Retaining the rate is the single most important lever impacting on business survivability and recovery in H1 2022. Retaining the lower rate of VAT will also help to curb inflationary pressures.**

**Recommendation: support recovery and reduce cost pressures on businesses, the cap on business rates relief for the hospitality sector should be maintained at (at least) £2m for 2022/23.**

## Section 2

### i. Critical issues – sector priorities for recovery

The sector's ability to recover along the trajectory in the original Hospitality Strategy was already impaired and delayed as a result of unforeseen challenges encountered during the Q3 reopening. Firstly, unrestricted trading was delayed by more than a month, missing the start of the summer season and some key trading opportunities. More importantly, consumer confidence and demand was hit by rising cases from mid-May. Secondly, labour shortages immediately became apparent upon reopening, rather than in 2022 as anticipated, and were exacerbated by the 'pingdemic' meaning demand was unmet and trading opportunities were not maximised. Thirdly, a hiatus in the global supply chain triggered significant cost price inflation, impacting particularly on the food supply chain, and preventing operators from trading at full capacity. Labour shortages added further to inflationary increases.

Hence, businesses could not exploit opportunities to recover lost revenues, while the costs of doing businesses were significantly increased and margin eroded as a result. Even when 2019 revenues were almost reached at the end of the summer (and anticipated in December), the breakeven point for businesses was higher, so it did not translate through to profitable trading.

The Group identified a wide range of issues negatively affecting the recovery of the hospitality sector in the short term and those with the potential to have a medium to long term drag on the pace of recovery and future growth. These are set out in an extensive list in Appendix 3 but we appreciate the need to prioritise immediate measures and recognise what is politically achievable in the short-term. We have also set out longer-term issues which we recommend are taken forward by the wider Council and standing Working Groups, but which will need addressing to secure a sustainable and robust recovery longer term and a rapid return to growth and investment.

The Group's work then focused on the immediate priorities and short term measures to address them. Therefore, the three original recommendations for recovery were recast to reflect the new concerns of: inhibitors to fulfilling demand, in particular acute labour shortages; the impact of substantial and prolonged cost price inflation; cashflow fragility due to loss of trading potential. A summary of the key challenges therein and the impact this has had on fragility of the recovery are set out below.

#### a) Labour shortages

In January, sector staff vacancies were running at approximately 14% - equivalent to nearly 400,000 vacancies. February ONS data shows that vacancy rates were **over 100% higher than the equivalent pre-COVID period, indicating a fundamental shift in the hospitality labour market**. Vacancies are seen across a range of roles, but predominantly in junior chef roles and bar and waiting staff (both at 76% of businesses reporting shortages).

The impact of staff shortages is substantial, with businesses estimating that it was costing around 17% of revenue: £1 in every £6 that should have been taken was lost due to staff shortages. This was due to shorter trading days (52% of businesses), reduced trading days (48%) and revised menus (52%). It was also causing imbalances with staff having to work longer hours and managerial staff having to fill in for front-line roles.

There has been a two-year disruption to talent pipeline: prior to COVID hospitality was the largest provider of apprenticeships and investment in colleges and in work training. COVID changed this, so even returning to those pre-pandemic levels would leave us facing a hiatus and needing a bridge. Confidence in hospitality as a long-term career and a secure, sustainable option has been damaged due to continued closure and restrictions, and the inability to offer certainty of hours and salary to staff, as exemplified by Omicron.

The hospitality sector has worked collaboratively with NFU/FDF to feed into the Cabinet Office supply chain review before Christmas 2021. This highlighted how labour shortages were not unique to hospitality, with a vacancy rate of 1 in 8 across the food supply chain. Labour shortages have fuelled cost pass through across the chain.

UKHOSPITALITY

### b) Cost Price Inflation

Inflationary pressures hit earlier and harder than anticipated because of global supply chain disruption far greater than anticipated and labour issues across supply chain. A UKH member survey shows 13% input cost price inflation is anticipated from Jan 2022, principally wages (but higher because of supply shortages), and rates and VAT factored in.

A UKH member survey also shows that 94% of businesses are seeing food and drink price inflation (56% seeing significant increases, 38% slight increases). A similarly large 93% report energy price hikes, with 75% reporting significant increases. Higher costs to businesses will lead to higher consumer prices, with 93% of businesses saying prices will rise.

Supply chain disruption meant that this was hitting a wider range of cost lines and impacting future CAPEX decisions e.g., carbon dioxide, wood and building supplies, warehouse costs.

### c) Cash reserves and resilience

The ONS Business Insights and Conditions Survey data for December showed that the hospitality sector faced the lowest levels of cash reserves of all sectors. Nearly two-thirds of businesses (64%) had less than three months of reserves, with more than a quarter (27%) having fully depleted their cash reserves. Christmas typically gives businesses the opportunity to rebuild an 8-week cash buffer.

There is higher debt to carry through more protracted disrupted trade: corporate borrowings are twice the level of corporate deposits and balance sheet cash is debt. Bank confidence and risk rating of hospitality is impacting ability to take advantage of some of the relaxations offered by HMT. The evidence from the sector seems to contradict the perceived thinking from HMT that businesses are relatively stable.

As an example of the sector's struggles, accountants UHY recently reported that the country's top 100 restaurant groups had incurred losses of £673m in the year to September 2021. This is an increase of 174% on the previous year.

## ii. Recommended actions and outcomes

The table below sets out what industry is already doing to support and address the challenges it faces on skills, supply chain resilience and cashflow. These include: peer-to-peer mentoring and support; the development and provision of free advice; guidance and business templates to support SMEs; collaborative solutions on energy and net zero; and recruitment and training, both within hospitality and across the wider farm-to-fork supply chain. With additional Government assistance and leverage, these actions could be accelerated allowing the sector to trade to full potential. Interventions to remove roadblocks and to smooth the current cliff edges in support would expedite recovery and a return to growth, returning hospitality to pre-pandemic levels of investment in job creation, high street regeneration and active participation in levelling up delivery.

By setting out non-fiscal options for consideration, we aim to prompt discussions on the scope for joint working on co-created solutions, giving the sector breathing space and accelerate the pace of the recovery, delayed by Omicron for at least three months. Without extra time, that recovery will not start until the well into H2 2022 and businesses will not be clear of paying down COVID debts until at least 2023/24. This work will be refined in phase 2 of the Group's work.

The consequence of inaction is inevitably and significantly higher prices to consumers, with knock on impacts on inflation and debt management, with inhibited demand. Greater levels of business failure than would result and stagnation for that part of the sector with the greatest potential for growth would result in a reduction in forecast jobs, most likely in the areas that need them the most. Similarly, those areas in need of hospitality-led investment to achieve levelling up, in places like Newhaven and Redcar, would lose out.

Working together to secure the hospitality sector's recovery more firmly and rapidly in the first half of 2022 will allow us to deliver at pace, as part of the Government's objective. It will help to 'level up' and to create places in which people want to live and work, attracting inward investment and extending good quality opportunities for all in their local communities and town centres.

### iii. Menu of actions to secure recovery

| | Issue | Industry action | Possible options for Govt support | What a successful outcome will mean |
|---|---|---|---|---|
| Inhibitors to fulfilling demand | **Labour shortages** | • Funded OAPA, Springboard, Hospitality Academy, Disability Confident schemes<br>• 2,500 dedicated Kickstart placements<br>• Collaboration with The Prince's Trust in running training programmes<br>• Hospitality Diploma and new degree/MBA Apprenticeships and Hospitality Leadership qualifications<br>• Development of graduate internship scheme<br>• Recruitment and Image campaign<br>• £1m funding from Scottish Govt for careers and recruitment in Scotland similar funding commitments in NI and Wales backing industry led initiatives<br>• Employability charter | • Back industry bid for hospitality and catering 'skills bootcamps' to allow rapid rollout<br>• Streamline immigration bureaucracy and costs by reversing 2017 changes – allow cost recovery for skilled worker visa removing £1500 pw/pa ISC; reviewing need for preliminary occupation list in addition to SOL (last reviewed 2010); allow a return to 30 hour working hours limit on student visas from 20 hour<br>• Temporary 2-year extension on use period for apprenticeship levy build up during COVID period and transform to Skills Challenge Fund to allow levy funds to be used for a wider range of accredited vocational qualifications linked to productivity and reskilling e.g. management and leadership | • 30,000 apprenticeship starts per year<br>• 10,000 mentorships per year to boost retention and career progression<br>• In-work training to be increased to 80% of employees<br>• A growing hospitality sector<br>• Higher tax yield for Government<br>• Greater career prospects in hospitality across the UK<br>• Hospitality employment drives Levelling Up agenda |
| | **Supply chain disruption** | • Working with suppliers to overcome labour shortage issues from farm to fork<br>• Engaging in Cabinet Office and DEFRA work to secure access to labour and address disruption<br>• Restricting trading period and product offer, menu redesign and working around delivery and supply chain management | • Ensure the supply chain can access sufficient labour through use of trade agreements for youth mobility and short-term visas, including EU Youth Mobility | • Trade unconstrained by labour shortages<br>• Lower consumer prices<br>• Growth in the hospitality sector<br>• Successful sustainable supply chains |

| | | | | |
|---|---|---|---|---|
| Cost Price Inflation | **Calorie Labelling** | • UKH will be developing FAQs to support businesses<br>• UKH will also produce a guide with best practice examples and easy to use calculators to help steer businesses | • Government should delay the start date to October '22 or April '23. In the meantime, industry will work on accelerating voluntary banded calorie information and online disclosure via ordering and payment apps<br>• Increase the threshold for exemption | • Prioritising keeping cash in the business at a time when input costs are highest is imperative and allows focus on growth strategies and investment in teams |
| | **Utility costs increasing** | • Active procurement strategies<br>• The Zero Carbon Forum to look at collective purchasing solutions to make energy supply more resilient | • Work with industry to shield customer facing businesses from price hikes – including deferment of increases to a better point in the recovery cycle or a form of utility price cap for commercial businesses and levy review<br>• Work with OFGEM on current widespread use of refusal to supply hospitality considering uncertainty of opening which prevents price comparison and competition<br>• As businesses move to green energy sources this will generate costs, showing a need for further incentives to support businesses | • Management of business costs<br>• Lower prices to consumers<br>• Business survival in some cases |
| | **Debt overhang** | • UKH Benchmarking Report to provide templates for financial evidence to support rent negotiations and development of free industry guidance under the Government's rent arbitration scheme to reduce costs<br>• Engagement with UK Finance on debt restructuring and flexibility re length of CBIL and BBIL loans and willingness to extend<br>• Dialogue with stakeholders on mechanisms to increase equity and other forms of investment to sector | • Roadmap out of restrictions and plan for living with COVID avoiding restrictions to allow rebuilding of investor and insurer confidence in hospitality as a stable and resilient sector<br>• More flexible debt collection from HMRC to allow businesses to negotiate fallow months<br>• Leverage engagement with banks to restore confidence to allow for extra lending as per HMT recommendation and de-risk for insurers<br>• Clear guidance to rent arbitrators on sharing the burden of rent debt | • Business survival<br>• Fewer business failures<br>• More tax revenue collected by HMRC in the medium-term<br>• Return to annual £10bn investment in high street/city growth through new openings and refurbs, knock on benefit<br>• Minimise debt-related failure |

## Section 3 – Future HSC workstreams

The following section sets out broad areas for consideration to deliver the Hospitality Strategy – these are designed to be options only to stimulate discussion. The Recovery Group will focus the second phase of its work by fleshing out detail in the areas deemed to have merit, mapping them against the Government's Levelling Up Missions and prioritising those that will turbo charge delivery.

### a) Promote hospitality - access to the labour we need

It is clear from the above analysis that access to the labour it needs – as distinct from the skills it needs – will be a key determinant in the success of the recovery and the ability to rebuild rapidly. The Hospitality and Tourism Skills Board is progressing the joint industry/government working on employability training, apprenticeships and vocational qualifications. Training begun under the previous Industrial Strategy and we recommend that it be accelerated and incorporated into the work of the Sector Council. More importantly, it should also work proactively on industry perception and careers campaigns. The Scottish and Welsh Governments have both provided substantive funding to work collaboratively with business on this in the devolved administrations.

Given that this is an issue impacting the wider economy, the solution cannot rest solely in the sector's hands and is affected more broadly by the Government's employment and immigration policies. COVID has had a significant and scarring impact on the labour market – precisely in the opposite way to that anticipated in terms of shortages rather than unemployment – and this requires urgent review.

While the hospitality industry wholly supports the Government's agenda of upskilling the UK's domestic workforce, and will continue to develop T-Levels, Apprenticeships, Hospitality Management and Leadership training, there is a 2-year hiatus in the talent pipeline and access to a wider pool of appropriately skilled labour will be needed to help bridge this, mitigating the current labour shortage suffocating the sector and impacting on our ability to maximise demand.

- We recommend an urgent **review of the labour market be carried out by Cabinet Office**, expanding the work undertaken in respect of the supply chain by Sir Dave Lewis. This must identify at a national and regional level the number of people who have permanently left the labour market during the COVID crisis. This would cover retirement and caring, both UK and foreign nationals, the classification of the number of people who are available for work and economically active. A labour market strategy would then identify the economic impact of immediate gaps. Further, an independent Council for Future Skills could replace MAC to focus policy on future economic demand and shortage skills to overcome shortages in home grown talent.

- The **immigration system should be enhanced**, in line with the proposals set out by the Government in 2019, to allow for a 1-year temporary lower skilled visa route, removing the requirement for roles to meet a certain qualification providing the salary requirements were met.

- The **Youth Mobility scheme should be extended to a wider range of countries** to promote cultural exchange. This could provide opportunities for graduates from renowned international hotel and hospitality schools to join UK companies and help train up and inspire the workforce of the future.

- Tackling the **perception challenge** of the sector within schools is crucial to ensure a strong channel to enter the labour force as career starts. For instance, discussions, promoting apprenticeships within careers advice.

In addition, consumer marketing campaigns to drive demand will be necessary to allow for a rapid recovery and return to growth. The Council should also explore rapid recovery could better be driven through profile and promotion of hospitality in international trade and GREAT campaigns, linked to Tourism Week and building on the street market for food and drink exports in Downing Street. This, together with platforms of the Commonwealth Games, Platinum Jubilee and Unboxed could be exploited to provide opportunities for positive promotion of hospitality centrally within Government.

### b) Regulatory easements – trading more flexibly and profitably

The Recovery Section of the Hospitality Strategy sets out commitment from Government to work with the sector to "enable businesses to trade more flexibly" in line with the Tourism and High Streets Strategies. It also considers regulatory easements to incentivise investment in regeneration, creating an environment where businesses can flourish. We urge the Government to work with the sector in the following areas, to use COVID as a reset opportunity, to optimise the regulatory and taxation framework for a 21st century economy. We will set these out in more detail in stage 2 of the Recovery Group workstream following preliminary discussions with relevant departments to identify opportunities.

- **Planning positively for hospitality growth:** the temporary easements have given a real boost to high streets during the pandemic. Making the measures permanent would give an incentive to operators to maintain their investment going forward. More importantly, the lessons learned during the pandemic about the proportionality and cost of planning controls and the impact of deregulation on outcome should be borne in mind. A more permissive approach has not been abused – the safeguards remain to remove permission where problems arise - but has cut business costs and bureaucracy and the speed of decision making has unlocked greater investment. ***The existing temporary regime should be made permanent. Existing commercial planning rules should be reviewed, with an assumption of business growth while maintaining local influence.***

- **Licensing to deliver consumer expectations**: similar lessons could be applied in respect of the licensing regime, where a more permissive and flexible approach allowed businesses to navigate through the most intense restrictions. The Licensing Act was originally introduced by DCMS in 2005 to encourage a deregulatory approach, responsive to consumer and local needs and designed to free businesses up to meet them. The original ambition was to deliver the renaissance that the present Government's deregulation of outdoor tables and chairs has delivered. It was a policy given to DCMS in recognition of the role positive licensing could play in sustaining tourism, culture and heritage venues, promoting entertainment and vibrant city centres. The move of the policy to the Home Office has resulted in a more top-down approach, focused almost exclusively on controlling crime and disorder. ***We recommend that the policy responsibility reverts to either DCMS or BEIS and is reviewed and refreshed to support business and town and city centre renaissance. Another working group of HSC is working on the detail of this but COVID provides an opportunity to review the 2017 House of Lords Post Legislative Scrutiny of the Licensing Act 2003, which recommended closer alignment with planning to reduce costs and a removal of punitive costs and controls for late night businesses***.

- **Landlord and Tenant Act:** The framework of law relating to the relationship between landlord and tenants dates back to the 1940s and has remained largely unchanged despite market changes. The Government carried out a review in 2004/5 following growing pressures on tenants and inflexibility of lease terms, leading to reduced investment. This resulted in a voluntary code of practice on commercial leases, which has been reviewed once, but ongoing concerns persist about the rent review process, the continued use of UORR clauses and the absence of any material alternative dispute resolution on matters such as dilapidations. Concerns about the fitness of the existing legal framework have been highlighted during the pandemic. Government should work with the industry to undertake a ***review of the Act with a view to banning UORR and other damaging clauses, putting the code of practice on a statutory footing and rebalancing the relationship to one of mutual benefit and support.***

- **Trade Credit Insurance:** the current system has been demonstrably broken through the pandemic and there is a need for reform, to ensure that businesses can access the goods they need to trade at full capacity. Suppliers should not be forced to cut off hospitality businesses due to an inefficient insurance scheme.

### c) Cost Pressures

Finally, there are areas where COVID should provide an opportunity for a pause and re-evaluation, to ensure that disproportionate costs and burdens are not imposed on an already fragile sector, and also to look at the timing of new measures. This is in line with the second commitment in the Strategy to work with the sector to help manage costs.

The sector remains committed to playing its part in not only meeting but exceeding the Government's carbon net zero targets and sustainability objectives, and promoting healthy eating and patterns of consumption. However, there is no doubt that the delivery of these will be more challenging in the post-COVID environment. Careful consideration should be given to the timetable for implementation and on whether the same collective whole economy objectives can be met in a way which is less damaging to business.

- **COVID Impact Assessment**: we recommend that the impact of COVID on a sector be included as a new component in all future Regulatory Impact Assessments for the remainder of this Parliament.

- **SME Definition:** the use of simple headcount in the definition of an SME under EU legislation disproportionately excludes a large number of hospitality businesses from exemptions or government support schemes due to their higher use of part time workers. This means that a relatively small company with just 4 sites could be excluded from exemptions schemes like Help to Grow. We recommend that all the thresholds of size of business are reviewed following our exit from the EU and that a full-time equivalent employment measure is used.

- **Deposit Return Scheme:** the DRS will create further challenges for the sector, as venues will have to act as return points for consumers. Hospitality venues with no or very low takeaway sales must be exempt from the requirement to operate as a collection point. While the sector supports the aims of the scheme, to avoid overly burdening businesses, Government could consider alternate return points.

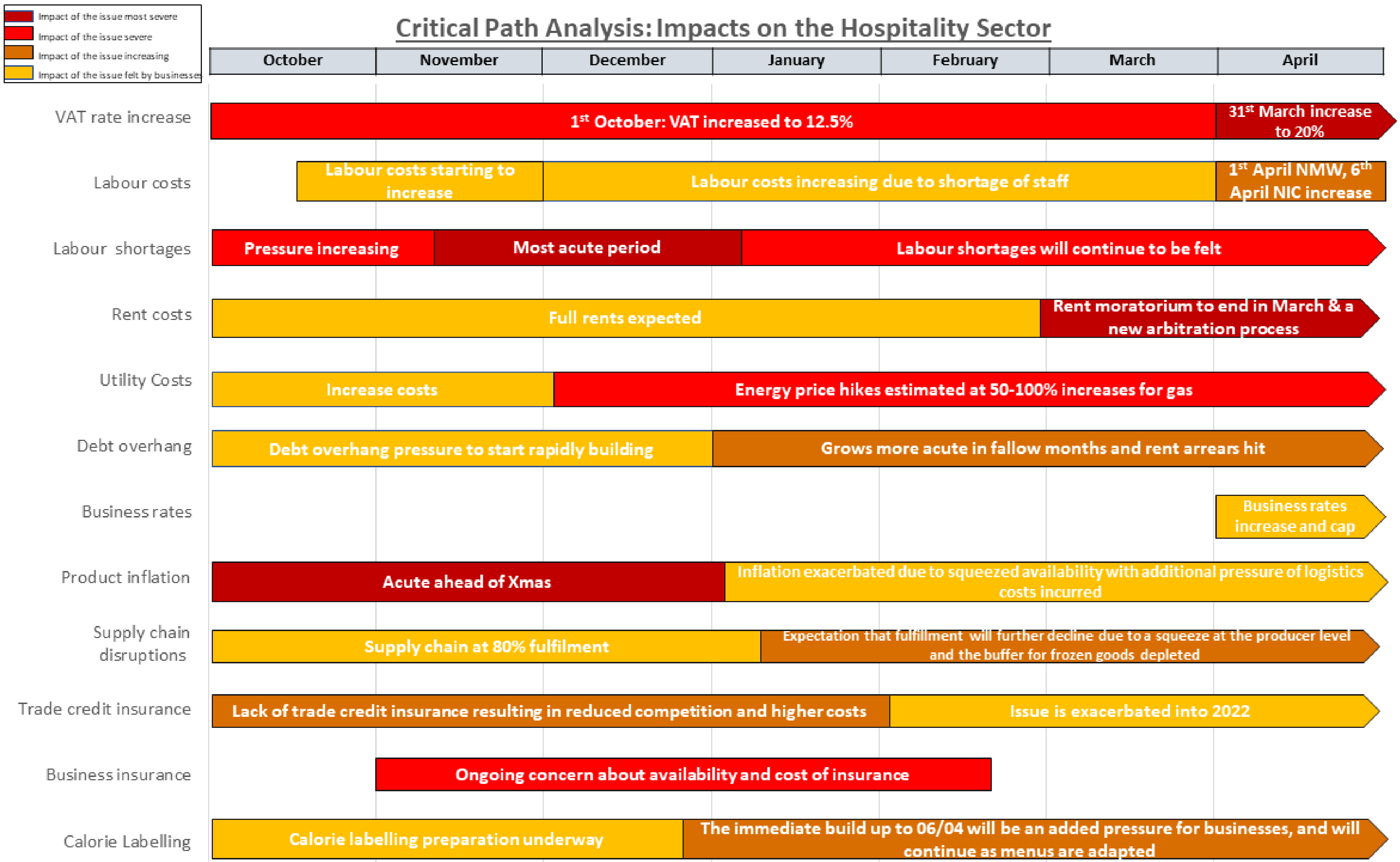
- **Extended Producer Responsibility:** the first phase is on track to begin in 2023 and will place an extra burden on the sector. To support businesses, there could be significant simplification of the scheme. Instead of creating administrative burdens through the supply chain the initial importer or producer should be liable for bearing the cost of the responsibility. Market forces will then influence producer actions.

- **Plastic Packaging Tax:** coming into effect in April 2022, PPT will place an additional pressure on businesses. The tax will be mandated on manufacturers and importers of over 10 tonnes of plastic over a 12-month period that is not at least 30% recycled. In effect this would result in both financial costs for businesses who import more than 10 tonnes a year and will have to pay the tax, and also an expenditure of management time spent reporting for businesses, whether they are paying the tax, or providing evidence of exemption.

- **Business Rates:** the rate relief support provided throughout the pandemic has been unprecedented and welcome. However, it is scheduled to taper substantially from April 2022 and, crucially, the £110,000 cap (down from £2 million in 21/22) on relief means that, many venues will not receive any benefit. It is the larger companies which will generate the greatest jobs, growth and regeneration investment and the burden of taxation will inhibit that. The burden of business rates remains disproportionately high on hospitality.

  As the footprint of retail and office within town and city centres continues to shrink the requirement to raise a fixed amount from the tax will again fall disproportionately on hospitality, impacting location, investment and regeneration decisions. Scope remains to reform the regime to give consideration to different multipliers as well as a shift to online taxation. This is being considered by a sub-group of the Local Economies & Communities group (LE&C WG), including consideration of how the online sales tax consultation can offset business rates.

# Appendix I Critical path analysis for hospitality sector – October 2021 to April 2022



# Appendix II – Industry Profit and Losses

## P&L 1: £5k per week community pub

| | 2018 | Apr-22 | +/- |
|---|---|---|---|
| Gross sales | 312,000 | 320,586 | |
| Sales | 260,000 | 267,155 | *3%* |
| -Food sales | 55,120 | 56,637 | *3%* |
| -Wet sales | 189,020 | 194,222 | *3%* |
| -Other | 15,860 | 16,296 | *3%* |
| | | | |
| COGs - food | 19,292 | 19,823 | *3%* |
| COGs - wet | 66,157 | 67,978 | *3%* |
| COGs - other | 5,551 | 5,704 | *3%* |
| | | | |
| Controllable costs | 131,560 | 145,384 | *11%* |
| Payroll costs | 71,500 | 86,862 | *21%* |
| Entertainment costs | 11,960 | 13,323 | *11%* |
| Utilities | 9,100 | 12,927 | *42%* |
| Operation | 13,520 | 14,989 | *11%* |
| Rates | 16,900 | 8,704 | *-49%* |
| Other costs | 8,580 | 8,580 | *0%* |
| | | | |
| Rent | 24,440 | 24,440 | *0%* |
| Capex | 3,900 | 4,290 | *10%* |
| | | | |
| Rent arrears repayment | - | 3,055 | |
| Covid-loans repayment | - | 3,039 | |
| HMRC repayment | - | 1,500 | |
| | | | |
| Total costs as % of turnover | 62% | 68% | - |
| | | | |
| Profit (inc Covid costs) | 9,100 | - 8,057 | |
| Profit margin (inc Covid costs) | 3.5% | -3.0% | |
| | | | |
| Profit (exc Covid costs) | 9,100 | - 463 | |
| Profit margin (exc Covid costs) | 3.5% | -0.2% | |

UKHOSPITALITY

## P&L 2: £10k per week food-led pub

| | 2018 | Apr-22 | +/- |
|---|---|---|---|
| Gross sales | 624,000 | 641,172 | |
| Sales | 520,000 | 534,310 | *3%* |
| -Food sales | 249,080 | 255,935 | *3%* |
| -Wet sales | 236,600 | 243,111 | *3%* |
| -Other | 34,320 | 35,264 | *3%* |
| | | | |
| COGs - food | 82,196 | 84,458 | *3%* |
| COGs - wet | 78,078 | 80,227 | *3%* |
| COGs - other | 11,326 | 11,637 | *3%* |
| | | | |
| Controllable costs | 276,640 | 311,986 | *13%* |
| Payroll costs | 166,920 | 202,783 | *21%* |
| Entertainment costs | 14,040 | 15,640 | *11%* |
| Utilities | 17,160 | 24,377 | *42%* |
| Operation | 30,160 | 33,437 | *11%* |
| Rates | 26,000 | 13,390 | *-49%* |
| Other costs | 22,360 | 22,360 | *0%* |
| | | | |
| Rent | 34,840 | 34,840 | *0%* |
| Capex | 23,920 | 26,312 | *10%* |
| | | | |
| Rent arrears repayment | - | 8,710 | |
| Covid-loans repayment | - | 6,078 | |
| HMRC repayment | - | 3,000 | |
| | | | |
| Total costs as % of turnover | 65% | 73% | - |
| | | | |
| Profit (inc Covid costs) | 13,000 | - 32,938 | |
| Profit margin (inc Covid costs) | 3% | -6.2% | |
| | | | |
| Profit (exc Covid costs) | 13,000 | - 15,150 | |
| Profit margin (exc Covid costs) | 2.5% | -2.8% | |

UKHOSPITALITY

## P&L 3: £25k per week casual dining restaurant

| | 2018 | Apr-22 | +/- |
|---|---|---|---|
| Gross sales | 1,560,000 | 1,602,931 | |
| Sales | 1,300,000 | 1,335,776 | *3%* |
| -Food sales | 412,100 | 423,441 | *3%* |
| -Wet sales | 867,100 | 890,963 | *3%* |
| -Other | 20,800 | 21,372 | *3%* |
| | | | |
| COGs - food | 115,388 | 118,563 | *3%* |
| COGs - wet | 234,117 | 240,560 | *3%* |
| COGs - other | 5,720 | 5,877 | *3%* |
| | | | |
| Controllable costs | 681,200 | 765,746 | *12%* |
| Payroll costs | 425,100 | 516,434 | *21%* |
| Entertainment costs | 6,500 | 7,241 | *11%* |
| Utilities | 35,100 | 49,861 | *42%* |
| Operation | 67,600 | 74,944 | *11%* |
| Rates | 61,100 | 31,467 | *-49%* |
| Other costs | 85,800 | 85,800 | *0%* |
| | | | |
| Rent | 132,600 | 132,600 | *0%* |
| Capex | 62,400 | 68,640 | *10%* |
| | | | |
| Rent arrears repayment | - | 33,150 | |
| Covid-loans repayment | - | 6,078 | |
| HMRC repayment | - | 3,000 | |
| | | | |
| Total costs as % of turnover | 67% | 76% | - |
| | | | |
| Profit (inc Covid costs) | 68,575 | - 38,439 | |
| Profit margin (inc Covid costs) | 5% | -2.9% | |
| | | | |
| Profit (exc Covid costs) | 68,575 | 3,789 | |
| Profit margin (exc Covid costs) | 5.3% | 0.3% | |

## P&L 4: £40k per week accommodation business

| | 2018 | Apr-22 | +/- |
|---|---|---|---|
| Gross sales | 2,496,000 | 2,564,690 | |
| Sales | 2,080,000 | 2,137,242 | *3%* |
| -Food sales | 1,102,400 | 1,132,738 | *3%* |
| -Wet sales | 299,520 | 307,763 | *3%* |
| -Other | 678,080 | 696,741 | *3%* |
| | | | |
| COGs - food | 341,744 | 351,149 | *3%* |
| COGs - wet | 121,605 | 124,952 | *3%* |
| COGs - other | 169,520 | 174,185 | *3%* |
| | | | |
| Controllable costs | 1,048,320 | 1,172,838 | *12%* |
| Payroll costs | 655,200 | 795,972 | *21%* |
| Entertainment costs | 89,440 | 99,631 | *11%* |
| Utilities | 70,720 | 100,461 | *42%* |
| Operation | 95,680 | 106,075 | *11%* |
| Rates | 137,280 | 70,699 | *-49%* |
| Other costs | - | - | |
| | | | |
| Rent | 187,200 | 187,200 | *0%* |
| Capex | 114,400 | 125,840 | *10%* |
| | | | |
| Rent arrears repayment | - | 46,800 | |
| Covid-loans repayment | - | 6,078 | |
| HMRC repayment | - | 5,000 | |
| | | | |
| Total costs as % of turnover | 65% | 72% | - |
| | | | |
| Profit (inc Covid costs) | 97,211 | - 56,799 | |
| Profit margin (inc Covid costs) | 5% | -2.7% | |
| | | | |
| Profit (exc Covid costs) | 97,211 | 1,078 | |
| Profit margin (exc Covid costs) | 4.7% | 0.1% | |

## P&L 5: £40k per week nightclub

| | 2018 | Apr-22 | +/- |
|---|---:|---:|---:|
| Gross sales | 2,496,000 | 2,564,690 | |
| Sales | 2,080,000 | 2,137,242 | *3%* |
| -Food sales | 133,120 | 136,783 | *3%* |
| -Wet sales | 1,310,400 | 1,346,462 | *3%* |
| -Other | 636,480 | 653,996 | *3%* |
| | | | |
| COGs - food | 52,316 | 53,756 | *3%* |
| COGs - wet | 336,773 | 346,041 | *3%* |
| COGs - other | 95,472 | 98,099 | *3%* |
| | | | |
| Controllable costs | 1,171,040 | 1,291,055 | *10%* |
| Payroll costs | 507,520 | 616,562 | *21%* |
| Entertainment costs | 347,360 | 386,940 | *11%* |
| Utilities | 45,760 | 65,004 | *42%* |
| Operation | 131,040 | 138,673 | *6%* |
| Rates | 114,400 | 58,916 | *-49%* |
| Other costs | 24,960 | 24,960 | *0%* |
| | | | |
| Rent | 239,200 | 239,200 | *0%* |
| Capex | 66,560 | 73,216 | *10%* |
| | | | |
| Rent arrears repayment | - | 59,800 | |
| Covid-loans repayment | - | 6,078 | |
| HMRC repayment | - | 5,000 | |
| | | | |
| Total costs as % of turnover | 71% | 78% | - |
| | | | |
| Profit (inc Covid costs) | 118,639 | - 35,003 | |
| Profit margin (inc Covid costs) | 5.7% | -1.6% | |
| | | | |
| Profit (exc Covid costs) | 118,639 | 35,874 | |
| Profit margin (exc Covid costs) | 5.7% | 1.7% | |

## APPENDIX III – COST PRICE INFLATION AND MARGIN

| Cost line | Price Inflation | |
|---|---|---|
| Wages | 11-13% current<br>7% in April 2022 | Salaries needed to be adjusted as furlough ended to take account of 2 years of NLW/NMW increases over and above the inflation due to labour shortages – although average is above NLW/NMW this will adjust again for differentials in April. |
| Gross labour | 12% | NIC and pension and apprenticeship levy consequential |
| Food & Drink | 5% current<br>8% from Jan | Preannounced and published |
| Construction | 20% current and forecast | Unclear whether this will be temporary or a sustained increase |
| Other commodities | 3% | CO2 and other raw materials are seeing significant cost increases due to supply chain disruption |
| Premises | 6% current and forecast | Insurance, service charge, rates and rent models with inbuilt upward only RPI |
| Utilities | 50-100% for new contracts | Only applies with contracts renewed but operators not able to shop around as no supplier will quote for new hospitality business. Lower end of increase electricity |

## APPENDIX IV – THE STATE OF THE SECTOR – JANUARY 2022

A summary of the position of the sector from a survey of 340 businesses, operating c.8,500 venues and employing 190,000 staff.

- Expectations for 2022 are still weak – England at -16% versus 2019
- Cash reserves are reported as a month or less for a third of businesses.
- Workforce struggles still persist – c.395k vacancies across the sector. COVID accounting for c. 10% absences with a further 5% for self-isolation (though this is likely to have diminished significantly).
- Inflation through to customers estimated to be c.11% from April 2022
- Driven by big costs coming through from energy, labour, insurance and food and drink
- Businesses want action from Government on VAT and business rates above all else.

Outlook for 2022 (as a % of 2019 sales)

| | England | Scotland | Wales | Northern Ireland |
|---|---|---|---|---|
| % of 2019 | 84 | 80 | 81 | 71 |

Cash reserves

The impact of the loss in trade is clear in the level of cash reserves and business confidence. A third of businesses (33%) have no or less than a month of cash reserves so are in a perilous position. However, there are other businesses that are in a much more resilient position with 37% having more than 3 months of reserves and nearly 1 in 5 having more than six months. There is a 'squeezed middle' of 30% with 1-3 months who will be in a much stronger position with Government support.

| | |
|---|---|
| We do not have any reserves | 15% |
| One month or less | 18% |
| One to three months | 30% |
| Three to six months | 19% |
| More than six months | 18% |

Optimism

Very balanced view about people's own businesses – a lot of caution with few extremes. People more optimistic about their own business than the wider sector – 35% versus 41%.

| | Your business | The hospitality sector |
|---|---|---|
| Very optimistic | 9% | 8% |
| Quite optimistic | 29% | 27% |
| Neither optimistic nor pessimistic | 28% | 24% |
| Quite pessimistic | 28% | 33% |
| Very pessimistic | 7% | 8% |

Cost to the consumer

Price increases look inevitable and substantial. The average figure given was just over 11%. No businesses were expecting price decreases and the highest increase envisaged was 78%.

| | |
|---|---|
| Consumer price increase | 11.2% |

This is further reflected when looking at the data in bands. 47% of businesses report that their prices to customers will increase by over 10%.

| | |
|---|---|
| Less than 5% | 8% |
| 5-10% | 46% |
| 10-20% | 32% |
| 20-40% | 12% |
| 40%+ | 3% |

Input costs

Average cost increases for five main lines are given below. On average energy costs are the biggest increase, followed by insurance and labour costs. However, as labour costs tend to be the highest % of costs (c.30%) this will have a disproportionate influence.

| | Energy prices | Labour costs | Food prices | Drinks prices | Insurance costs |
|---|---|---|---|---|---|
| % change | 41.3 | 18.8 | 17.4 | 14.1 | 20.5 |

Workforce

The total workforce figures are based on September numbers. At mid-January we estimate that 249,000 people were off work with COVID (just over 10%) and a further 125,000 were off dur to being a close contact. A fifth of the workforce was unavailable through illness or another reason.

| | **Available for work** | **Absent with COVID** | **Absent with another illness/condition** | **Self-isolating due to a COVID close contact** | **Other** |
|---|---|---|---|---|---|
| % | 79.9 | 10.4 | 2.7 | 5.2 | 1.8 |
| People (000s) | 1,920 | 249 | 65 | 125 | 44 |

The sector's vacancy rate is now **averaging at 14.1%, marginally down from 16% in the Autumn**. However, with a larger employment market this implies that a greater number of roles need filling – 395,000 – notably higher than ONS estimates.

Business support - % of respondents for each

Business rates and VAT remain the key areas where businesses need support. Three-quarters of respondents recorded these two measures in their top three asks of Government.

| | |
|---|---|
| Greater business rates support in 2022/23 | 76% |
| An extension of the 12.5% VAT rate to at least the end of the year | 75% |
| Removal of COVID business restrictions (Plan B, other measures in Scotland, Wales and NI) | 57% |
| Action on energy price increases | 52% |
| Extending the reduced rate of VAT to alcoholic beverages | 44% |
| Scrapping the increase in the National Insurance Contribute rate | 37% |
| Removal of working from home guidance | 34% |
| Earlier introduction of the reduced rate of duty on draught beer | 20% |
| Deferral of HMRC arrears | 14% |
| Deferral of bank repayments | 13% |
| Extension of the rent moratorium | 6% |