

November 2022



**LOCAL ECONOMIES AND
COMMUNITIES WORKING GROUP**

Hospitality: Supporting Enterprise,
Growth and Levelling up

ABSTRACT

'Only by working together can we deliver the vibrant high streets, healthy local economies and supported communities we need.'

Foreword

In the current economic climate, if we are to create environments where businesses and communities can thrive, then we need to work together. If hospitality is to remain a critical pillar of vibrant local economies and communities, then we need to form partnerships that include hospitality businesses, local government and key local partners. The Hospitality Sector Council's Local Economies & Communities Working Group (LECWG), along with a number of thematic sub-groups, has been working hard on ways in which we can help achieve this.



An early output from the LECWG, was a recommendation for business rate reform which has now been underpinned by additional third-party economic analysis. Several regulatory easements also identified are being actively considered by Government. I am also pleased to report that we now have additional outputs covering: Strategic Planning & Partnership Working; Access to Finance; Scaling Up Community Initiatives; and Deregulation, Planning and Licensing looking forward to the medium term as well as immediate opportunities. In addition, we have produced this overarching report setting out the role of hospitality in supporting local economies and communities, and provides important context to these thematic reports.

These reports are the culmination of significant work by experts from across the public and private sector, who have committed significant time to support our work. This has been at a time of unprecedented challenge for the industry. **It is therefore imperative that we do all we can to ensure the results of their work are used effectively to influence change, are communicated to all key stakeholders and the recommendations are taken forward.**

A handwritten signature in black ink that reads "Simon Emeny". The signature is written in a cursive, flowing style.

Simon Emeny

Chair Local Economies & Communities Working Group

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Introduction

1. Global inflationary pressures on everything from energy to food and drink have created challenging market conditions for the hospitality sector. These challenges are exacerbated by a shortage of labour the shadow of debt, a legacy of the pandemic. With this as the background, collaboration is required between public, private and voluntary sectors locally and nationally to help the sector to thrive again. This is the mission of the Hospitality Sector Council's 'Local Economies & Communities Working Group'.
2. This paper provides the rationale and context for work undertaken for the Hospitality Sector Council by a number of thematic working groups. These covered:
 - a) Strategic planning and partnership working
 - b) Supporting community initiatives
 - c) Planning, regulation and licensing
 - d) Business rates
 - e) Access to finance
3. In this paper we set out the importance of hospitality as part of an ecosystem that drives local economies and supports local communities, and why we believe it is important for government and businesses to work together strategically to deliver greater resilience against future economic shocks.
4. As a key part of the foundation on which local economies and communities are built, hospitality businesses need to be thought of as assets that can help deliver local economic and community objectives, help regenerate left behind neighbourhoods, and set the foundation for levelling-up.
5. This is now critical. Before COVID-19, the hospitality sector was the UK's 3rd largest sector by employment, creating £130bn a year in economic activity and generating £39bn for the exchequer. Hospitality businesses now face unprecedented pressures as a result COVID-19 related debts, bearing significant cost increases due to supply chain pressures, spiralling energy prices, and labour shortages.

The local ecosystem

6. Hospitality, alongside retail, personal care, and leisure, are part of local economic ecosystems that drives economic activity and support communities. These businesses are important because they provide accessible jobs and career opportunities, stimulate local supply chains, support tourism, help attract inward investment, generate income for local authorities to invest in services and infrastructure, connect communities and support mental health. In short, they improve living standards and help create desirable places to live, study and work.
7. These ecosystems are built on symbiotic relationships between businesses offering a diverse range of products and services, as well as those operating during the day, through the twilight hours and into the night-time. If there is a lack of diversity, if the night-time economy begins to fail, or if there is no real transition between day-time activities and night-time activities, then it has a detrimental impact on the entire ecosystem.

8. Healthy eco-systems therefore need to be nurtured to ensure the right conditions for trade. This includes, for example, managing potential tensions between commercial and residential areas. While increasing the number of residents living in town and city centres is a good thing, we know that residential and night-time economy areas do not co-exist well, quite often resulting in the closure of long-standing businesses. Strategic town and city planning is therefore critical in managing local eco-systems.

Levelling Up

9. Levelling-up involves improving productivity and economic growth by encouraging innovation, creating good jobs, enhancing educational attainment, and renovating the social and cultural fabric of those parts of the UK falling behind.
10. Investing in education, digital connectivity, housing, and transport to attract new business investment, as well as attracting and retaining talent, are key elements of levelling-up. But it is also important to create the right environment for high street businesses to flourish so that towns and cities across the UK are seen as desirable destinations by entrepreneurs, students and tourists alike.
11. The Great British Brain Drain¹, produced by Centre for Cities, shows us that students dominate migration patterns, with those going to university accounting for a fifth of all internal migration in 2014. Centre for Cities² also highlights that students tend to spend their money where they study and so have a direct impact on the strength of the local economy.
12. QS³ rank the popularity of cities based on the opinions of students, including factors such as affordability and desirability. The Best Student Cities 2023⁴ rates London as the top global destination for students, with stated benefits including free access to culture, some of the best nightlife in Europe and the distinct flavour of other cultures, such as the curry houses of Brick Lane. In addition, a vibrant local hospitality sector will be attractive to students as it provides opportunities to work while studying. Research in hospitality management⁵, found that students were attracted to work in hospitality because jobs are plentiful and the work generally appealing, with bar work particularly fitting with their lifestyles.
13. The Great British Brain Drain also found that cities gaining and retaining the most graduates did so because of their strong economies and the opportunities on offer. As the UK continues to specialise in more high-skilled, knowledge intensive activities, the extent to which towns and cities can attract and retain skilled graduates will have an impact on their ability to support and attract knowledge intensive businesses. This is important because research by Centre for Cities⁶ found that most investors and developers consider a strong economy with growth potential to be one of the most important city characteristics, with investors particularly drawn to cities with highly skilled workers.

¹ <https://www.centreforcities.org/publication/great-british-brain-drain-where-graduates-move-and-why/>

² <https://www.centreforcities.org/blog/can-cities-appeal-students-graduates/>

³ Quacquarelli Symonds is a leading provider of services, analytics, and insight to the global higher education sector.

⁴ <https://www.topuniversities.com/university-rankings-articles/qs-best-student-cities/london>

⁵ <https://www.tandfonline.com/doi/pdf/10.1080/22243534.2013.11828297>

⁶ <https://www.centreforcities.org/reader/investors-want-guide-cities/makes-city-attractive-investors/>

14. Having strong amenities, including hospitality, can also help support the creation of innovation districts⁷, creative areas bringing together entrepreneurs, educational institutions, start-ups and mixed-use developments. While Silicon Valley may be synonymous with cyber-space companies, human interaction has always been critical to the valley's success. Coupa Café, for example, was a meeting place for entrepreneurs such as Mark Zuckerberg and Steve Jobs, and to this day provides creative space for students and entrepreneurs. And there is evidence to suggest that hospitality venues do stimulate creativity. Recent research, highlighted in a BBC article⁸ suggests that the combination of ambient noise, casual crowds and visual variety can provide just the right amount of distraction to stimulate creativity. This includes research⁹ showing that people think most creatively when exposed to noise levels of about 70 decibels, which is equivalent to the background noise of a coffee shop.

Regeneration

15. In general, the health of a high street reflects the health of the local economy and community. Prosperous areas with lots of office space and high-skilled jobs will have significantly more varied high street amenities, including bars and restaurants, than economically weaker areas. In these areas restaurants and cafes account for around 30% of commercial premises. However, in economically weaker areas the proportion falls below 10%¹⁰.
16. This decline in the number and quality of local amenities can have a detrimental effect on the vibrancy and attractiveness of the high street, resulting in fewer visitors, reduced economic activity, and an increase in empty commercial premises, contributing to high street blight and a spiral of deprivation.
17. The All Party Parliamentary Group on Overcoming Health Inequalities in 'Left Behind' Neighbourhoods¹¹ reported that many of the issues facing these neighbourhoods are often long-standing and deep-seated, with a lack of sustained investment correlating with higher levels of crime and poor environmental conditions. It also reported that productivity in local authorities containing deprived areas is significantly smaller than in the rest of England.
18. As such, levelling up is not simply about improving the performance of the UK's main economic centres. To ensure all communities enjoy some degree of levelling up and particularly areas already falling behind, strategies to level up should include addressing left behind neighbourhoods.
19. It is important to consider the transition happening in high streets across the country. For decades, retail has been the dominate activity. While the retail sector continues to play a key role in high streets, online shopping and logistics have changed how the sector functions with a declining physical presence in commercial destinations.

⁷ <https://www.brookings.edu/essay/rise-of-innovation-districts/>

⁸ <https://www.bbc.com/worklife/article/20210114-why-youre-more-creative-in-coffee-shops>

⁹ https://www.jstor.org/stable/10.1086/665048?seq=1#metadata_info_tab_contents

¹⁰ <https://www.centreforcities.org/press/many-high-streets-face-a-bleak-future-without-rethinking-regeneration-strategies/>

¹¹ <https://www.appg-leftbehindneighbourhoods.org.uk/publication/overcoming-health-inequalities-in-left-behind-neighbourhoods/>

Hospitality and the social business economy has become an increasingly important part of the eco-system, providing experiences that have helped drive footfall and investment.

Post COVID-19 challenges

20. Following the removal of COVID-19 restrictions, we expected the hospitality sector to recover relatively swiftly. However, while data¹² shows that the output of the sector is now broadly in line with pre-COVID levels, the recovery of the hospitality sector is being constrained by staff shortages and cost inflation. High levels of COVID-19 related debt also restrict firms' ability to borrow to invest.

Financial vulnerabilities

21. In particular, the cost-of-living crisis is undermining the economic viability of many hospitality businesses. A UK Hospitality survey¹³ found that, on average, energy costs (pre-energy support) had increased by approximately 238% compared with April 2021, nearly a third reporting a rise of 300%+.

22. The recovery of the hospitality sector is also being hampered by high levels of COVID related debt. A recent industry survey¹⁴ found that 73% of hospitality firms have outstanding debt, including Bounce Back Loans (44%) and rent debt (12%). In addition, ONS data¹⁵ shows that 15% of hospitality businesses recently reported debt repayments exceeding 20% of their turnover, notably above the economy-wide average of 9%.

23. The sector has also reported that they used a lot of their cash reserves during the COVID-19 pandemic. ONS data¹⁶ shows that in the two weeks to 10 July 2022, 25% of hospitality businesses reported that they had less than 1 month or no cash reserves left, significantly above the economy-wide average of 19%.

24. A return to paying 20% VAT, the rise in National Insurance for employees and employers, and a 21% increase in insurance costs for hospitality firms have all contributed to reducing profitability.

25. In terms of mitigating these additional costs, businesses have relatively few options. It is difficult for hospitality businesses to pass on cost increases to customers, particularly as the cost-of-living crisis is squeezing household budgets. For example, research has found that "meals eaten away from home" has a price elasticity of demand of -0.8, indicating that a 10% rise in prices leads to an 8% reduction in sales, so price rises are disproportionate to fixed cost increases.¹⁷ One of the remaining options open to businesses is to reduce trading hours or days, which would negatively impact recovery.

26. The gap between the best-performing and worst-performing businesses has dramatically increased since pre-pandemic. The top quarter of businesses performed

¹² Source: Office for National Statistics - Index of Services, main components and sectors to four decimal places, July 2022.

¹³ Survey results based on 271 valid responses from businesses owning approximately 6,000 premises. The survey was distributed via email to UK Hospitality members and was live in early March 2022.

¹⁴ UK Hospitality, British Beer & Pub association, British Institute of Innkeeping - Members survey, May 2022.

¹⁵ Source: ONS, Business Insights and Conditions Survey (BICS) data, Wave 57, 1 – 30 April 2022.

¹⁶ Source: ONS, Business Insights and Conditions Survey (BICS) data, Wave 60, 27 June - 10 July 2022.

¹⁷ <https://ajph.aphapublications.org/doi/pdfplus/10.2105/AJPH.2008.151415>

29.5 percentage points better than the lowest quarter in 2021/22 compared to a 9.7 percentage point differential in the same months in 2019/20.

Staffing Pressures

27. The hospitality sector is also experiencing a shortage of staff due to high levels of vacancies across the economy. The number of hospitality vacancies fell marginally in July 2022 to 173,000 but remains close to the highest level on record. The sector has a vacancy rate of 7.9%, the highest of all sectors.¹⁸
28. The impact of the high levels of vacancies are having a major impact on trading conditions, with hospitality businesses reporting that shortages are responsible for a 16% reduction in revenue.¹⁹ This was because of the need to implement shorter trading days, reduced trading days and limited menus.

Cumulative burden of regulatory costs

29. Hospitality businesses are generally labour intensive, property-based operations that sell food and alcoholic drinks for consumption on the premises. This makes them one of the most taxed and regulated business sectors in the economy, bearing the full brunt of businesses rates, excise duty, VAT, licensing, planning, food safety, health and safety, public health, environmental and employment related regulations, taxes and levies, with each representing a cost to business.
30. While there are clear public and societal benefits to many policies and regulations, more needs to be done to reduce existing regulatory burdens, to consider the cumulative burden of new policies and regulations, and to deliver a more joined up and strategic approach to tackling complex societal challenges such as tackling health inequality and deprivation. These are areas in particular where central and local government should be looking to work in partnership with business.

Recovery and resilience

31. Hospitality businesses, alongside other foundational businesses, play an important role in driving local economies and supporting local communities. As such, there is direct correlation between the health of local businesses and the health of local high streets, and both need to be resilient against future economic shocks. There needs to be a coordinated and collaborative effort to help nurse the sector back to health and aim for a future where it can thrive again. It is with this spirit with which this report is written. With the support businesses large and small, trade associations, local authorities, Business Improvement Districts and many others, we explore how we can play a role in creating the best possible trading environment for the hospitality sector.

¹⁸ Source: Office for National Statistics - Vacancies by industry, August 2022.

¹⁹ UK Hospitality, British Beer & Pub association, British Institute of Innkeeping - Members survey, May 2022.

Looking Forward

32. There is no question that hospitality is a critical part of our economy but finds itself under pressure. We therefore need a coordinated and collaborative effort to help nurse the sector back to health and aim for a future where it can thrive again.
33. Working with businesses (large and small), trade associations, local authorities, Business Improvement Districts and many others, we have explored how we can play a role in creating the best possible trading environment for the hospitality sector, including:
- How the UK Government can set the foundation for a better tax regime and planning regime;
 - How local authorities and other key bodies at a regional and local level can work with the hospitality sector to support its recovery through strategic planning and partnership;
 - Understanding the community contribution of hospitality and the opportunities to scale up best practice; and
 - Enhancing routes to finance to support investment in the sector.
34. What is also clear is that to achieve this, additional investment and a desire to go further is required from Government as well as from the private sector. Whilst best practice initiatives and key learnings can be communicated and replicated, some initiatives will require funding. Crucial elements of business rates reform need a reallocation of resources and deregulation and better regulation in planning and licensing requires a bold and ambitious approach. But crucially as the work of the group demonstrates the return on investment and the rewards will be apparent to all in towns and communities across the UK.

Planning, regulation and licensing

35. A report including recommendations for planning, regulation and licensing easements to support the resilience of hospitality and other high street businesses is currently being produced and will be published towards the end of the year.

Strategic planning and partnership working – [view sub-report](#)

36. While the COVID-19 pandemic highlighted a lack of resilience, the current cost of living crisis and trends towards more online retail is hampering the recovery of hospitality and other high street businesses to the detriment of local economies and communities.
37. Having clear strategies and working in partnership to address these challenges is vital to underpinning healthy economies and communities, and there are many good examples of where this is happening. To help highlight and share good practice we have produced a Strategy, Planning & Partnership Working Case Study Report that highlights examples of good practice from across the UK that includes, or is led by, hospitality.
38. The case studies show that many local authorities, Business Improvement Districts, universities, tourism agencies and others value the role of hospitality and see it as a strategic asset that can help drive tourism and footfall, attract students and inward investment, and support regeneration, growth and levelling-up. While each case study

is different, reflecting the desired outcome, there are common themes running through the. The need for a clear vision and a strategy or plan to deliver it, leadership to champion and drive change, and partnership working to make it happen more effectively and efficiently.

39. key to delivering local economies that are fit for the future is leadership and working in partnership to deliver visions and strategies that will support growth and levelling-up.

Supporting communities: scaling up local initiatives – [view sub-report](#)

40. With many hospitality businesses at the heart of communities across the country, there is no sector better placed to work with local authorities to rejuvenate communities and ultimately level up the country. The Scaling up local initiatives subgroup looked at a number of initiatives which have the potential to be scaled up nationally or act as a framework for similar local initiatives, with the ultimate aim of increasing trade for hospitality businesses whilst regenerating local communities. Following consideration of an initial longlist of initiatives, the final report includes seven initiatives divided into three categories:

Category 1 - initiatives with the potential to be scaled up nationally:

- Only a Pavement Away
- Pub is the Hub

Category 2: initiatives with the potential to act as a framework for similar local initiatives:

- Made in Hackney
- Rockpoint Leisure
- Digbeth Dining Club CIC
- Eat Well Manchester

Category 3: initiatives that tackle a broadly similar issue and which have the potential to work together

- Ask for Clive

41. These initiatives have been included as they all meet the subgroup's criteria of increasing trade for hospitality businesses, creating cohesion within communities, creating benefits for the communities in which they operate, and providing a route for local or national government to deregulate without increasing risks. The benefits of the initiatives range from improving social mobility and the life chances of vulnerable people whilst filling hospitality vacancies (Only a Pavement Away) to helping pubs serve the needs of their communities whilst assisting with their long-term viability (Pub is the Hub) to increasing the employment rate and GDP of the local area following a significant regeneration project (Rockpoint Leisure). Crucially, each of these seven initiatives provides opportunities in the local communities they serve with real economic and social benefits, whilst helping local hospitality businesses to grow and thrive.

42. The report looks in detail at each initiative, the benefits it is bringing to their local communities, their funding model and their potential to be scaled up. Each initiative has its own individual needs to enable it to scale up, but overall, the subgroup has found that the Government needs to commit funding to these projects, encourage local authorities

to work in collaboration with the hospitality industry, and develop frameworks for support and investment to encourage future projects that will rejuvenate communities.

[Business rates – view sub report](#)

43. The Local Economies & Communities working group set up a subgroup specifically tasked with reviewing business rates and making recommendations on how to improve the regime to support the objectives of the recovery strategy.
44. Business rates even before Covid had become disproportionately burdensome on hospitality. Hospitality makes up 11% of all business rates payments, despite contributing 3% of eligible income. If hospitality's business rates bill was equivalent to its trade, rates would be £2.386 billion lower. Pubs alone are overpaying by £570 million a year. The Unique Business Rates multiplier has increased to a staggering 51.2p today from a more manageable 34.8p in 1990/91. The Government committed to conduct a review of business rates and published the terms of reference for the review at Spring Budget 2020 in which there featured a whole section entitled 'Supporting retail and the high street' (and again in the final review October 2021). Both business and Government recognise that rates are now business-critical and a rebalance must occur if the sector, one which embodies local economies, communities, and the high street, is to return to sustainable growth which, pre-Covid, provided 3.2 million jobs the length and breadth of the country.
45. The group produced a recommendations paper in February that went on to form a wider letter to the Chancellor from the HSC and led to a follow up meeting with officials to further discuss. The most critical elements in terms of the recommendations were:
 - **To reduce the disproportionate burden on hospitality businesses through either a permanent high streets relief or a specific sector multiplier;**
 - **To bring forward the consultation and proposals for on an Online Sales Tax to offset the cost of the above and provide for a fairer business tax regime for the digital age.**
46. Linked to the first point is the current Subsidy Control Regime that severely caps the benefit of current reliefs which is a major block to hospitality businesses' investment in regenerating high streets and communities. The group believe there is a strong case for property-based hospitality businesses to be considered outside of the scope of this, particularly now we outside the EU.
47. Transitional relief was also highlighted as needed to be reviewed and indeed the group submitted a further letter to the Chancellor on this and stressing key points from Trade Association submissions in July, **particularly a change that allows those businesses whose rateable values come down at the 2023 revaluation, benefit immediately and in full from their lower rates.**
48. The final piece of work from the group to support the recommendations papers was, through BBPA and UKH funding, to commission an economic analysis of the impacts of reduce the business rates burden borne by the hospitality sector. This study was completed by CEBR and looked at the scenario of a 25% reduction in business rates borne by the sector. This would be an £800m boost to the sector as delivering significant additional benefits:

Impact of a reduction in business rates

Figure 1: Summary of benefits from a 25% reduction in business rates



Source: CEBR

49. The group are continuing to engage with Treasury following this work and to continue to make the case for wider reform of the rates system. Indeed, the recent Autumn Statement provided additional relief for the sector for a further year 12 months in 2023/4 and adopted our proposals on Transitional Relief for the next revaluation period, both of which are very welcome although the business caps still limits this relief. However, the decision to not proceed with an Online Sales Tax was disappointing unless another mechanism can be found to deliver a permanently lower and fairer rates burden for the hospitality sector.

50. The Hospitality sector has suffered significant financial damage over the last two years through the impact of pandemic related restrictions, closures and uncertainty. The impact being high levels of pandemic specific debts, minimal cash reserves and high levels of vacancies due to uncertainty in the sector & loss of overseas workers, all leading to minimal resilience.
51. Fragile hospitality businesses started their recovery early in 2022 as pandemic restrictions were removed fully in late February following Omicron and Plan B measures. Initial revenues for many recovered strongly but were hampered by ongoing high vacancy levels reducing trading capacity. Post covid inflationary increases in goods had begun to impact businesses with over 5% rises in January rising rapidly to over 9% in April squeezing profitability. Escalating energy prices quickly followed with further levels of inflationary costs through the summer meaning the majority of hospitality businesses need to trade at 120% of pre-pandemic levels to stand still, rendering 1 in 3 unable to make a profit (BII, UKH & BBPA trade body survey).
52. Access to finance is key to support short term liquidity requirements, site improvements, technology investments, increasing trading space or to finance new site acquisitions. In February 2022 only 20% of BII members (predominantly operating single pubs) were considering additional finance, this reduced to 12% by June. Of those seeking finance 2 in 3 were not successful via any route, Only 5% have been successful using their current bank and only 16% have been successful with a new or additional bank. The group noted many anecdotal examples of traditional high street banks not lending to hospitality businesses due to perceived risk with many still having significant debt overhang from the pandemic and repayment costs increasing as rates rise.
53. Feedback has also been received indicating that the Government's new Recovery Loan Scheme (RLS) is markedly less generous than the CBILS and BBLs schemes it replaced, meaning banks are less keen to lend to SMEs through it. Under RLS the Government no longer pays the first 12 months interest on behalf of businesses, nor the lender's fees, while interest rates for borrowers have also risen.
54. The group considered that a number of factors must be addressed to stimulate essential investment in the hospitality sector and in particular with SMEs;
1. Improve trading conditions and certainty through Government support to improve business confidence to plan long term recoveries including investment.
 - Key measures proposed by Hospitality Recovery Group
 2. New Government backed loans with criteria in line with initial BBLs and CBILS
 3. Government backed restructuring of existing loan agreement to a long-term basis

4. Government and sector best practice guides to accessing finance through high street and challenger banks through strengthened business cases

The majority of our sector's SMEs remain resistant to further debt with the current trading uncertainty, and this will endure until more stable conditions occur in the medium term without recovery support.

Conclusion

55. The challenges we faced through the COVID-19 pandemic, the global inflationary pressures we face now, along with the need to respond to the climate emergency and adapt constantly to changing market conditions and consumer trends have brought into sharp relief a lack of resilience and the need for change.
56. This report highlights some the challenges we face but focuses primarily on the opportunities open to us if we take a more strategic and joined-up approach. For local economies and communities to thrive we need to have in place the best possible trading conditions and ensure that business and resident and happily co-exist. This will not only ensure that businesses can trade viably, and therefore provide quality local jobs, but will also help attract new businesses, residents, visitors and inward investment.
57. But we can only deliver the resilience we need we need to work in collaboration. That means public, private and voluntary sectors (locally and nationally) working to a common vision and strategy, while pooling knowledge and knowhow, resources and energy. Only by working together can we deliver the vibrant high streets, healthy local economies and supported communities we need.