



A MENU FOR RECOVERY:

SUPPORTING AND GROWING SMALL HOSPITALITY AND
TOURISM BUSINESSES AFTER THE PANDEMIC

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Experts in Business

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WHO WE ARE

The Federation of Small Businesses (FSB) is the UK's leading business organisation. Established 45 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that's led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions.

As experts in business, we offer our members a wide range of vital business services, including legal advice, financial expertise, access to finance, support, and a powerful voice in Government. FSB is the UK's leading business campaigner, focused on delivering change which supports smaller businesses to grow and succeed.

Our lobbying arm starts with the work of our team in Westminster, which focuses on UK and England policy issues. Further to this, our expert teams in Glasgow, Cardiff and Belfast work with Governments, elected members and decision-makers in Scotland, Wales and Northern Ireland.



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Small tourism and hospitality businesses **employ at least one:**



Woman

87%



Young person aged 18-24

47%



Lone parent

28%



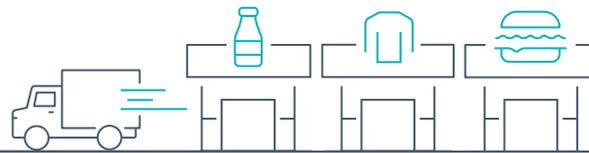
67%

of small hospitality businesses who receive Small Business Rates Relief/ the Small Business Bonus say they **would not be able to survive without it**



24%

of small manufacturing businesses **supply to businesses** in the hospitality and tourism sector



63%

of small hospitality businesses feel concerned about the **decline of their local high street**



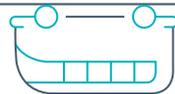
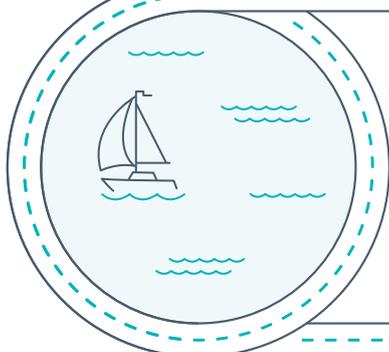
53%

of small hospitality and tourism businesses say they have used a **CBILS or BBLS loan**



43%

of small hospitality businesses **employ at least one EU national**



Small tourism and hospitality firms **carrying some form of debt** has risen from **59%** pre-COVID to **77%** post-COVID



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FOREWORD

The tourism and hospitality sector has been hit hard by the COVID-19 pandemic, with nationwide lockdowns highlighting not only its importance as an employer, but as a much-loved part of British society. Most hospitality businesses are small or medium enterprises located throughout the country; in the heart of cities, on local high streets, along coastlines, countryside and in remote idyllic rural locations.

With lockdown restrictions and forced closures, people have had an enforced period where they were unable to enjoy and visit such businesses. Subsequently our local pubs and restaurants are appreciated now more than ever. However, there are many small firms that supply goods and services to business in the accommodation and food services sector, which are just as vital despite being less documented and often undervalued.

Businesses such as laundrettes that supply linen to hotels, coach operators that transport us to our day trips and the catteries that keep our pets safe when we go away, are the unseen support network which underpin and facilitate the public facing businesses. It is important that they are not forgotten. Businesses like nightclubs have been unable to open, and wedding businesses, often small firms run by women, have had to operate at significantly reduced capacity, with little notice of when and how they can operate.

As the UK commits to its net zero goals many small businesses in tourism and hospitality are already forging ahead in making their businesses environmentally friendly, but more help is needed to ensure all small businesses can meet these environmental goals.

The hospitality and tourism sector is wide and diverse. Not only can they provide an opportunity for young people, but it also serves as a magnet for successful entrepreneurs, many of them women and ethnic minorities.

Towering business rates, access to labour, the rising costs of doing business and access to high-speed broadband are just some of the many challenges small firms in this sector faced prior to the pandemic. In many cases the pandemic has merely served to exacerbate these issues whilst also creating new obstacles and issues that may hinder the path to success. The UK Government must expedite policy interventions to support small business ensuring the sector can 'Build Back Better'. Government departments must also seek to work closer together to understand how policies, such as local planning changes, late payments, VAT and immigration impact on small firms in the hospitality sector.

Tourism and hospitality businesses are a crucial part of our communities, providing a meeting place for many and playing a key role in tackling loneliness and improving wellbeing. The disruption to the industry has provided an opportunity to rethink the importance of these businesses and the way in which they are supported. From facilitating start-ups, supporting growth, providing for investment in people and development, with careful planning and provision we can all enjoy the benefits of the tourism and hospitality sector flourishing once more.



Jennie Riding
FSB Tourism and Hospitality Chair

EXECUTIVE SUMMARY

Hospitality and tourism businesses up and down the UK provide economic, social and cultural benefits to their local areas. They are at the heart of many communities, providing jobs and places to enjoy food, drink and comfort on a daily basis. This report looks at the multitude of issues impacting hospitality and tourism businesses across the UK, showing how they needed support before the pandemic, and how that has only been heightened now.

Hospitality and tourism

High streets are a vital component of most communities around the UK, and small hospitality and tourism businesses are more likely to be on or next to them than most. Vacant premises are a particular worry for the viability of high streets. While not a new issue, the pandemic has seen several major brands enter administration and close their stores, exacerbating the problem for the remaining businesses. Rethinking our use of space on the high street is critical to encouraging smaller businesses back to the high street, as well as re-booting local economies.

The UK Government has seen the impact of COVID-19 on tourism in the UK and responded with the Tourism Recovery Plan. This plan is vital for the sector and should feed into a broader hospitality and tourism sector strategy.

Supply chains

The hospitality and tourism sector can only run with the support of a healthy supply chain. There is often a lack of understanding about the factors that influence supplier experiences, and this lack of understanding led to their exclusion from sector-based support during the pandemic. As supply chains look to recover, it is vital the UK Government acts to bring forward legislation to force Audit Committees, led by a Non-Executive Director, to assess and report on payment practices in company annual reports, broadening accountability to whole company boards.

Jobs, taxes and investment

The future success of the UK Government's levelling up goal will hinge on their ability to reach the 5.9 million small businesses and sole traders, many of which are found in the hospitality and tourism industry. The hospitality and tourism sector is a major UK employer, providing employment for many, in particular for women and young people. To support small businesses with recruiting and retaining staff as they recover from the pandemic, Government should focus on reducing non-wage employment costs like Employer NICs and uprate the Employment Allowance.

The VAT cut undoubtedly assisted many small businesses in the sector during the pandemic. However, many businesses have not been fully, or at all, operational since its introduction and so need an extension to realise the benefits.

Business rates have long been considered regressive as they are not based on the ability to pay, but on the location and size of the building. Small Business Rates Relief and the Small Business Bonus support many small businesses to survive by offering much needed relief on business rates. However, the reliefs are complicated, and in some instances the way they are administered disincentivise growth. The forthcoming reviews into business rates in Scotland and UK-wide are vital and timely to support businesses as they recover from the pandemic.

Levelling up requires a multi-faceted approach and investment in broadband for hard-to-reach areas is paramount. Our evidence shows that rural businesses suffer more than urban businesses, with half experiencing unreliable broadband in rural areas compared with just over a third in urban areas. For small hospitality and tourism businesses this means difficulties communicating with customers or taking payments, or not being able to offer them good Wi-Fi – which customers increasingly see as an essential requirement. Hospitality and tourism businesses exist across the UK, sitting at the heart of all types of communities and contributing to local economies, as such they have a role to play in the levelling up agenda.

Impact of COVID-19 on the industry

COVID-19 could not have hit at a worse time for many in the hospitality and tourism sector, as many businesses were preparing for the 2020 Easter and summer seasons. Businesses in the sector have been amongst the worst impacted by the pandemic. Compared to most businesses, they were the first to close, remained closed for longer, and had stricter restrictions imposed when they were able to open. For some, including travel agents and others working in travel, the international travel restrictions have meant they have been unable to operate, or have had to operate at severely reduced capacity, for the vast majority of 2020 and 2021 so far.

In April 2020, 80 per cent of small businesses in hospitality and tourism had temporarily closed, and a year into the pandemic in March 2021 59 per cent had their premises closed and 26 per cent were trading in name only. Only 53 per cent were confident that their business would survive the pandemic. Just prior to initial re-opening in July 2020, nearly all small businesses in the sector said they needed to make physical changes to their premises (88%), and many would also need to invest in staff training (41%) or new equipment (24%).

During the pandemic small businesses have accrued debt through rent deferrals, VAT payment deferrals, and taking out new debt, through Bounce Back Loans and Coronavirus Business Interruption Loan Scheme or otherwise. For Bounce Back Loans alone, for instance, businesses across the UK have taken out £46.5bn in debt finance in a little over a year. Our evidence shows that, as a result of the pandemic, the proportion of small businesses carrying some form of debt has increased from 56 per cent to 69 per cent. For small hospitality and tourism small businesses, this has increased from 59 per cent to 77 per cent – a greater increase than average.

Net zero

The hospitality and tourism sector will play a crucial role in helping the UK realise its ambitious goal of reaching net zero by 2050, or 2045 in Scotland. Small businesses in this sector require a range of measures to assist them in achieving this goal, whether it's help to decarbonise their properties or invest in ultra-low emission vehicles. Local authorities should provide small businesses in the sector with free recycling services, including food recycling, and governments across the UK should ensure environmental changes made to properties are zero rated.

KEY FINDINGS

High streets

- 44 per cent of small hospitality and tourism businesses are on or next to the high street, more so than the average small business.
- Hospitality businesses feel more positive about their local high street than other businesses, but 63 per cent feel concerned about its decline.
- Over half (54%) think making vacant units readily available for businesses to let would help save the high street.

Business rates

- 67 per cent of small hospitality businesses who receive Small Business Rates Relief/the Small Business Bonus say they would not be able to survive without it.
- Over half (56%) of small hospitality businesses say further rates relief would support their high street.

Employment and enterprise

- 31 per cent of FSB small businesses are owned by women, rising to 41 per cent in the hospitality and tourism sector
- Small hospitality businesses are more likely than average to hire:
 - Women (87%)
 - Lone parents (28%)
 - Ex-offenders (3%)
 - Young people:
 - Aged 16-17 (25%)
 - Aged 18-20 (35%)
 - Aged 21-24 (38%)

Immigration

- 43 per cent of small hospitality businesses employ at least one EEA national, more than any other sector.
- More hospitality small businesses say location limits their access to labour than other sectors (36%).

Supply chains

- A quarter (24%) of small manufacturing businesses supply to hospitality and tourism.

Community

- 22 per cent of small hospitality businesses offer shared community spaces.
- At the beginning of the pandemic, 33 per cent of small hospitality businesses had donated to local food banks, 26 per cent had carried out a broader community role, and 12 per cent had provided free services or accommodation to key workers.

Impact of COVID-19 restrictions

- 77 per cent of small hospitality and tourism firms were unable to adapt their businesses at the beginning of the pandemic.
- A year into the pandemic, more than half (59%) of small firms in the sector reported their businesses premises as closed, and 26 per cent were trading in name only and only 53 per cent were confident their businesses would survive.

Regulation changes

- 65 per cent of small hospitality and tourism businesses said the relaxation of planning regulations for pubs and restaurants, allowing them to operate as takeaways, was important.

COVID-19 finances

- 31 per cent of small hospitality and tourism firms in England used the leisure, hospitality and retail grant of £25,000, and 54 per cent used the Small Business Support Grant of £10,000.
- 53 per cent of small hospitality and tourism businesses said they have used a CBILS or BBLS loan.
- 56 per cent of small firms in the sector have taken on new or existing debt as a result of COVID-19 – higher than any other sector.
- Those carrying some form of debt has risen from 59 per cent pre-COVID to 77 per cent post-COVID.

Energy and the environment

- 83 per cent of small hospitality and tourism firms said energy is a significant cost to their business.
- 44 per cent of small businesses in the hospitality and tourism sector would switch tariffs if offered a renewable tariff.
- 58 per cent of small firms in the sector are interested in generating their own energy.

RECOMMENDATIONS

Better co-ordination

- UK Government should develop a hospitality and tourism sector strategy, overseen by the Minister with responsibility for hospitality, bringing together the various departments to focus on short-, medium- and long-term support for the sector. (p.15)
- UK Government should set the tone for what the role of Destination Management Organisations should be, creating basic standards for the organisations to adhere to while leaving room to adapt to local needs, delivered through VisitBritain, or through the Britain is Great campaign in central government. (p.17)

Regulation

UK Government (England) should:

- Make permanent the streamlined procedure to allow businesses that sell food and drink to apply to the local authority for a pavement licence. (p.50)
- Maintain the right for pubs, cafes and restaurants to be able to operate as a takeaway alongside their main business. (p.50)
- Introduce a ventilation grant scheme to assist small businesses in making their premises COVID-secure for the long term. (p.51)
- Introduce minimum standards for responding to businesses on licensing and inspections, such as food hygiene ratings. (p.51)
- Relax rules for temporary campsites, allowing them to operate until October 2021 through a temporary change to permitted development rules. (p.51)
- The secondary legislation required to ensure that progress can be made following the passage of the Parking Places (Variation of Charges) Act and the Parking (Code of Practice) Act must be made. (p.16)

UK Government should:

- Amend the blanket ban on online advertising for foods high in fat, salt and sugar in the upcoming Health and Care Bill to enable small businesses in the sector to recover from COVID-19 by continuing to advertise their products to customers via newsletters and social media pages. (p.51)

Hospitality on the high street

- Government should create Hospitality Enterprise Zones (HEZs) in England. HEZs are locally defined areas in which small businesses can receive incentives to take over vacant spaces. They would be centrally funded through the Shared Prosperity Fund and locally delivered by LEPs. (p.15)
- UK Government should address the issue of a minority of landlords' refusal to engage with tenants by placing a greater emphasis on mediation and placing limits on the amount of debt that landlords are able to claim in court. (p.15)

Tax, finance and investment

UK Government should:

- Introduce an alcohol duty reduction on beers, ciders and wines to support small businesses to bounce back, at least for a limited period. (p.23)
- Extend the hospitality VAT rate reduction to five per cent until March 2022. (p.23)
- Scale up the New Enterprise Allowance through additional mentors and increased weekly payments, to support the long term unemployed into starting up for themselves. (p.37)
- Treasury Ministers, working with the British Business Bank and UK banks, must provide greater clarity on Pay As You Grow and ensure the option is available to all businesses with BBLs debt. (p.25)
- Extend COVID-19 loan support to pre-existing debt. (p.25)

UK Government (England) should:

- Extend 100 per cent business rates relief throughout the full financial year or until the recommendations from the Business Rates review are implemented. (p.23)
- Ensure improvements made to a property for environmental or safety reasons are zero-rated. (p.23)

Jobs

UK Government should:

- Reduce non-wage employment costs through cutting Employer National Insurance Contributions. (p.28)
- Support small businesses by uprating the Employment Allowance. (p.28)
- Extend the zero rating of secondary National Insurance Contributions for all Freeport employees to those at risk of long-term unemployment in all areas. (p.29)
- Ensure T Levels work for smaller hospitality and tourism businesses by extending incentive payments for employers to deliver industry placements beyond July 2022. (p.30)
- Extend the Kickstart scheme beyond 2021 to support small hospitality and tourism businesses to employ young people as they recover. (p.30)
- Extend the Youth Mobility Scheme to EU countries and should not include annual quotas. (p.32)
- Adopt the Migration Advisory Committee's 2020 recommendation and pilot a remote visa. (p.32)

Supply chains

- The Government must amend Financial Reporting Council (FRC) guidance and/or legislate at the earliest opportunity to force Audit Committees, led by a Non-Executive Director, to assess and report on payment practices in company annual reports, finally broadening accountability to whole company boards. (p.35)
- UK Government (England) must speedily distribute the £1.5 billion business rates support to suppliers and release the guidance as a matter of urgency, getting the money to hospitality and tourism supply chain businesses as quickly as possible to support them through a difficult period. (p.35)
- UK Government should introduce training for officials on the nature of B2B supply chains, so that the State is better able to act to support these businesses in future crises' and during recovery. (p.35)

Net zero

- Local authorities should provide small businesses in hospitality with free recycling services, including food recycling. Capped at a level sustainable for local areas, this would empower small businesses and disincentivise non-recyclable waste. (p.42)
- Deliver a programme of ambitious policies for achieving net zero, following the principles laid out in 'A Just Transition to Net Zero: the fairness principles'. (p.42)
- Ensure environmental improvements made to a property are zero-rated. (p.23)

Transport

- UK Government should improve rural public transport by continuing the reversal of Beeching cuts and make improvements to the usability of railway stations. (p.44)
- UK Government should work to introduce multi-operator and multi-modal ticketing, encouraging public transport usage. (p.44)

Broadband

- UK Government should work closely with industry to find solutions to improve broadband access for the areas that will not be gigabit capable by 2025 as soon as possible, including very hard to reach premises. (p.46)

INTRODUCTION

The hospitality sector, which includes hotels and accommodation, food and drink outlets as well as attractions and leisure, accounts for 10 per cent of UK employment, six per cent of businesses and five per cent of gross domestic product.¹ It is a vital sector in the UK, generating £130 billion in economic activity and paying £39 billion in tax per year prior to the pandemic.² The sector was growing at a faster rate than the wider economy, and employment had increased 24 per cent in the decade to 2019.³

Beyond the huge value of the sector to the UK economy, hospitality and tourism sits at the cultural centre of the country, providing a space to enjoy food, drink and comfort on a daily basis and to celebrate special occasions. Businesses in hospitality are located in all parts of the UK, acting as social hubs, and are at the heart of many communities.

The diverse range of businesses that sit within the hospitality and tourism sector have an equally diverse range of issues facing them. As a result, the policy issues impacting them are spread across Government departments, from the Department for Culture, Media and Sport (DCMS), the Department for Business, Energy and Industrial Strategy (BEIS) and HM Treasury.

The pandemic has impacted UK businesses across all sectors, but none more so than hospitality and tourism. They were some of the first to shut, have had stricter rules imposed on them than some other sectors, and have yet to operate at full capacity over a year on. Hospitality and tourism businesses were facing serious challenges before 2020, and they have clearly been dramatically impacted by the coronavirus pandemic and associated economic ramifications. While COVID-19 has obviously had a huge impact on the sector, it has also shone a spotlight on the plethora of issues that the sector was already facing.

This report takes a look at the multitude of issues impacting hospitality and tourism businesses across the UK, outlining the support needed before the pandemic, and how this has been heightened.

1 UK Hospitality, Industry Focus, accessed 12 March 2021, available at <https://www.ukhospitality.org.uk/>

2 UK Hospitality, Menu for Change, available at https://cdn.ymaws.com/www.ukhospitality.org.uk/resource/resmgr/2019/documents/general_election/Menu_for_Change__online_.pdf

3 Ibid.

HOSPITALITY ON THE HIGH STREET

High streets are a vital component of towns, cities, and communities across the UK. They provide a place for the public to access a range of services and businesses and are important for small businesses. In March 2020, FSB published *Streets Ahead: How small businesses are saving the high street*, which found that many small businesses on the high street want to contribute to the leadership of their local high street and setting its future direction.⁴ Our data shows that small hospitality and tourism businesses are more likely to be on or next to the high street than the average small business – 44 per cent compared to 34 per cent of all small businesses. This is boosted by the inclusion of food and drink service industries in the sector, which are more likely to be located on the high street. Almost half of hospitality businesses feel positive about their local high street (49%), higher than the 41 per cent average across all sectors. Despite this level of positivity nearly two thirds (63%) are concerned about its decline, perhaps reflecting the importance of strong local high streets for this sector. When asked about what measures would make the biggest difference to helping their high street, enhancing free parking availability was the most popular option, selected by 68 per cent of businesses surveyed, and 74 per cent of hospitality businesses.

As part of the ongoing response to the pandemic and accelerated change of longstanding issues, the Northern Ireland Executive have created the High Street Task Force. The membership includes a range of the necessary stakeholders including FSB NI.⁵ Meanwhile, SMEs in Northern Ireland will receive a vital boost when a £140m High Street Voucher Scheme is rolled out later in 2021.⁶ This will be supplemented by a Holiday at Home voucher and associated campaign.⁷ However, this boost is temporary and at the time of writing the Task Force has met just once since its announcement in August 2020. The Task Force must meet regularly in order to progress through its Terms of Reference, set a direction of travel and make an impact on the ground as soon as possible.

Commercial property

During the COVID-19 crisis, small hospitality and tourism businesses have faced financial burdens while being unable to operate, including continuing to pay rent on their premises. The general expectation for small businesses is that they will continue to have to pay rent, even as they are not trading. There are examples of landlords extending leniency, deferral of payments, or even writing off or reducing rent, but this has not happened across the board. Rent remains a major cost for small hospitality and tourism businesses, which adds to their increasing levels of debt. The moratorium on evictions during the pandemic was an important step. It gave many small businesses time to address their position and enter meaningful negotiations with their landlords, without fear of court action.

Vacant premises

Empty properties on the high street are not a new issue, with several major retail brands ceasing trading in recent years and many high street banks closing branches. Meanwhile, the cost of being on the high street continues to be high for many small businesses despite the availability of business rates relief. The coronavirus pandemic has seen additional major brands enter administration and close their bricks and mortar stores. This is detrimental to employment prospects, particularly for young people and women, but it is also bad for small businesses. Shops being empty on high streets dissuades customers from travelling to them, reducing footfall for the businesses left behind.

FSB research shows making vacant units on the high street readily available is a desired measure for hospitality businesses (54%) more than for other sectors (40%). This is a reflection of the aesthetic impact that empty properties have on our high streets, and the knock-on effects to visitor and leisure numbers which underpin hospitality and tourism industry. Many properties left behind following the exodus of large department chains are often too big for most small businesses to fill and make use of

4 FSB report, *Streets Ahead: How Small Businesses Are Saving the High Street*, available at <https://www.fsb.org.uk/resource-report/streets-ahead.html>

5 Northern Ireland Executive Office, *Statement on the High Streets Task Force*, available at <https://www.executiveoffice-ni.gov.uk/news/statement-high-streets-task-force>

6 Northern Ireland Department for the Economy, *Dodds announces further details of High Street Stimulus Scheme*, available at <https://www.economy-ni.gov.uk/news/dodds-announces-further-details-high-street-stimulus-scheme>

7 Ibid.

the space. Therefore, rethinking our use of space on the high street is critical to encouraging SMEs back into the area, improving the aesthetic, and improving hospitality and tourism.

Delivery companies

Over the last few years, online food delivery businesses have grown in popularity amongst consumers and thus many small hospitality businesses have engaged with these platforms to increase their customer base. With some reports from small businesses of high commission fees and an imbalance of power, it is important for the Competition & Markets Authority (CMA) to monitor this. It is essential to ensure small businesses are protected and that there is fairness in competition between big online companies and small businesses.

Recommendations

UK Government should:

- **Develop a hospitality and tourism sector strategy, overseen by the Minister responsible for hospitality, bringing together the various departments to focus on short-, medium- and long-term support for the sector.** The strategy should create a voice for the sector within Government and seek to solve the issues outlined in this report. It would also signal that the sector is being seen as the core part of the economy that it is. The minister should work with local authorities to ensure measures work equally for businesses in big cities and small villages.

The last 15 months have highlighted the strength of the UK's hospitality and tourism sector, and the public's love for it too. However, government policy is not as unified in its guidance, delivery and support. The existence of a strategy should strengthen the links between departments and ensure faster action can be taken to support the sector.

When policies fail, such as the 10pm curfew, the costs (whether monetary or otherwise) can be significant. Small businesses in hospitality and tourism feel underrepresented, especially during the pandemic. The sector is a major employer and contributor to the economy, as well as a key part of people's lives, but business owners feel that they are not treated as such.

- **Address the issue of a minority of landlords' refusal to engage with tenants by placing a greater emphasis on mediation, and placing limits on the amount of debt landlords are able to claim in court.** Where tenants have attempted to start negotiations to resolve outstanding issues, no landlords should be able to recover interest for non-payment of rents during the pandemic. Government should go further, ensuring a maximum of 50 per cent of arrears built up during the pandemic can be awarded via court proceedings. The move towards increased mediation and a limit on what is claimable through court should create a strong incentive to resolve issues without court proceedings.
- **Create Hospitality Enterprise Zones (HEZs) in England. HEZs will unleash the entrepreneurial spirit across our local areas. Local communities will benefit from new jobs and the opportunity to develop local sustainable initiatives, boosting their economies.** During the pandemic many towns and cities across the UK have experienced a dramatic shift towards a localised economy, with many residents rediscovering and being dependent on their local high street. High streets have proven to be an essential, accessible and affordable lifeline to local people. In addition, the pandemic has shone a light on the importance of Britain's great hospitality sector, a sector which has been severely impacted by COVID-19.

HEZs are locally defined areas in which small businesses can receive incentives to take over vacant spaces. Grants should be available to set up HEZs, centrally funded through the Shared Prosperity Fund and locally delivered by LEPs, with all LEPs containing at least one HEZ. Organising via LEPs will keep in line with local priorities, and the grants can be used to set up HEZs and to deliver on key priorities for the sector, such as improving broadband.

For a business to meet HEZ requirements they must:

- take over a vacant space on a high street or community centre.
 - commit to a sustainability plan.
 - agree to an in-work progression programme with their local job centre, if they are expanding within a HEZ.
- **The secondary legislation required to ensure that progress can be made following the passage of the Parking Places (Variation of Charges) Act and the Parking (Code of Practice) Act must be made**, for example removing the notice period for local authorities that want to suspend or lower parking charges and giving ministers the power to make councils consult before raising costs.
 - **More funding should be made available from central government for local authorities to improve traffic flows into and around the high street.**

TOURISM AND SMALL BUSINESSES

Tourism Recovery Plan

DCMS has developed a Tourism Recovery Plan to support tourism to recover and grow post-COVID. This recovery plan will be vital for small tourism businesses, and should feed into the broader hospitality and tourism sector strategy proposed above. The plan builds on the Tourism Sector Deal, developed in 2019, but adapts to the changes seen in the sector over the last year. It seeks to solve some of the issues raised in this report, but could go further. A broader hospitality and tourism sector strategy could seek to address outstanding issues. The amount of debt accrued by the sector over the last 15 months will be an ongoing issue, and managing this will be key to future growth and investment in the sector. The plan should be supported by substantial investment by government and be aligned with the Levelling Up Fund.

There are relatively small measures that can be taken to support small businesses and tourism-heavy areas to recover. These include ensuring no non-essential roadworks are done during the summer months in tourist hotspots, and making sure there is enough parking for the additional visitors. These small measures require local authorities to work with businesses and ensure they are helping to boost the industry.

Destination Management Organisations

Destination Management Organisations (DMOs) take a lead role in managing and developing a particular area – in England these can cover a city, a local area, or a region. DMOs are well-valued by small businesses across England but are undervalued and underfunded more broadly. Where DMOs are well run and well-funded, they are capable of delivering excellent service and value to small businesses, residents and authorities in their area, as well as to visiting tourists. The best DMOs are also involved more broadly in the management and development of the local economy, working with local stakeholders to improve the area for everyone. However, there is a disjointed approach to DMOs, with some businesses gaining the benefit of large, professional DMOs, and some losing out through poor planning and representation. The piecemeal approach to DMOs in many areas does not work for small businesses in the tourism sector.

Online travel agencies

Similarly to small food businesses, many small and medium hotel and other accommodation businesses use online travel agencies (OTAs) as part of their business. Some small businesses have highlighted high commission as severely reducing profit margins, while they are kept under strict terms dictated by the OTAs. As with online delivery companies, the CMA must monitor the small business-large OTA dynamic and work to ensure fair competition between the two.

Recommendations

UK Government should:

- **Develop a hospitality and tourism sector strategy, overseen by the Minister responsible for hospitality, bringing together the various departments to focus on short-, medium- and long-term support for the sector.** The strategy should create a voice for the sector within Government and seek to solve the issues outlined in this report. It would also signal that the sector is being seen as the core part of the economy that it is. The minister should work with local authorities to ensure measures work equally for businesses in big cities and small villages.
- **Set the tone for what the role of DMOs should be, creating basic standards for the organisations to adhere to.** This should involve the inclusion and consideration of small businesses and the self-employed in decision-making. Local discretion should be built in – what works for the rural Lake District will be very different to what works for London. As a part of this, a central body should be funded appropriately to ensure DMOs are meeting the standards and to provide support to DMOs to reach them. This would also help to streamline

the overlapping and piecemeal current approach to DMOs. The central oversight could come in the form of basic standards required to operate as a DMO, or as a less intensive option, could establish a charter or standard to which DMOs could sign up. The central body should also support DMOs to work together. This should be delivered either through VisitBritain/VisitEngland, or through the Britain is Great campaign in central government.

TAXATION, HOSPITALITY AND TOURISM

A significant number of constraints on smaller enterprises stem from Government policy. Such interventions can hinder the enterprising spirit of smaller businesses, with sub-optimal consequences for both business and economic growth.

Businesses attempting to recover from the pandemic, and repay COVID-related debts, may need to raise prices. High prices for alcohol, food and other hospitality and tourism services all threaten the recovery of the sector as a whole and a return to a vibrant hospitality sector with all of its economic and social benefits. Changes to taxation policy could help to mitigate this.

VAT rate

The UK has a higher VAT rate than many similar countries for hospitality and tourism services and products, being one of the few countries in Europe without a reduced rate for the sector.⁸

Businesses that turn over up to £150,000 can opt into the Fixed Rate scheme for VAT, through which they pay a percentage of their turnover, rather than filing a VAT return. The percentage is determined by sector type, and is lower than some others for hospitality, making it an advantageous scheme for them. While the main hospitality VAT rate is reduced to five per cent, the fixed rate is zero or one per cent, depending on the business type.

VAT threshold

Previous FSB research found that 14 per cent (second highest proportion after business rates) of small businesses reported that VAT had stopped business growth. Office of Tax Simplification (OTS) analysis of VAT compliance, alongside FSB's own data, shows why many small businesses may be deterred from exceeding the VAT threshold.⁹

“There is currently significant ‘bunching’ of businesses whose turnover is just below the threshold, particularly businesses with lower levels of inputs relative to supplies to consumers - such as labour-intensive businesses, and businesses operated by sole proprietors - for whom this bunching effect has the appearance of a cliff edge. Some businesses limit expansion – for example by not taking on an extra employee, or an extra contract, or closing their doors for a period, to keep their turnover below the threshold.”¹⁰

Some have argued that this justifies lowering the VAT threshold significantly, in order to remove the cliff edge effect. However, this would mean possibly requiring hundreds of thousands more small businesses to be subject to the arduous burden of VAT compliance. These smaller businesses will likely be even less capable of completing VAT returns efficiently in their current form. They will more acutely feel the loss of resource caused by having to comply with the most time-consuming business tax in the UK – a 2017 FSB survey found small businesses were spending an average of 44.7 hours complying with VAT. Rather than shifting the turnover threshold, the Government should be focusing on improving the user experience of VAT compliance.¹¹

Beer and other duties

Beer Duty for standard strength (2.8% to 7.5% Alcohol By Volume) is currently set at 19.08 pence per litre per per cent of alcohol, making a pint of five per cent strength lager subject to 54 pence of

8 Cut Tourism VAT campaign, Comparison of tax reliefs, tourist taxes and VAT thresholds in Europe, available at <https://www.cuttourismvat.co.uk/wp-content/uploads/2013/08/140614-EU-Tourism-tax-comparison-tables-Final.pdf>

9 FSB report, Taxing Times: Routes to Reform for Small Businesses as Taxpayers

10 Office of Tax Simplification, Value added tax: routes to simplification, available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/657213/Value_added_tax_routes_to_simplification_web.pdf

11 FSB report, Taxing Times: Routes to Reform for Small Businesses as Taxpayers

Beer Duty. Wine Duty is set at 297.57 pence per litre of standard strength wine (5.5% to 15% ABV), making £2.23 of the price of a bottle of wine.¹² 2016 data from the Institute for Fiscal Studies (IFS) found that 48.6 per cent of the price of a bottle of wine was duty, rising to 65.3 per cent of price for all taxes including VAT. For a pint of 3.9 per cent ABV beer, duty was 13.6 per cent of price, and total tax including VAT was 30.3 per cent of price.¹³ While the alcohol duty freeze during the March 2021 Budget was welcome news for small hospitality businesses that sell alcohol, the government should consider a reduction on Beer, Cider and Wine Duty to support hospitality venues and supply chain businesses to recover. This cost reduction could be passed on to consumers, likely to be otherwise faced with price increases.

Business rates

Business rates have long been considered regressive as they are not based on the ability to pay. Often the resentment surrounding the tax is borne out its dissociation from any real profit made by the business.

Many small businesses believe that business rates are simply too costly, limiting businesses' potential to grow, but also that they do not get enough in return for paying their rates. These sentiments were raised by FSB members in March 2021:

“As a business you have to pay your way, but it’s about return... you need something back and what I get is there’s nothing coming back from the councils, the operators of locations are taking too much out of the system and demanding too much from small businesses without providing the necessary attraction [to bring footfall].”

FSB member, Café, Greater Manchester

“For a business like ours we have to be centrally located and it’s obviously heavily fixed to the value of the property... It’s expensive and to be honest we never really see the benefit of ploughing all that money into the city coffers.”

FSB member, Food and entertainment business, Glasgow

Small firms also feel the system is not based on the ability to pay business rates or the type or size of the business, but instead on the location and size of the building, with other arbitrary inputs such as whether they have a window. This contributes greatly to the decline of the high street, with businesses moving online or to out-of-town locations with cheaper rates values.

“It’s a really out of date way of doing things, especially for small businesses, when you’ve got the big multinationals that are available online, and the high streets are suffering.”

“You can have a shop window online and not have to pay the rates to be in the city centre. Something has to change because it’s no longer a privilege to be on the high street.”

FSB member, Food stall, East Yorkshire

Business Rates Relief

The current rates system includes much needed relief for small businesses, with the Small Business Rates Relief (SBRR), or Small Business Bonus in Scotland, supporting many small businesses to survive. However, the rates system is complicated as well as burdensome for all those still forced to pay rates, and in some instances, the way that the relief is implemented deters growth. The threshold for SBRR has remained largely static in recent years, despite the rateable values that determine rates bills surging in many parts of the country, particularly on high streets in large towns and cities.

¹² Gov.uk, Tax on shopping and services, available at <https://www.gov.uk/tax-on-shopping/alcohol-tobacco#:~:text=Alcohol%20and%20tobacco%20duties,-Tobacco%20Duty%20is&text=You%20also%20pay%20standard%20rate,on%20alcohol%20and%20tobacco%20products.>

¹³ IFS, A survey of the UK tax system, available at <https://www.ifs.org.uk/publications/1711>

SBRR/Small Business Bonus is vital to many small businesses, and even more so for those in hospitality and tourism. Two thirds (67%) of hospitality and tourism small businesses that get the relief/bonus report it as essential and believe their businesses would not survive without it. Small hospitality and tourism businesses would also like more relief on business rates, with over half (56%) saying this would support their local high street.

“We’re fortunate in terms of the Small Business Rates Relief. That is tremendously helpful. Without that you’re suddenly faced with in essence a tax bill of several thousand pounds.

“If post-COVID they decide to make a change to [Small Business Rates Relief] then we’ll just shut our doors and walk away because we can’t afford to pay that additional cost.”

FSB member, Café owner, Greater Manchester

In the March 2020 Budget, the UK Government announced it would conduct a fundamental review of the business rates system in England. The review is vital, and timely to support businesses as they recover from coronavirus. It is essential that the review addresses the core and complex issues within the business rates system, and that it sticks to its commitment to be a downwards review. This is key to helping small businesses be a part of building up a strong economic future and levelling up across our towns and cities.

Scotland

The year-long extension to the 100 per cent COVID-related relief for retail, hospitality and leisure businesses will help many firms in these sectors in Scotland recover from the pandemic. This vital help supplements the long-standing support for the bulk of Scottish smaller firms (and around 100,000 premises) through the Small Business Bonus scheme. This tax-break provides 100 per cent relief for firms with a rateable value of up to £15,000, delivering a maximum saving of £7,470, with a smaller taper for firms with a collective rateable value of up to £35,000.

The review which the Scottish Government commissioned into the Small Business Bonus is due to report in the autumn of 2021 and will likely be considered alongside the UK Government-wide review of the rates system. However, FSB Scotland is likely to urge policymakers not to drastically change the shape of their support for smaller businesses as recovery from the crisis will take time.

Key questions remain regarding how any changes to the property tax in England could impact Scottish ratepayers, especially if the current regime is supplemented with a non-devolved levy (e.g. an online sales tax). FSB Scotland has previously made representations about expanding rates relief to small businesses located in higher value premises, such as rural hotels and independent hospitality businesses in our centres. In addition, FSB Scotland has pressed for many years to make the property tax more user friendly for operators without access to professional property advice.

Wales

The year-long extension to the 100 per cent COVID-related relief for retail, hospitality and leisure businesses with a rateable value of less than £500,000 will be a vital part of COVID-19 recovery and the sustainability of the sector in Wales.

As well as a multitude of sector specific schemes, this follows on from long standing support for smaller businesses such as the £10,000 grant to all businesses eligible for SBRR with a rateable value of £12,000 or less and grants of £25,000 for retail, leisure and hospitality businesses with a rateable value of between £12,001 and £51,000.

In May 2021, the newly elected Welsh Government announced further business support of £66 million for business and supply chains in hospitality.¹⁴ How successful this targeted intervention is will also be important in ensuring businesses are able to take advantage of opportunities in reopening the economy in this sector.

¹⁴ Welsh Government, Further support for Welsh businesses, available at <https://gov.wales/further-support-welsh-businesses>

Northern Ireland

Business rates

In the context of the pandemic, the Northern Ireland Finance Minister granted 100 per cent rates relief to the sectors in 2021/22: airports; childcare providers; hospitality, tourism and leisure; manufacturing; newspaper production; and retail (excluding larger food stores and off-licences).¹⁵ These reliefs are crucial, built on the evidence of academics and target the most affected – this approach is most welcome.

Whilst the business rates system is different in Northern Ireland, the need for review is no less apparent. Historically, SBRR in Northern Ireland is less generous than in other parts of the UK, with no business receiving 100 per cent rates relief through SBRR. For example, a business with a rateable value of £5,000 in Mid and East Antrim will pay over £2,200 in rates, whereas an identical business in Great Britain will not pay any rates.

FSB NI has called for an enhancement of SBRR to reflect the significant enhancement of rates relief funding for England in recent years. FSB NI has also called for the permanent embedding of SBRR, rather than it being it subject to yearly review.

Ultimately, use of real-time accounting might provide a route towards a fairer rates system. In the interim, the NI Executive must use the rating system as a tool by aligning it to cross-cutting policies of the time, such as a business start-up relief. The Executive should engage with stakeholders and prepare for 2022/23 onwards, using already-made bodies such as the High Street Task Force. Given the upcoming 2022 Assembly Elections, the Executive has a chance to make business rates one of its priorities in the new Programme for Government.

Other tax

Northern Ireland is the only part of the UK that shares a land border with another jurisdiction. The Republic of Ireland has long-used significantly lower levels of Corporation Tax, Tourism VAT and Air Passenger Duty as a set of fiscal levers to stimulate growth in its economy. The hospitality and tourism industry has benefitted widely, and this has placed Northern Ireland airports and businesses, particularly around the border, at a disadvantage. The 'North-South' relationship remains highly complex and interrelated. Illustrating the complexity, NI will maintain alignment with the EU in areas such as VAT rules for goods and State Aid limits, as part of the NI Protocol.¹⁶

The NI Executive was previously granted powers to set its own rate of Corporation Tax - a lever to be used on the condition of the NI Executive demonstrating its finances were on a 'sustainable footing'. With the collapse of the Assembly in 2017, the matter has stalled until the recent announcement of a Fiscal Council and Fiscal Commission.¹⁷ FSB NI supports the need to examine all means of stimulating our economy. There is reason to believe that, given Northern Ireland's unique circumstances and range of powers across the UK, use of additional fiscal levers could be useful in navigating the years of uncertainty ahead, as and when required.¹⁸

¹⁵ Northern Ireland Department of Finance, Murphy bolsters business with £230 million rates holiday, available at <https://www.finance-ni.gov.uk/news/murphy-bolsters-business-ps230-million-rates-holiday>

¹⁶ HM Revenue & Customs, Changes to accounting for VAT for Northern Ireland and Great Britain from 1 January 2021, available at <https://www.gov.uk/government/publications/accounting-for-vat-on-goods-moving-between-great-britain-and-northern-ireland-from-1-january-2021>

¹⁷ Northern Ireland Department of Finance, Murphy establishes Fiscal Council and Commission, available at <https://www.finance-ni.gov.uk/news/murphy-establishes-fiscal-council-and-commission>

¹⁸ Institute for Government, Tax and Devolution, available at <https://www.instituteforgovernment.org.uk/explainers/tax-and-devolution>

Recommendations

UK Government should:

- **Extend the 100 per cent business rates relief throughout the full financial year, or until the recommendations from the Business Rates review (completing in Autumn 2021) are implemented.** Business rates relief was introduced as a 50 per cent discount in 2019 and later increased to 100 per cent, with the discount intending to help high street businesses until a full review of business rates could be conducted. While the extension of relief at 100 per cent for the first three months of FY21/22 was welcome, the reduction to 66 per cent relief for the remaining nine months will mean many hospitality and tourism businesses are faced with a significant additional expense just as they are getting back to operating.
- **Any environmental or safety improvements should be zero rated.** Under current valuation guidelines, businesses are charged for a number of improvements they make to the property, both for environmental and safety reasons. For example, installing solar panels or CCTV would increase the rateable value of a property, and so the amount businesses must pay.
- **Introduce an alcohol duty reduction on beers, ciders and wines to support small businesses to bounce back, at least for a limited period.** A reduction would also support businesses in the supply chain, such as breweries. The alcohol duty freeze during the March 2021 budget was welcome news for small hospitality businesses who sell alcohol.

VAT

UK Government should:

- **Extend the VAT cut to March 2022 to allow small businesses to fully realise this support as they get back on their feet.** The reduction of VAT to five per cent for hospitality businesses has been a vital form of support for small businesses in the sector.
- **Focus on improving the user experience of VAT compliance and reducing the burden and costs associated with paying.** The VAT threshold, at £85,000 in 2020/21, leads to a cliff edge of payment, disincentivising small businesses near the threshold from growing and increasing profits. An increase or decrease in the threshold would simply move the problem.

MANAGING DEBT

Recent FSB research shows as a result of the COVID-19 crisis, the proportion of small businesses carrying some form of debt has increased from 56 per cent (pre-COVID) to 69 per cent (post-COVID).¹⁹ For small businesses in hospitality and tourism, these figures are starker – the proportion carrying some form of debt has increased from 59 per cent (pre-COVID) to 77 per cent (post-COVID). Small hospitality and tourism firms are more likely than any other sector to have taken on additional or new debt (56% vs. 43% average).

“We need a bridge to get there, but even once we re-open the debts are going to be so horrendous, we’re not going to be able to survive very long [without support].”

FSB member, Restaurant, Stratford upon Avon

VAT repayment deferrals, VAT reductions and rates relief have all been vital to small hospitality businesses. However, there are serious concerns about having to repay the VAT debt they have accrued before they are able to begin trading again.

Business Interruption Insurance

One key issue for small businesses has been the lack of coverage for coronavirus as part of business interruption insurance (BII). Small businesses feel that insurance providers should have been acting in good faith to support them through the crisis. In January 2021, the UK Supreme Court handed down judgment in *Financial Conduct Authority v Arch & Others*, the test case regarding insurance coverage for business interruption losses arising out of the pandemic. The test case is significant for a number of reasons, most importantly because of the potential impact for the insurance coverage available to small businesses arising from the pandemic. Reviewing BII policies in the context of COVID restrictions would have prompted insurers to provide greater support to businesses impacted by the shutdown prior to the test case being brought, including supply chain businesses, meaning many would not have needed other forms of support.

“We wouldn’t have had to take out any loans [if BII had covered COVID].”

FSB member, Event branding business, Northamptonshire

COVID-19 loans

The coronavirus pandemic has forced some small hospitality businesses into debt, many for the first time. The introduction of COVID-specific business loans such as the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) has been very welcome, as evidenced by the numbers taking them out. FSB research in March 2021 found that 53 per cent of UK small businesses in hospitality and tourism said they had used CBILS or BBLs.

However, there are major concerns among small businesses about paying back the loans, especially as the pandemic continues and the likelihood that they will not return to pre-pandemic trading terms for some time. These concerns were evident at the outset of the pandemic, with 60 per cent of small firms in hospitality and tourism concerned about debt repayment and 26 per cent concerned about interest rates after the interest-free 12 months in April 2020, but the concerns remain a year later, even after the announcements of ability to delay repayment and the extension of the term of the loan.

“Our first payment was in December so we’re paying back £2,000 a month on a CBIL. We’ve got no income so that’s just coming out of our pocket.”

FSB member, Food and entertainment business, Glasgow

¹⁹ FSB report, A Fighting Chance: Avoiding a small business cashflow crunch and empowering a post-COVID recovery, available at <https://www.fsb.org.uk/static/c3e5e0a2-b043-4a24-82c70e638cbf91ea/A-Fighting-Chance-December-2020.pdf>

COVID-19 grants

The most recent FSB data shows that 31 per cent of small hospitality businesses in England said they had made use of the Leisure, Hospitality and Retail Grant of £25,000, and 54 per cent had made use of the Small Business Support Grant of £10,000. These initial sector-specific grants of £10,000 and £25,000 were a lifeline for those who were eligible, covering some of the costs of initially shutting down. Follow-up grants have also been seen as extremely useful, including the plethora of industry-specific grants offered by the Scottish Government, although not enough to cover the fixed costs that businesses have had to continue paying throughout being closed.

“If they hadn’t been there, we’d have been in trouble.”

FSB member, B&B, Scarborough

Recommendations

A major problem for many small businesses in the hospitality and tourism sector is that they are sitting on debt accumulated over the last year. This is either accrued for the first time, or at a significantly increased level, while they are also continuing to be badly affected by COVID-19 regulations such as social distancing. They will need support to manage this debt as they begin to recover from the crisis and become profitable again.

- **Treasury Ministers, working with the British Business Bank and UK banks, must provide greater clarity around all aspects of the Pay As You Grow (PAYG) scheme, and work to ensure all options covered by PAYG are available to all businesses with BBLS debt.** While PAYG is a step forward in management of BBLS debt, allowing businesses to request an extension of their loan term, reduce their monthly payments by paying interest only, or taking a repayment holiday, several issues have arisen with the scheme for small businesses. Firstly, some small businesses have been unable to access PAYG through their bank, meaning the scheme is not available for all businesses. Secondly, some businesses are finding they are only able to choose one of the PAYG options, not a combination. Thirdly, there is anxiety around a lack of clarity around some of the impacts of the scheme – namely to what extent it impacts on credit, and what happens if the loans are sold or transferred.
- **The UK Government should extend support for small businesses managing pre-existing debt, as well as debt accrued as a direct result of the pandemic.** While Government has acknowledged the difficulties that many small firms will have in paying back emergency BBLS and CBILS loans, COVID-19 has also exacerbated the burden of debt that many smaller firms carried into the pandemic.

EMPLOYMENT

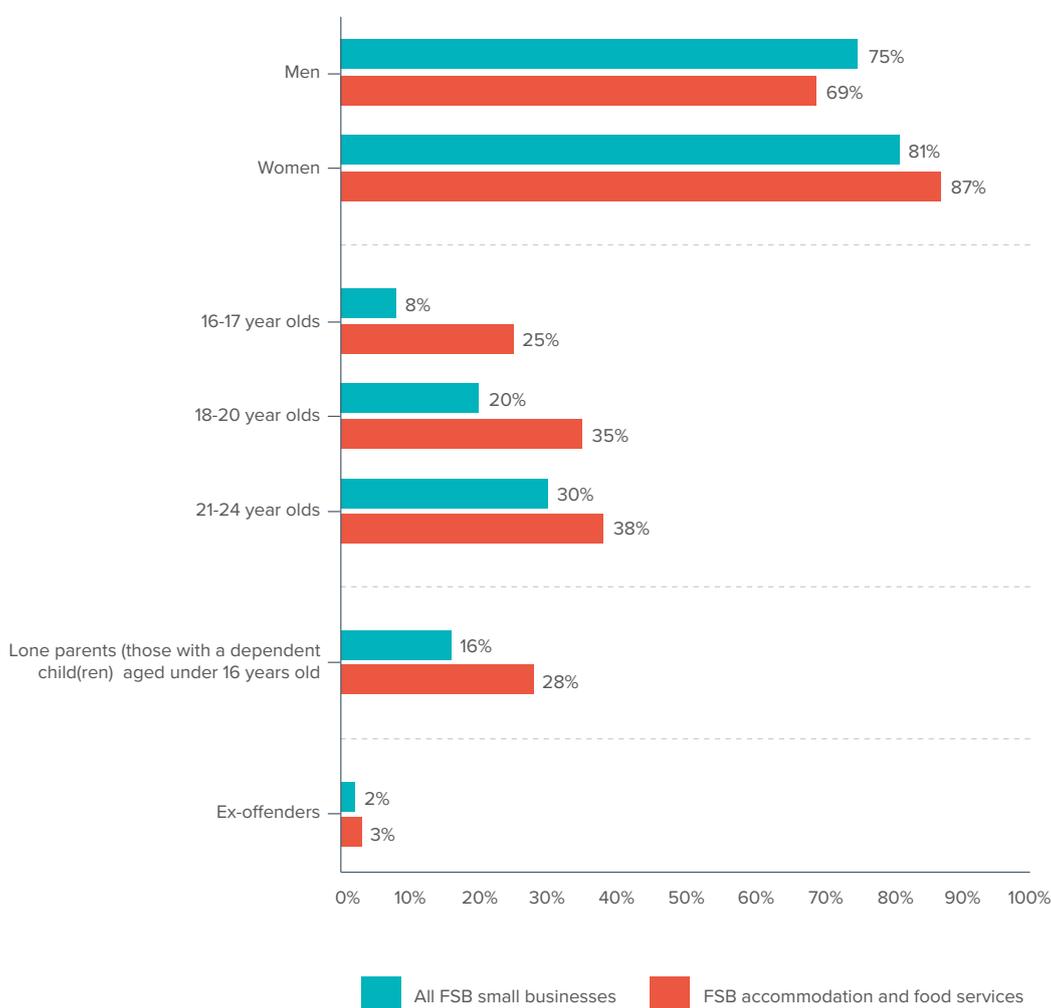
Hospitality and tourism is a labour-intensive sector and as such it is a major UK employer. The sector provides employment for many, in particular women and young people, and is dependent on seasonal labour, frequently from the European Union (EU).

“The values and character of the restaurant come from the people working there.”

FSB member, Restaurant, East London

Figure 1: Percentage of FSB small business employers that employ at least one of the below

Source: FSB Employment survey, 2020



Employment costs

Employment costs are one of the biggest outlays for small hospitality and tourism businesses. Employment related policies have driven up costs significantly over recent years. Hospitality sectors are particularly impacted by rising wage costs.

The introduction of the furlough scheme was a clear recognition of the impact employment costs have on the labour market. As the UK moves from shutdown to recovery, the impact of labour costs on employment levels will remain and the end of the furlough scheme carries risks of rises in unemployment. Government will need to consider how it can reduce non-wage costs of employment if we are to maintain both living standards and employment as the economy recovers.

FSB evidence provides a valuable insight into the impact of the introduction of the National Living Wage (NLW) on small firms, prior to the pandemic. FSB has always supported the NLW and continues to do so, provided the level set does not harm employment or business conditions. In April 2019, 82 per cent of small employers in hospitality and tourism reported an increase in their wage bill following an increase in the NLW in comparison to 58 per cent of all small businesses.

Figure 2: Impact of increases to the NLW on FSB small businesses in hospitality and tourism in 2016, 2017, 2018 and 2019

Source: FSB NLW wage surveys 2016-2019²⁰

	2016	2017	2018	2019
Increase in wage bill for accommodation and food services	73%	82%	71%	82%
Taken lower profits/absorbed costs	47%	54%	80%	49%
Raised prices	62%	51%	51%	49%
Reduced hours worked by staff	38%	33%	43%	42%
Cancelled/scaled down plans for investing in/expanding the business	19%	11%	26%	32%
Improved efficiency/raised productivity	15%	6%	17%	9%

The minimum wage is a key cost for hospitality businesses, with their wage bill increasing with each increase of the NLW. The hospitality sector will continue to operate under tight margins in 2021, especially in light of on-going restrictions as the hospitality sector re-opens. In addition, the reduction in age eligibility for the NLW from 25 to 23, a positive step, is likely to have a greater impact on hospitality businesses which employ a larger number of young people in comparison to other sectors. FSB continues to recommend a gradual period approach to changes to the NLW age eligibility. The Low Pay Commission should assess the impact on the labour market and on employment levels for young people before a move to 21 is made.

Figure 3: FSB small businesses use of NMW youth rates and the NLW for young people by all FSB small businesses and those in accommodation and food services

Source: FSB NLW survey, 2019²¹

16-17 year olds

	All small businesses	Hospitality and tourism
NMW 16-17	27%	26%
Above NMW 16-17	65%	74%

18-20 year olds

	All small businesses	Hospitality and tourism
NMW 18-20	24%	32%
Above NMW 18-20 but below NLW	46%	53%
NLW	10%	11%
Above NLW	16%	4%

²⁰ Low base sizes for 2016 and 2018 hospitality and tourism samples – treat results with caution

²¹ Low base sizes for 16-17 and 18-20 hospitality and tourism samples – treat results with caution

21-24 year olds

	All small businesses	Hospitality and tourism
NMW 21-24	19%	32%
Above NMW 21-24 but below NLW	18%	35%
NLW	17%	15%
Above NLW	43%	17%

The impact of the UK's exit from the EU and the pandemic will undoubtedly have a long-lasting impact on the labour market within hospitality, as result the sector may need to consider how they can retain staff, as well as recruit new staff.

FSB members are committed to providing good quality jobs. The majority of small businesses that have staff employ up to 10 people. This can lead to closer relationships between the employer and worker than in larger businesses. FSB research suggests that small businesses in hospitality and tourism are thinking of how they can improve flexible working arrangements for their staff after the pandemic, with 24 per cent of small business employers in the sector saying they plan to offer flexitime, staggered hours, a chance to reduce working hours, compressed hours, job sharing or annualised hours to their staff.

“My business has been going for 11 years. One member of my team has been with me for 10 and half years. I pay the living wage, plus bonus and I'm only open from 9am-4pm. I live my life do unto others, so that's what I do.”

FSB member, Café, Lake District

Recommendations

UK Government should:

- **Cut Employer's National Insurance Contributions (NICs).** It is very important to reduce non-wage employment costs. This help will not only support the return of workers from furlough, but give confidence to businesses unsure of the extent of returning demand. The mechanism most likely to accomplish this in a way that corresponds to people's actual patterns of employment is through Employer's NICs. Employer's NICs disincentivises both retention and recruitment and cutting them would play an important role in enabling both.
- **Seek to support small businesses by uprating the Employment Allowance.** The Employment Allowance provides small businesses with a £3,000 discount on employer National Insurance Contributions bills, acting as an incentive for small firms to create jobs, increase pay and encourage business investment. It is our view that the Employment Allowance will continue to be a vital source of support for small businesses, especially for those in sectors with tight profit margins.

Skills and careers

Small businesses are better able to tailor their training and development work in a way that identifies an employee's needs and, in the process, will be able to build better personal relationships and design more inclusive work packages. This is especially the case in low paid sectors in which progression is not often seen as the norm, but where small business employers are actively trying to change perceptions. The promotion of good practice, as well as working with the sector to provide leadership and management training, should be included as part of the hospitality and tourism sector strategy.

“The hospitality sector is often seen as a bridge between jobs or a job while studying. Very few people see it as a full-time career. As a business we are trying to change this perception; we are a living wage employer, we provide training and offer career progression. We need to promote hospitality as a potential career.”

FSB member, food and entertainment business, Glasgow

In September 2020, young people began to be able to take T Levels – a two-year qualification as an alternative to A levels, other post-16 courses or apprenticeships. They combine classroom theory, practical learning and industry placements. From September 2023, this will include a catering T Level.²² This is a good step in encouraging young people to train and start a career in the sector and should be a basis to create additional T Levels in other areas of the sector. FSB welcomed the recent announcement of the incentive scheme, allowing employers to claim £1,000 for up to 20 T Level students they host on a high-quality industry placement until July 2022.²³ This funding, or similar support, should be extended beyond 2022 to cover the catering T Level, and any future hospitality and tourism subjects that may be added.

The Government in England is also developing flexible apprenticeship schemes to boost apprenticeships in sectors with varied and flexible models of employment.²⁴ They have highlighted sectors such as creative industries as examples, but hospitality and tourism should also be considered for the scheme. The seasonal nature of many businesses in the sector means a more flexible solution could encourage small businesses to employ apprentices.

The sector strategy should include plans to address the skills gaps in the UK required for the hospitality and tourism industry, such as for chefs. Working in hospitality and tourism offers a great opportunity for young people to develop much needed employability skills for their working lives, whether they remain in the sector or move on. The sector strategy should promote the sector as a viable, interesting and worthwhile career. This should include a campaign to promote the sector, using industry role models, which would encourage people both to set up their own hospitality and tourism business, and encourage people to move into a career within an existing business.

FSB members in Northern Ireland (NI) acknowledge that they will need to adapt in order to attract talent to the industry, however the NI Executive must ensure wider promotion of apprentice incentives and JobStart (the NI version of the Kickstart Programme) to ensure hospitality and tourism businesses can rebuild and grow.

Employing those at risk of long-term unemployment in hospitality

While the hospitality and tourism sector is a good employer of some groups at risk of long-term unemployment, such as young people, more could be done to encourage small businesses to employ people from these groups. Reoffending by those released from custody costs society around £15 billion per year.²⁵ Ex-offenders are 30 per cent less likely to reoffend if they have employment when they are released from prison. FSB research finds that three per cent of small business employers say they have hired an ex-offender from 2016 to 2018.²⁶

Recommendations

UK Government should:

- **Extend the zero rating of secondary National Insurance Contributions for all Freeport employees to those at risk of long-term unemployment in all areas.** This should include

²² HM Government, T Levels, available at <https://www.tlevels.gov.uk/>

²³ Department for Education, Employer incentive payments for offering a T Level industry placement, available at <https://www.gov.uk/government/publications/employer-incentive-payments-for-employers-offering-a-t-level-industry-placement>

²⁴ Education & Skills Funding Agency, Flexi-Job Apprenticeships, available at https://consult.education.gov.uk/apprenticeships-covid-19-response-team/flexi-job-apprenticeships/supporting_documents/FlexiJob%20Apprenticeships%20Consultation%20%20Reshaping%20the%20role%20of%20Apprenticeship%20Training%20Agencies.pdf

²⁵ Ministry of Justice, Education and Employment Strategy, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/710406/education-and-employment-strategy-2018.pdf

²⁶ FSB report, Small Business, Big Heart: Bringing Communities Together, available at <https://www.fsb.org.uk/resource-report/small-business-big-heart-communities-report.html>

ex-offenders, disabled people, young people and the long-term unemployed. This will not only act as an incentive for smaller firms to recruit more people from these groups but will also support small business employers to upskill these employees. The 2019 Conservative Party manifesto proposed to cut NICs for employers for veterans. FSB supported this measure and think Government can go beyond by supporting other groups that are furthest from the labour market.

- **Ensure T Levels work for smaller hospitality and tourism businesses by extending incentive payments for employers to deliver industry placements beyond July 2022.** Any funding for T Levels mediated through providers needs to be handled with real care to ensure the funding reaches small business employers.
- **Extend the Kickstart scheme beyond 2021 to support small hospitality and tourism businesses to employ young people as they recover.**

Coronavirus Job Retention Scheme

The Coronavirus Job Retention Scheme (CJRS) benefitted a significant proportion of small businesses in the hospitality and tourism sector. According to recent ONS data, 69 per cent of eligible employers in the sector used it across the pandemic, a figure higher than for any other sector.²⁷

“It’s [CJRS] been a godsend really. Without it we’d have had to close our doors.”

FSB member, Event branding business, Northamptonshire

FSB’s research in April 2020 found a third of small hospitality and tourism businesses (30%) said flexible furlough would be beneficial to their business, as it would help them to gradually bring back staff during the recovery stage, this figure rose to 42 per cent among food and beverage service activities. FSB led the campaign for flexible furlough to help small employers, so the decision to introduce flexible furlough from 1 July 2020 was warmly welcomed by many small businesses.

“The first part of the year when we had furlough and you had to have people off for a certain amount of time was really tricky for us. We’d get a little bit of work in and we’d need people to come in and do that little bit of work, but you couldn’t. Then you’d have to pay them for three weeks. When they were on flexible furlough that worked much better for us.”

FSB member, Event branding business, Northamptonshire

While many businesses were continuing to make use of the furlough scheme at the time of the focus groups in March 2021, the additional costs associated with CJRS (employer National Insurance Contributions and pensions auto enrolment) placed a number of businesses under financial constraints.

“We’ve not made any of our staff redundant, we’ve kept them all on furlough. It’s been a real burden since November because of the NICs contribution and on paper we shouldn’t have done it, we should have just made them redundant.”

FSB member, Restaurant, Stratford upon Avon

In spite of the CJRS, recent FSB data shows that 29 per cent of small hospitality and tourism businesses report having made at least one redundancy in the last 12 months, and two per cent making between 11-50 redundancies. This is higher than the average across all small businesses, with 19 per cent making at least one, and one per cent 11-50.

²⁷ HM Revenue and Customs, Coronavirus Job Retention Scheme statistics: March 2021, available at <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-march-2021>

IMMIGRATION

Prior to the coronavirus pandemic many small businesses in the hospitality and tourism sector were concerned about their access to EU labour in light of the introduction of the new immigration system in January 2021. FSB's *A World of Talent report: Building an immigration system that works for small businesses*, published in February 2020 found that the hospitality and tourism sector has the highest proportion of small businesses employing at least one (43%) EEA national (excluding the RoI).²⁸ This highlights the extent to which the sector relies on EU migrants and how the end of freedom of movement may impact the hospitality and tourism industry in the future.

In Scotland, FSB research found that immigrant-led SMEs contributed £13 billion to the economy and provided over 100,000 jobs.²⁹ The Welsh economy is currently dependent on sectors that employ larger numbers of EU migrants especially in hospitality and tourism.

FSB members in Northern Ireland have expressed concern that changes to the immigration system will increasingly place Northern Ireland businesses at a competitive disadvantage to Republic of Ireland businesses, which do not face restrictions on EU26 migration, in particular for those engaged in cross-border competition.

Prior to the pandemic, hospitality and tourism businesses faced some of the greatest difficulties in recruiting people with the right skills, qualifications or experience for their business (53% vs. 38% average).

“All of my staff are from the EU. We rarely get any applications from British job seekers. The menu in our restaurant changes every day (on the board), we use fresh pasta and ingredients – this is our signature style; so, our waiters need to understand what they’re selling. I am concerned that Italians will not want to come to London to work in hospitality. I don’t want to run an Italian restaurant that has lost its soul.”

FSB member, Restaurant, East London

“The skills are not here (in the UK). Very few colleges offer courses in upholstery. There is not a talent pipeline and the new immigration rules mean it’s much harder to access labour from the EU. In addition, we’ve struggled exporting our orders to Germany, so those two things led us to find a collaboration in Poland where we can manufacture goods and avoid the new additional exporting costs.”

FSB member, Cinema seat manufacturer (supply chain), Essex

Chefs were one profession mentioned frequently as difficult to recruit within the UK. In March 2021, the Home Office removed chefs from the Shortage Occupation List following the Migration Advisory Committee’s (MAC) recommendation in September 2020. The MAC quite rightly highlighted the problems employers faced in recruiting chefs: “It is clear that there remains a shortage of chefs in the UK and that employers remain highly reliant on migrant workers to fill vacancies in this area”. However, many would now agree that the MAC were short sighted to say “there will be reduced demand for chefs as a result of COVID-19 as most forecasters currently predict a slow recovery for the hospitality sector”.³⁰ Clearly, more needs to be done to train more chefs within the domestic labour market, however, greater access to migrant labour still has a role to play in alleviating recruitment challenges.

“We are looking for chefs from Thailand and UK immigration laws are too strict.”

FSB member, Restaurant owner, North Wales

²⁸ FSB report, *A World of Talent: Building an immigration system that works for small businesses*, available at <https://www.fsb.org.uk/resources-page/a-world-of-talent--building-an-immigration-system-that-works-for-small-businesses-pdf.html>

²⁹ FSB Scotland report, *Starting over: migrant entrepreneurship in Scotland*, available at <https://www.fsb.org.uk/resource-report/starting-over-migrant-entrepreneurship-in-scotland.html>

³⁰ Migration Advisory Committee, *Review of the shortage occupation list: 2020*, available at <https://www.gov.uk/government/publications/review-of-the-shortage-occupation-list-2020>

In addition, small firms in the sector report that their business location limits their access to labour (36% vs. 16%), which is a major issue for rural based businesses. There are serious concerns for small businesses in the sector about engaging with the new immigration system, notably in Scotland where smaller businesses have a higher reliance on staff from outside the UK. Across the UK half (50%) of hospitality and tourism small businesses say they will not be able to meet the cost for the former Tier 2 visa now re-branded Skilled Worker visa. This is a particular concern for small firms that seek to recruit chefs from outside of the UK.

“It means it’s going to cost business owners more to get the staff they need into the UK because we can’t find the staff [with the right skills] here.

“You have to meet the criteria to get the staff, agree that you will be paying that salary, and then there’s other criteria such as checking qualification levels... need to be able to speak the language.”

FSB member, Indian takeaway owner, Wiltshire

Unsurprisingly, coronavirus was (and still remains) the primary focus of the majority of small businesses during 2020, especially those within the hospitality and tourism sector. This meant many small firms in the sector were unable to prepare for the end of transition especially in regard to EU migrants.

“I was running all sorts of campaigns, doing national media interviews, working with local councils... The pandemic was a complete curveball, and I don’t think I’ve thought about Brexit in about 12 months.”

FSB member, Restaurant owner, Stratford upon Avon

Recommendations

UK Government should:

- **The Youth Mobility Scheme should be extended to EU countries and should not include annual quotas.** In addition, to the terms of our future Free Trade Agreements, agreeing youth mobility schemes as part of our future relationship with the EEA and selected other countries will play an important role in the UK’s future immigration system especially in supporting UK hospitality and tourism businesses. The scheme allows those aged 18-30 to come to the UK for two years during which time they can freely work and study if they wish.
- **UK Government should adopt the Migration Advisory Committee’s 2020 recommendation and pilot a remote visa.** In comparison to many areas of Australia and Canada many areas of the UK have low or ageing populations, this isn’t a regional issue but a UK wide issue. Many of these areas have longstanding issues which the Government rightly seeks to address through the levelling-up agenda. Targeted immigration policy via the remote visa, can effectively complement this. A remote visa could be built on the existing points-based system with applicants requiring a job offer, with a skill level of RQF2 (GCSE equivalent), but at a lower salary threshold than the Skilled Worker visa. A remote visa may also contain a seasonal element to allow the many non-UK nationals who return to the UK season after season, to support local remote economies in which the economy is heavily reliant on tourism. Government may wish to look at the Rural and Northern Immigration Pilot in Canada, which focuses on community groups and employers, with the goal of helping migrants settle and thus increase retention in more rural areas.

- **We would welcome the Home Office working with other Government departments, primarily the Department for Work and Pensions (DWP), the Department for Education (DfE) and BEIS to further understand the changing nature of the UK labour market.** It's clear that to increase the number of chefs within the UK, the domestic labour market will require more substantive policy changes, than to simply re-add chefs to the Shortage Occupation List. If Government wishes to support tourism and hospitality businesses in the long term, it ought to move away from a piecemeal approach and consider policies on skills and immigration in a holistic manner. An effective hospitality and tourism strategy would help achieve this.

SUPPLY CHAINS

Healthy supply chains are critical for boosting the productivity, resilience, financial strength and efficiency of smaller and larger businesses alike, and economic growth across the UK.

The closure of the hospitality and tourism sector had an immediate impact on small businesses in the supply chain, such as laundrettes, brewers and small coach operators. FSB research shows that 24 per cent of manufacturing businesses say they supply to businesses in the hospitality and tourism sector in some way. In 2018, FSB published *Chain Reaction: Improving the supply chain experience for small firms*, based on a survey of 1,511 small businesses across the UK. Policy makers can lack understanding about the factors that influence supplier experiences, particularly in business-to-business (B2B) and business-to-government (B2G) markets.³¹ It is our view that there was little development in understanding supply chain businesses which resulted in a lack of financial support for small supply chain businesses for a significant period during the pandemic. Some were allowed to remain open, due to not being classed as public-facing businesses, and received little or no support, and yet had all of their business dry up.

Case study: Seven Bro7hers, Manchester

Seven Bro7hers, a Manchester-based brewery run by seven brothers, has been growing exponentially since they established in 2014. They brew beer for sale via retail and to hospitality establishments, as well as now having their own bars. Demand for their beer has been growing, and so they have invested heavily to keep up – they have moved to larger premises and continuously invest in bigger and better equipment, as well as investing in people. When COVID-19 hit, they initially took a loss through wasted stock meant for bars and restaurants, but quickly adapted to sell in a different way. As they were still able to sell online or through retail, they upped their canned production. As a result, they have still had a successful year, but not through supplying to the hospitality sector, but to supermarkets.

The UK is more vulnerable to overseas competition when it comes to B2B suppliers. While a cinema either can or cannot operate in the UK, a cinema seat manufacturer can operate from sites around the world. If the UK does not want to lose out on high quality jobs, it must remedy the lack of focus highlighted in the pandemic on B2B suppliers.

“I feel the biggest thing that has been unfair is the business-to-business companies that have been overlooked, as we are supplying the business-to-consumer companies that seem to have received most of the support. It feels like we’ve been ignored and forgotten about.”

FSB member, Event branding business, Northamptonshire

Those running these businesses feel they have been left behind, and that the value of their business does not matter.

“The Government has given millions and millions of pounds into cinemas. It was all grants through the BFI. I applied to them but because I’m not actually a cinema I didn’t qualify... It’s the unfairness, it’s the cherry picking by the Government that makes my blood boil. Grants and business rates relief should be across the board, regardless of what your business is.”

FSB member, Cinema seat manufacturer (supply chain), Essex

Many rural areas depend on the hospitality and tourism industry, many of which are also dependent on the agricultural economy, which faces many challenges following Brexit. In Wales, which has been relatively more dependent on EU funding, the question of what replaces EU funding is important to rural areas. This may lead to a focus on providing ‘foundational economy’ challenges in areas around the food supply chains in local areas and how this interrelates with local hospitality and ethical tourism, as part of recovery.

³¹ FSB report, *Chain Reaction: Improving the supply chain experience for smaller firms*, available at <https://www.fsb.org.uk/resource-report/chain-reaction-improving-the-supply-chain-experience-for-small-firms.html>

Difficulties engaging with the export system, delays, and additional costs, combined with difficulties accessing labour has posed pressure on small businesses. This has led to some small firms making major changes to the way they do business.

“We export to 21 countries, as the German Government has backed the industry/projects we have been able to maintain our supply to Germany.

“There’s a very short skill market for upholsterers in the UK, the majority of our workforce were from Eastern Europe. Brexit obviously hasn’t helped, so they’ve gone back home and they’re not keen to come back... it’s put us in a dreadful position.”

FSB member, Cinema seat manufacturer (supply chain), Essex

Recommendations

During the pandemic FSB has continuously raised concerns about the support for small businesses operating in supply chains. Many of these small businesses have now reached excessive levels of debt, at the same time, for example, as paying tens of thousands in business rates. This has been exacerbated by the problem of late payments. Whilst always an issue, late payments have dramatically increased during the pandemic. Thirty-eight per cent of small businesses in the food and drink manufacturing sector reported an increase in late payment as a result of COVID-19.³²

UK Government should:

- **Amend Financial Reporting Council (FRC) guidance and/or legislate at the earliest opportunity to force Audit Committees, led by a Non-Executive Director, to assess and report on payment practices in company annual reports, finally broadening accountability to whole company boards.**
- **Speedily distribute the £1.5 billion business rates support to suppliers and release the guidance as a matter of urgency, getting the money to hospitality and tourism supply chain businesses as quickly as possible to support them through a difficult period.**
This will help to ensure that as the economy opens fully, there is an active, healthy supply chain to support them.
- **Introduce training for officials on the nature of B2B supply chains, so that the State is better able to act to support these businesses in future crises’ and during recovery.**

³² FSB report, Late Again: How the coronavirus pandemic is impacting payment terms for small firms, available at <https://www.fsb.org.uk/resources-page/late-again-how-the-coronavirus-pandemic-is-impacting-payment-terms-for-small-firms-.html>

START-UPS AND GROWTH

There are many barriers facing those who are just starting up or thinking about starting up a new business. Access to finance, cash flow, and accessibility of business support are key, and Government should work to improve the availability of both information and finance for those looking to establish a business. For women, who are more likely to work in hospitality than other sectors, there are additional barriers to address. These include a lack of confidence, difficulty accessing childcare, and achieving credibility for their business.³³ Confidence and achieving credibility can be supported through mentorship and visibility of female entrepreneurs.

We need Government to foster a more entrepreneurial culture, with larger firms helping smaller counterparts, and support those whose businesses initially fail, but who want to learn and try again. It is important that support is targeted not just at start-ups and high-growth companies. Existing businesses also require help and advice at different points of their business journey to grow, to recruit and to take forward their business plans.

While the COVID-19 pandemic has been difficult for many businesses, we have also seen the emergence of new businesses. In Wales, more businesses started up than closed down during 2020, in contrast to wider UK data, perhaps aided by the Development Bank of Wales' targeted micro-loans.³⁴

Case study: Eli's Pop Up, Hertfordshire

Eli's Pop Up, a street food chicken business in Hatfield, was established by a group of five friends in their twenties after two of them lost their jobs at the beginning of the pandemic. Having previously had to travel to London for independent street food, they saw an opportunity in their local community. Each of the five has different skills, and so they have been able to do everything from cooking the food to designing the website in-house. At its heart, Eli's is a community business. They have been able to employ other local people who have lost their jobs during the pandemic, and are planning on hiring some young members of staff through the Kickstart programme.

While Eli's has been a success, there were lots of obstacles to get there. It was difficult to know where to start when setting up, and they would like to see more conversations about how to set up a business – from school to sector-based events. Clarity around funding would also be useful, as they were unsure about what approach to take, eventually settling on using their own savings. But the owners would still recommend “just going for it” to anyone with a hospitality business idea.

New Enterprise Allowance

The New Enterprise Allowance (NEA) was introduced in 2011 to support adults in receipt of Universal Credit (UC) to move into self-employment. At the start of the programme, participants work with a mentor to develop a business plan, and once proved to have a viable plan they receive an allowance of £1,274 over 26 weeks. Since 2017 UC claimants who are already self-employed can receive support through mentoring and Business Development and Growth Plans, though not the allowance.³⁵ As of December 2020, 249,000 individuals had started the NEA programme, with 146,000 businesses being established. Overall in 2020, there were around 20,000 starts to NEA, up from 18,500 in 2019 despite a significant drop in starts at the beginning of the COVID-19 restrictions.³⁶

Fifty-nine per cent of starts are by men, but women are more likely to move on to set up a business while on the programme. Seventy per cent of starts were aged 25-49, 23 per cent were aged 50+, and seven per cent were aged 18-24. Seventy-nine per cent of starts were by white participants and 7 per cent from ethnic minorities.³⁷ FSB welcomes the DWP commitment to looking at barriers to employees escaping low pay for those who come into contact with Jobcentres, but there also needs

33 FSB report, Women in Enterprise: the untapped potential, available at <https://www.wireuk.org/wp-content/uploads/2016/05/fsb-women-in-enterprise-the-untapped-potential-April-2016.pdf>

34 Development Bank of Wales, Economic Intelligence Wales quarterly report, May 2021, available at <https://developmentbank.wales/sites/default/files/2021-05/EIW%20Quarterly%20report%20Q3%202021%20ENG%20FINAL.pdf>

35 Department for Work & Pensions, New Enterprise Allowance statistics: April 2011 to December 2020, available at <https://www.gov.uk/government/statistics/new-enterprise-allowance-april-2011-to-december-2020/new-enterprise-allowance-statistics-april-2011-to-december-2020>

36 Ibid.

37 Ibid.

to be a commitment from DWP in supporting low paid self-employed individuals. It is vital that Government maintains its commitment to the NEA and looks for opportunities to scale it up in terms of profile and applicants to be ready for the increase of those on Universal Credit in the wake of COVID-19. Work also needs to be done to encourage a diverse range of people make use of the NEA programme.

Recommendations

UK Government should:

- **The New Enterprise Allowance (NEA) should be scaled up, to play an important role in supporting the long-term unemployed, on state benefits, into starting up for themselves.** Scaling up should include investing in additional mentors and increasing the weekly payments of NEA. Young people have been disproportionately affected by COVID-19 in the labour market. Many young people possess the skills to be successful entrepreneurs, but are often disconnected from formal channels of business support. The NEA could aid young people to set up hospitality businesses in their local area.

Women and ethnic minorities

Hospitality and tourism is a key sector for the employment of women, and is a more popular sector than most for women to set up their own business. According to the latest FSB research, 31 per cent of small businesses are owned by women, rising to 41 per cent of FSB small businesses in the hospitality and tourism sector.³⁸

FSB's *Unlocking Opportunity: The value of ethnic minority firms to UK economic activity and enterprise* found that in 2018, Ethnic Minority Businesses (EMBs) generated £25 billion to the UK's Gross Value Added (the same contribution as Manchester or Birmingham).³⁹ The ethnic minority-led business community is very diverse, comprising - as you may expect - older traditional sectors such as restaurants, catering services and takeaways. Many display a much greater role than typical in the UK business community overall for family-led firms. However, the EMB community also includes many younger British-born entrepreneurs and recent immigrants.⁴⁰

“My dad has been in the food sector for 45 years, and that’s how I entered the sector. It’s not common for the younger generation (second/third generation) British Asians to enter the Asian catering industry, as it isn’t perceived as attractive due to long working hours and there’s a big focus on further education. However, that’s changing with more people working flexible hours. The Asian curry industry is very male dominated, but they’re a lot of women that have the desire to enter the industry, but they lack the confidence and know-how to do it.”

FSB member, Accommodation and food services, Wiltshire

According to the Office of National Statistics (ONS), 6.7 per cent of SME employers that are majority led by those from an ethnic minority were in the accommodation and food sectors. Ethnicity was unknown for 10.5 per cent of the businesses in accommodation and food sectors.⁴¹ The UK has long history of ethnic cuisine; however, little research has been done on the breadth of ethnic minority businesses in hospitality.

³⁸ FSB Voice of Small Business Index, Quarter 1, 2021, available at <https://www.fsb.org.uk/resources-page/fsb-voice-of-small-business-index--quarter-1--2021.html>

³⁹ FSB report, *Unlocking Opportunity: The value of ethnic minority firms to UK economic activity and enterprise*, available at <https://www.fsb.org.uk/resource-report/unlock.html>

⁴⁰ Ibid.

⁴¹ Department for Business, Energy & Industrial Strategy, *Leadership of small and medium enterprises*, available at https://www.ethnicity-facts-figures.service.gov.uk/workforce-and-business/business/leadership-of-small-and-medium-enterprises/latest?ct=t%28Mailchimp+June+campaign_COPY_01%29

“We’ve been in business for 12 years, and we’ve been successful, catering for large weddings and corporate events. As a catering business we haven’t been ineligible for a lot of Government support, this has led many in catering to find that their only option is Universal Credit! During the pandemic, I and older ethnic minority business owners have struggled in moving online. We don’t have the digital skills to take advantage of social media. Weddings in the Black African community tend to be quite big, so 500 people. The mindset has changed, so I think we will bounce back, but by only around 40 per cent.”

Catering business owner, London

COMMUNITY

Small businesses sit at the heart of the community, and they are positioned to tackle a variety of social challenges. FSB research demonstrates that smaller businesses are uniquely placed to identify, support, develop and lead place-based solutions because they are embedded in their communities. Their social bond with the local community, the close relationship with their employees and the trust they have developed allows them to create long term solutions.

Previous FSB evidence found that 22 per cent of small businesses in hospitality and tourism offer shared community spaces to local community projects / groups. This is in comparison to ten per cent of all small businesses. This highlights the important role these businesses play in their communities especially in tackling loneliness.

“My business helps run the local film club in the village.”

FSB member, Accommodation and food services, Cumbria⁴²

Hospitality and tourism businesses continued to support their local communities during the coronavirus pandemic. In April 2020, 33 per cent of small firms in the sector said that they had donated provisions to local food banks (24% average), 26 per cent had carried out a broader community role (24% average), and 12 per cent had provided free support, services or accommodation to key workers (8% average).

During the first lockdown Dylan’s Restaurant and Menter Môn set up Neges, a food parcel delivery service in Wales. Over 14,500 food parcels were distributed from April to the end of July 2020. A survey of those receiving the food parcels found that they had been very important to many of those supported.

“There were times during the lockdown that we couldn’t get out even for essentials - both my daughter, who is on the autistic spectrum, and I suffer from anxiety and depression and the food parcels were regular and ensured we had the essentials we needed.”

Neges food delivery recipient, Wales

“Because we are a local business, and it was for local people. We didn’t make any money, we did all of the stuff at pretty much cost price, but it felt like the right thing to do to get involved. It was quite a strange phase we were going through, and we could do it, so it felt right. The big influence was the fact that it was [for] local people.”

Neges food delivery supplier, Wales

Levelling up

A current top priority for the UK Government is the levelling up agenda – work to ensure regional equality in the UK, and that no community or area is left behind. To support this, the Levelling Up Fund⁴³, Community Renewal Fund⁴⁴, and Community Ownership Fund⁴⁵ were launched or extended alongside the 2021 Budget. The Levelling Up Fund is planned to invest in infrastructure, supporting town centre and high street regeneration. The Community Renewal Fund is designed to support communities to invest in skills, local business, and support people into employment. The Community Ownership Fund will allow communities to apply for matched funding to save local assets, such as pubs, music venues, cinemas and theatres. These combined funds represent a good first step in the levelling up agenda, and government must ensure they are inclusive of small businesses. Hospitality

42 FSB report, Small Business, Big Heart: Bringing Communities Together, available at <https://www.fsb.org.uk/resource-report/small-business-big-heart-communities-report.html>

43 HM Treasury, Levelling Up Fund prospectus, available at <https://www.gov.uk/government/publications/levelling-up-fund-prospectus>

44 Ministry of Housing, Communities & Local Government, UK Community Renewal Fund prospectus, available at <https://www.gov.uk/government/publications/uk-community-renewal-fund-prospectus>

45 Ministry of Housing, Communities & Local Government, Community Ownership Fund, available at <https://www.gov.uk/government/publications/community-ownership-fund>

and tourism businesses exist across the UK, serving all types of communities and contributing to the local economies, as such they have a major role to play in the levelling up agenda.

Recommendations

UK Government should:

- **Focus on hospitality and tourism small businesses within the levelling up agenda, supporting the generation of employment and community hubs across the whole UK.** Local Enterprise Partnerships (LEPs) in England and DMOs across the UK have and continue to play a major role in regional and local hospitality and tourism economies. As the UK Government works towards delivering its tourism recovery plan and developing the levelling up white paper, these organisations should be involved, ensuring the voice of small businesses in the future of the hospitality and tourism economy.

NET ZERO

As the economy's third-largest sector, the hospitality industry will play a critical role in helping the UK realise its ambitious goal of reducing greenhouse gas emissions to net zero by 2050, and 2045 in Scotland. Small businesses want to play their part in the transition to net zero, and the hospitality sector is no exception. Many small businesses in this sector have already introduced environmentally friendly measures, such as sourcing produce locally and rewarding customers for using reusable cups. Research shows that 59 per cent of hospitality businesses already have a sustainability plan in place⁴⁶ - with some going ahead despite the economic fallout from COVID-19.

The UK transition to net zero cannot happen without an empowered small business community. Small firms need policy certainty and time to adapt on their own terms. Many will need support and guidance to understand what solutions are available and most appropriate for meeting their own bespoke needs. As part of the Broadway Initiative, FSB has been working with a wide range of leading business groups to create the Zero Carbon Business Hub⁴⁷, a one-stop-shop for businesses seeking to transition to net zero.

The hospitality and tourism sector is very diverse and the degree to which small firms within this sector will have to adapt their business model – and the options available to them – will depend on their own unique circumstances. However, many are already making great steps to embrace this change:

"During lockdown we have developed the very first luxury cinema seat, which is completely sustainable; it is made from recycled ocean plastics, the fabric is made from pineapple leaves and cork, bamboo for the wood. It is the first luxury cinema seat that is completely recyclable and sustainable. We are very proud of that."

FSB member, Cinema seat manufacturer (supply chain), Essex

Despite a number of welcome improvements in the non-domestic energy market, challenges remain for small firms. Many firms lack the time and expertise to navigate a complex energy market, with little support provided by suppliers for reducing energy use. In addition, our research highlights the high cost of energy to small firms in the sector, with 83 per cent of hospitality and tourism businesses regarding energy as a significant cost to their business – up 20 per cent from the average of all small businesses.⁴⁸

Despite this, appetite for renewable energy is fairly widespread amongst small firms in the sector. FSB research found 44 per cent of small businesses in hospitality and tourism say they would switch to a renewable tariff and 58 per cent say they are interested in generating their own energy.

"My business is located on a farm. We transformed a dilapidated barn in a wedding and events venue. The wellbeing implements self-sufficient methods, such as rainwater harvesting and use of our wind turbine. We are also working towards a zero single-use plastic policy."

FSB member, Wedding venue, Blackburn

UK Government has set out ambitious targets for recycling, with the forthcoming Environment Bill committing to eliminate food waste to landfill by 2030. This will require a monumental effort from households and businesses alike. Compared to other small businesses, those in the hospitality sector are more likely to produce larger volumes of food waste relative to their size, adding to the challenges of waste disposal and recycling. Unlike domestic households, businesses are not eligible for local authority waste and recycling collections. This means they are required to negotiate with private contractors, often with little choice as to who provides this service and with little bargaining power over the terms and costs of that service. This creates a clear, additional barrier to recycling, something UK Government is otherwise keen to promote amongst small businesses.

⁴⁶ Craft Guild of Chefs, Hospitality sector leading way towards net zero suggests survey, available at <https://craftguildofchefs.org/news/hospitality-sector-leading-way-towards-net-zero-suggests-survey>

⁴⁷ <https://www.zerocarbonbusiness.uk/>

⁴⁸ FSB report, Time and Energy: An FSB Review of the Microbusiness Retail Energy Market, available at <https://www.fsb.org.uk/resource-report/time-and-energy.html>

Northern Ireland is the only part of the UK without a climate change framework in legislation. There is a risk of a ‘patch work’ of environmental legislation, whereby a lack of adequate clarity, joined up approach and clear timelines will affect small businesses transitioning to net zero. As well as use of the Fairness Principles, FSB NI recommends that the Small and Micro Business Impact Test (SAMBIT) is integrated into NI Climate Change Legislation to ensure that policy makers give adequate consideration to SMEs in the coming years and decades.⁴⁹

Recommendations

UK Government should:

- **Make recycling easy and economical for small hospitality firms. Government should work with local authorities to provide small businesses in the hospitality and leisure sector with free recycling services, including food recycling.** The volume of recycling material allowable for collection under such a scheme could be capped at a level that does not place an unreasonable burden on the existing municipal infrastructure (used by domestic households) but covers the recycling needs of the majority of small hospitality businesses. This would empower small hospitality firms with a recycling solution, while disincentivising non-recyclable waste.
- **Ensure any environmental improvements to properties are zero rated.** Under current valuation guidelines, businesses are charged for a number of improvements they make to the property. For example, installing solar panels would increase the rateable value of a property, and so the amount businesses must pay.
- **Deliver a programme of ambitious policies for achieving net zero, following the principles laid out in ‘A Just Transition to Net Zero: the fairness principles’.**⁵⁰ Such an approach will provide a robust policy framework which allows the UK to maintain its current domestic and global ambitions, whilst being accountable, credible, and fair. The principles set out in 2020 by the UK’s major business representative bodies are intended to act as a ‘fairness test’ for policy makers in planning and designing regulatory and policy frameworks, and in prioritising investment. They include:
 - Fairness of Ambition – matching the reality of the challenge.
 - Fairness of Accountability – taking a coordinated approach with coherent and accountable governance.
 - Fairness of Delivery – seeking to support, empower and incentivise businesses to find their own ways to net zero.
 - Fairness of Opportunity – ensuring businesses of all sizes, in all sectors, across every region and nation, can contribute.
 - Fairness of Cost – ensuring policies are affordable and achievable.

⁴⁹ Northern Ireland Department for the Economy, Small and micro business impact test (SAMBIT), available at <https://www.economy-ni.gov.uk/publications/small-and-micro-business-impact-test-sambit>

⁵⁰ CBI, UK’s top give business groups call for a “just transition” to net-zero by 2050, available at <https://www.cbi.org.uk/articles/uks-top-five-business-groups-call-for-a-just-transition-to-net-zero-by-2050/>

TRANSPORT

Transport is an issue of great importance to rural businesses. They are hugely reliant on the road network, with a lack of other transport options. FSB has welcomed the government's commitment to tackling potholes and road improvements, for example through the Potholes Fund.⁵¹ And while road improvements are vital, other infrastructure to support greener travel and public transport is lacking in much of the UK.

Public transport is also a major issue in rural areas. Many areas are simply not covered, and those that are, outside of cities and towns, are served too infrequently. For the hospitality and tourism sector, good public transport is vital for staff and customers. The lack of adequate transport infrastructure adds cost and time to their journeys. Public transport, and in particular buses, remains vital for employees to access work – especially in lower-paid jobs, of which hospitality and tourism has many. This poor infrastructure is holding back productivity, profitability and growth in many areas of the UK, hindering small businesses in hospitality and tourism, and beyond.

In addition to the vital improvements needed in the availability and frequency of bus routes, rail services are also in need of great improvement. FSB has welcomed ongoing efforts to reverse some of the Beeching cuts made in the late 1960s. In addition to reinstating these vital routes connecting rural parts, improvements are needed on parking available at train stations, charging points for electric vehicles and secure storage for e-bikes and scooters to remove obstacles and encourage rail use.

Transport connectivity plays a key role in helping tourists to leave city hubs and access tourism businesses in rural areas. Improving their ability to reach these areas and businesses could be a key way to improve the economies of these areas. Multi-operator ticketing – enabling passengers to use a single ticket across different operators and boundaries – could create opportunities for multi-modal travel and support more staff, customers, and tourists alike to travel using public transport.

Wales

Wales has been traditionally underfunded in terms of rail infrastructure and this is a key area of priority. Collaborative working across UK and Welsh Governments is very important for the success of key infrastructure needs (such as rail in South East Wales, the Cardiff Metro, and the West Wales Swansea Bay Metro, as well as North Wales to North of England links). FSB Wales' 2019 report *'Are we there yet? Building Better Infrastructure in Wales'* recommends uses of Welsh statutory arms-length bodies to provide independent trustworthy evidence-based plans, to provide a central co-ordinating role across governments, and to build consensus for a long-term strategy more resilient against the political winds of the day.

Northern Ireland

Connectivity is a major issue in Northern Ireland due to rurality and remoteness from the rest of the UK. Improving connectivity internally in Northern Ireland, between Great Britain and the Republic of Ireland are necessary. Most recently, the Ministerial Advisory Panel on Infrastructure set out a series of considerations for 'Hard Infrastructure' NI including transport.⁵² The UK Government is undertaking a Union Connectivity Review and it is evident, from the Interim report, that the need to consider three strands is accepted. The announcement of a new All Island Strategic Rail Review to consider how the rail network on the island of Ireland can enhance sustainable connectivity. Together with other research, these initiatives are likely to provide many of the answers to securing Northern Ireland's transport and wider infrastructure needs. The NI Executive, UK and Irish Governments should seek to distil and implement suggested improvements as soon as possible.

⁵¹ Department for Transport, Funding to fix equivalent of 10 million potholes allocated to local authorities, available at <https://www.gov.uk/government/news/funding-to-fix-equivalent-of-10-million-potholes-allocated-to-local-authorities>

⁵² Northern Ireland Department for Infrastructure, Ministerial Advisory Panel on Infrastructure, available at <https://www.infrastructure-ni.gov.uk/publications/ministerial-advisory-panel-infrastructure-mapi-report>

Recommendations

UK Government should:

- **Improve rural public transport through continuing reversal of Beeching cuts, and making improvements to rail stations** through increased parking, electric vehicle charging points, and secure storage for e-bikes and scooters.
- **Work with operators to introduce multi-operator ticketing**, enabling passengers to use a single ticket across different operators and boundaries.

BROADBAND

The UK has a thriving hotel and accommodation industry much of which is located in idyllic rural locations. However, many of these businesses struggle with poor broadband. In 2019, FSB published *Lost Connection: How poor connectivity hinders small firms* in which we exposed the plight of small firms in rural areas that are particularly disadvantaged by low speeds. Thirty-nine per cent of small firms stated they receive download speeds of less than 10 Mbps. FSB's research found that 41 per cent of small businesses agree that their broadband is often unreliable, which is a remarkably low level of service provision. Rural businesses suffer more than urban businesses, with half (50%) experiencing unreliable broadband in rural areas compared with just over a third (34%) in urban areas.⁵³ This is a huge issue for hotels and accommodation businesses especially, as customers have an expectation to access Wi-Fi. Making matters worse, this often coincides with poor mobile telephone service and a lack of 4G availability.

“It’s [a lack of Wi-Fi] a real competitive disadvantage... people just expect it, it’s like having electricity.”

FSB member, Hotel owner, Scottish Highlands

Wales

In large parts of Wales, previous market-led rollout of superfast broadband lagged behind other UK nations and led to the intervention of Welsh Government through Superfast Cymru. Despite not being a devolved matter, this use of resource and collaboration with UK Government and the telecommunications sector worked and led to better connectivity. Welsh Government should continue to fund market interventions similar in scale and ambition to Superfast Cymru to ensure Wales is at the forefront of digital connectivity.

Northern Ireland

Northern Ireland has a greater reliance on rural businesses than the UK as a whole, with rural businesses making up 58 per cent of all registered businesses.⁵⁴ In addition to having more rural businesses, rural connectivity issues are worse in Northern Ireland than in other parts of the UK, with 19 per cent of rural premises unable to get a 10 Mbps fixed connection, compared to 10 per cent in the UK as a whole.⁵⁵ Average download speeds in rural areas of Northern Ireland is only 80 per cent of the speed seen in rural areas in the UK as a whole. While 79 per cent of Northern Ireland now has access to 4G, coverage levels drop to 65 per cent of indoor premises. This means that too many premises are unable to connect digitally through either mobile and/or fixed broadband.

A £165 million broadband improvement scheme, Project Stratum, will extend full-fibre broadband to 76,000 premises by March 2024. This is primarily in rural areas, and in response to the UK government’s Project Gigabit, plans are being developed to add an additional 2,500 premises to Project Stratum. Furthermore, The Shared Rural Network Programme will get 4G coverage to 98 per cent of Northern Ireland by 2026 and NI Mobile Action Plan will lay out how to maximise associated benefits.

Overall, this places Northern Ireland in a promising position by way of connectivity, but the NI Executive should consider whether roll out of associated projects can be accelerated. It is crucial that some postcodes within the intervention area do not fall ‘through the cracks’ of Project Stratum.

⁵³ FSB report, *Lost Connection: How poor broadband and mobile connectivity hinders small firms*, available at <https://www.fsb.org.uk/resource-report/lost-connection-how-poor-broadband-and-mobile-connectivity-hinders-small-firms.html>

⁵⁴ Northern Ireland Statistics and Research Agency, *Inter Departmental Business Register*, available at <https://www.nisra.gov.uk/statistics/business-statistics/inter-departmental-business-register>

⁵⁵ Ofcom, *Connected Nations 2020*, available at <https://www.ofcom.org.uk/research-and-data/multi-sector-research/infrastructure-research/connected-nations-2020>

Recommendations

UK Government should:

- **Work closely with industry to find solutions to improve broadband access for the areas that will not be gigabit capable by 2025 as soon as possible, including very hard to reach premises.** In 2020, the government announced that it is working with industry to target a minimum of 85 per cent gigabit capable coverage by 2025. This is a reduction from the 2019 target of 100 per cent by 2025. COVID-19 has highlighted the importance of reliable and fast broadband connections in particular for small businesses, which will be fundamental as part of the post-COVID recovery. Where the rollout of gigabit capable broadband is not possible, alternative solutions such as Fixed Wireless Services or Satellite need to be urgently considered and implemented.

FSB welcomed the 10Mbps Universal Service Obligation for broadband, which was introduced in 2020. Although the USO gap is shrinking, the cost of a USO connection for some businesses significantly exceeds the industry's £3,400 contribution leaving some businesses behind unable to attain an affordable broadband connection.

Welsh Government should:

- **Continue to address market failure trends in Wales ahead of rollout for future technologies in its 30-year infrastructure plan.** The Welsh Government should fund market interventions similar in scale and ambition to Superfast Cymru to ensure Wales is at the forefront of digital connectivity. The UK and Welsh Governments should continue to work with mobile operators to expand the network coverage for mobile internet, especially with the onset of 5G. The Welsh Government should work with Ofcom to ensure that regulation of mobile networks includes greater investment in Wales's harder to reach areas.

The Northern Ireland Executive should:

- **Must ensure that support for new infrastructure available through Project Stratum is unrestricted by postcode, to benefit all those who need it.** The Department for the Economy in Northern Ireland should ensure unserved premises are able to register their lack of connectivity through a touchpoint for business owners and consumers. This should be monitored closely until a sufficient threshold of service is met.

PANDEMIC IMPACT

COVID-19 could not have hit at a worse time for many in the hospitality and tourism sector, as many businesses were preparing for the 2020 Easter and summer seasons. Governments across the UK instructed people to remain at home and businesses to close in March 2020, with hospitality businesses being the first to close their doors. Hospitality businesses in England remained closed until July 2020, with the Chancellor introducing the Eat Out to Help Out scheme which ran from 3 to 31 August 2020, aimed at encouraging people back into restaurants, cafes and pubs.

In September 2020, the UK Government announced additional restrictions for hospitality and tourism businesses, such as a 10pm curfew in England. In October 2020, they announced a localised tiered ‘COVID alert level system’. In those areas placed within the “very high” tier 3 category, food and drink venues were restricted to operating as a restaurant only with alcohol only being served with a substantial meal. An additional nation-wide lockdown occurred in November 2020. After this, the tier system was replaced in December 2020, with food and drink venues in the “high” tier 2 category being required to operate as restaurants and those in the “very high” tier 3 category forced to close.

In mid-December, a new tier 4 was added to the system, with localised rules equivalent to a lockdown and all non-essential businesses closed. Those outside of the tier 4 areas were ordered to close with very short notice at the end of December, prior to the full lockdown beginning in January 2021. This late announcement and shutdown saw them miss the lucrative New Year’s Eve trade, losing food and drink stock for a second time in less than a year. The complicated and last-minute nature of the tier system led to confusion and uncertainty, as well as many last-minute booking cancellations for businesses in the hospitality and tourism sector.

England’s third national lockdown began on 5 January 2021. Food and drink businesses were ordered to close, although they were permitted to provide food and non-alcoholic drinks for takeaway, click and collect and drive through; all food and drink, including alcohol, was able to be provided by delivery.⁵⁶

On 12 April 2021, many businesses were reopened, though for hospitality and tourism businesses this meant outside drinking and dining only, and only self-catered accommodation for one household. Additionally, all customers were required to be served at their tables, requiring changes to staff roles, or investment in technology for many businesses. On 17 May 2021, indoor locations were able to open, with restrictions on numbers and social distancing, and outdoor locations became subject to the “rule of 30”. For hospitality and tourism, this meant the re-opening of many businesses, including hotels, restaurants, pubs, cinemas. However, because of reduced capacity, many businesses remain in a precarious position.

At the time of writing, the next step is due to come on 21 June 2021, with removal of restrictions, hospitality and tourism businesses up to full capacity, and the opening of businesses who have been closed since March 2020, like nightclubs. This reopening could mark the first time in 15 months that hospitality and tourism businesses were fully operational and allow them to start recovering.

Impact of restrictions

Hospitality and tourism businesses have been amongst the worst impacted by the coronavirus pandemic. In April 2020, FSB research found that 90 per cent of small businesses in the hospitality and tourism sector reported that coronavirus had had a very negative impact on cashflow – a higher figure than for any other sector. This was reflected in only 10 per cent reporting that they would likely remain open throughout the crisis, and 80 per cent having already closed by April 2020. Additionally, at the time the vast majority (77%) had been unable to adapt their business, for example through moving online or deliveries to customers homes.

⁵⁶ House of Commons Environment, Food and Rural Affairs Committee, COVID-19 and the issues of security in food supply, available at <https://committees.parliament.uk/committee/52/environment-food-and-rural-affairs-committee/news/153669/new-report-Government-has-gathered-momentum-to-act-on-food-security-but-must-now-find-impetus>

“A lot of the support that has been introduced has done nothing to help the wedding sector. Before COVID I had a very successful wedding venue business, but I have now lost close to £500,000 in terms of lost revenue. The grants have barely helped. I am not alone – during the pandemic I know of wedding venues have closed across the country. We’ve lost trade for much of the summer of 2021.”

FSB member, Wedding venue, Blackburn

FSB’s research a year into the pandemic highlights the impact of restrictions on small businesses in the sector, which have severely impacted their ability to trade and subsequently has had a major impact on business confidence (Figure 4).

Figure 4: Business status in March 2021 for FSB small businesses

Source: FSB COVID-19 recovery 3 survey, March 2021

	FSB small hospitality and tourism businesses	All FSB small businesses
Businesses premises are closed/shut	59%	20%
Trading in name only or were dormant	26%	14%
Confident that their business will survive in light of the COVID-19 crisis	53%	65%

In April 2020, 12 per cent of small hospitality and tourism business owners had applied for Universal Credit, a figure higher than any other sector, further highlighting the vulnerability of small business owners in the sector.

For small businesses working in travel, international travel restrictions over the vast majority of 2020 and so far in 2021 have meant they have been unable to operate at all, or have been at a severely reduced capacity when operational. Additionally, many have been excluded from support by not being premises-based, or not being included in guidance for local government grants. Grant guidance was amended to include tour operators a year into the pandemic – too late for some businesses, and when much of the available money had already been distributed. A lack of tailored support for travel businesses has ignored the restrictions on international travel, even as other aspects of the economy were open, and has been detrimental to many small travel businesses.

Guidance

Many small businesses found Government guidance on re-opening unclear, open to interpretation, and provided too late. Many businesses were unable to re-open on July 4 2020 because of the lack of notice of COVID-secure guidelines, meaning businesses missed out on key trading weeks during an already difficult year.

Late decisions taken on guidance and allocation of tiers in 2020 also had a detrimental impact on small businesses. While businesses understand that responding to the pandemic is complicated, more notice is required for small businesses to have time to prepare for changes or reopening. The last-minute publication of complicated and lengthy guidance ahead of the July 2020 re-opening meant many had to delay opening to ensure they fully understood and implemented the guidance. While guidance around reopening in 2021 has improved on 2020, with the government giving a weeks’ notice for each of the roadmap stages, this window still leaves problems for some businesses.

“You need more than a week to plan. You’ve got months of stock to buy or not. If you sell food your stock doesn’t last that long.”

FSB member, Food stall, East Yorkshire

For hospitality and tourism businesses operating near Scottish and Welsh borders, the differing guidance from the UK government and devolved administrations presented an additional challenge. Clarity on messaging and where powers lie are an important consideration across Governments that require better cooperation.

In addition, FSB members voiced frustrations around the sometimes lack of efficiency in the track and trace system, feeling that they could have been open sooner or for longer were this to be handled effectively. For many, the stopping and starting, with late notice, was the hardest. Having reopened during the summer of 2020 with reduced hours and/or covers but managing to increase turnover, small businesses felt confident of rebuilding, before being shut down again in November and from December 2020 until April or May 2021.

“We were confident that we had rebuilt our business and had a future, and then for that to be taken away again in November was completely devastating.”

FSB member, Restaurant owner, Stratford-upon-Avon

Changes to working practices

In order to adhere to COVID-19 guidance, small businesses made a number of changes and adaptations to their premises. These changes came at a high cost, both to the service they were able to deliver, and financially. Over a third (36%) of small hospitality businesses believed that the costs of complying with Government safety guidelines would cost them between £1,000 and £9,999 over the first six months of the pandemic.⁵⁷ Thinking about the changes they would need to ensure compliance with COVID-19 guidelines ahead of 4 July re-opening, nearly all (88%) stated they would make physical changes, two fifths (41%) would have to invest in staff training, and a quarter (24%) stated they would invest in new equipment.

“We invested in IT so we could use QR codes everywhere from reception, the bar through to our bedrooms. We integrated WhatsApp, so customers didn’t have to use the room phones in their room to contact reception.”

FSB member, Hotel owner, Kent

“You do feel that you’re not offering the service you used to... we like to do that little bit extra and I did feel I wasn’t able to.”

FSB member, B&B owner, Scarborough

In addition to changes made to adhere to Government guidance, many small hospitality businesses were forced to change their business model in order to survive. Many of these changes were made possible by the temporary trading regulation changes implemented by the Government. FSB research found that these changes impacted small business prospects with 65 per cent of businesses in hospitality and tourism (including 71% of food services) stating a relaxation of planning regulations for pubs and restaurants, allowed them to operate as takeaways was important.

Many businesses pivoted to advertising and selling their products and services online and connecting to existing and new customers using social media. In the 2021 Queen’s Speech, the UK Government announced restrictions on the advertising of junk food pre-9pm watershed on TV and a total online ban.⁵⁸ Many small businesses are just starting to get back on their feet following more than a year of disruption, and successful pivots to operating online. This proposal would put small businesses at a severe competition disadvantage compared to large or multi-national chains. They will no longer have access to relatively inexpensive online or social media advertising,

⁵⁷ Question asked in June 2020 about ‘prior to today and over the next 3 months’

⁵⁸ Prime Minister’s Office, The Queen’s Speech 2021, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/986770/Queen_s_Speech_2021_-_Background_Briefing_Notes_.pdf

while those who can afford a prime time 9pm TV advertising slot will still be allowed to show unhealthy products. This is a good example of the importance of considering how proposals might unintentionally impact small businesses and their growth.

With international travel seriously restricted domestic tourism in 2021 is not only popular but accommodation is in high demand. While this has been a great boost to the domestic tourism industry during a difficult period, forecasts by VisitBritain indicate that domestic tourism will be worth £51.4bn in 2021, down from £91.6bn two years ago.⁵⁹ The Government has extended the limit for those operating a temporary campsite from 28 to 56 days during COVID-19, supporting landowners and local tourism economies in England. The average off-site spend per night during a camping or caravan holiday is £46, according to the UK Caravan and Camping Alliance.⁶⁰ This has been a welcome move, but the restrictions should be lifted further for the 2021 holiday period.

During COVID-19, it has been particularly difficult for small hospitality and tourism businesses to engage with their local authorities on getting approved for licenses or receiving inspections, such as for food hygiene ratings. This has limited some businesses in being able to open, and for some has limited their businesses opportunities – for example to provide catering at some events or be part of some markets you must have a 5* food hygiene rating. Local authorities should implement some minimum standards for times to respond and issue these accreditations.

As we have learned more about the coronavirus, it has become clear that appropriate ventilation is key to reducing the spread of the virus. This means an additional burden on small hospitality and tourism businesses to make physical changes to their premises, and/or to adjust working practices to improve air flow through the business. Small businesses should be encouraged to make any changes necessary to improve the long-term health and safety of their properties. Government must ensure there are no unintended consequences or consequential financial burdens if small businesses were to invest in such measures.

Recommendations

UK Government should:

- **Make permanent the streamlined procedure to allow businesses that sell food and drink to apply to the local authority for a pavement licence.** In March 2021, the Ministry of Housing, Communities & Local Government (MHCLG) sensibly introduced secondary legislation to extend the provisions of the Business and Planning Act 2020 (BPA 2020) which enabled restaurants and pubs to serve food and drink outdoors. This presents an opportunity to use the positive lessons we have learned from the crisis and make permanent any changes that have worked for local communities. These changes must be inclusive, so local authorities should provide guidance to local businesses on possible adaptations ensuring they prioritise accessibility.
- **Maintain the right for pubs, cafes and restaurants to be able to operate as a takeaway alongside their main business.** Alongside the provisions for outdoor dining, MHCLG introduced through secondary legislation, and then extended to March 2022, the automatic right to offer takeaways for pubs, cafes and restaurants. This has allowed many pubs, restaurants and cafes to shift their focus, and make money while otherwise shut or at reduced capacity. The changing nature of work means some hospitality businesses will need to adapt, so this option should continue to be available to those who want to use it.

⁵⁹ VisitBritain, 2021 Tourism Forecast, available at <https://www.visitbritain.org/2021-tourism-forecast>

⁶⁰ UK Caravan and Camping Alliance, Pitching the Value, available at <https://www.ukcca.org.uk/wp-content/uploads/2019/02/SC6407-00-Holiday-Park-Econ-Impact-UK-Final-Report.pdf>

- **Amend the blanket ban on online advertising for foods high in fat, salt and sugar in the upcoming Health and Care Bill to enable small businesses in the sector to recover from COVID-19 by continuing to advertise their products to customers via newsletters and social media pages.** While some advertising restrictions may be necessary to support the plan to tackle obesity, a total ban online, and watershed on TV, will be detrimental to small hospitality and tourism businesses. Because social media advertising is targeted, an age restriction could be implemented, for example.
- **Introduce minimum standards for responding to businesses on licensing and inspections, such as food hygiene ratings,** allowing businesses to open and operate safely as quickly as possible. Where systematic problems are uncovered by this process, Government should address what process innovations or resourcing is necessary to rectify delays that prevent businesses from starting up and growing their business.
- **Relax rules for temporary campsites, allowing them to operate from now until October 2021.** While the Government has extended the limit from 28 to 56 days during COVID-19, this still limits sites to only a portion of the season. This should be extended to October half term 2021 through a temporary change to permitted development rules.
- **Introduce a ventilation grant scheme to assist small businesses in making their premises COVID-secure for the long term.** This would allow small businesses in the hospitality and tourism sector to improve ventilation in their premises, through instillation of ventilation systems such as new windows or mechanical ventilation. In addition, these changes should be zero rated, to ensure small businesses are not hit with an increased business rates bill for improving the health and safety of their premises.

METHODOLOGY

This report is based on experiences and views of FSB members who own and run businesses in the hospitality and tourism sector and who operate in the hospitality and tourism supply chain.

FSB undertook a mixed method approach for the research consisting of quantitative online surveys, focus groups, and number of UK wide semi-structured interviews. The surveys were nationwide in their reach and members were invited to participate in the surveys via email and social media channels.

Multiple online surveys were used, with hospitality and tourism sector data taken using SIC cross breaks of accommodation and food and drink service activities. All surveys were administered by the research agency Verve.

- FSB High Streets Survey. In field 11-25 October 2019. Total base size n=1050, hospitality and tourism base size n=60.
- FSB Immigration Survey. In field 3-16 October 2019. Total base size n=1083, hospitality and tourism base size n=82.
- FSB Impact of COVID Survey. In field 21-30 April 2020. Total base size n=5471, hospitality and tourism base size n=516.
- FSB Employment and Social Distancing Survey. In field 29 May – 12 June 2020. Total base size n=1149, hospitality and tourism base size n=104.
- FSB COVID Recovery Survey. In field 23 July – 5 August 2020. Total base size n=1305, hospitality and tourism base size n=111.
- FSB COVID Recovery 2 Survey. In field 18 September – 2 October 2020. Total base size n=1451, hospitality and tourism base size n=85.
- FSB COVID Recovery 3 Survey. In field 2-15 March 2021. Total base size n=1483, hospitality and tourism base size n=109.

The focus groups took place with members from across the hospitality sector and were conducted by FSB staff members over Zoom. They took place on Wednesday 24 February 2021, Thursday 11 March 2021, and Thursday 18 March 2021.

The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). All percentages derived from the survey are rounded to the nearest whole number, which is why some percentages presented in the figures do not add to 100 per cent.

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