Rt. Hon. Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

19th November 2020

Investing in the survival and revival of the hospitality sector

Dear Chancellor,

Once more, the future of the hospitality sector is imperilled. After weeks of damaging restrictions across the UK, and now a national lockdown in England, 72% of hospitality businesses fear they will not survive beyond 2021, with 10% fearing they will collapse this year according to our latest member survey. It is critical that the Government uses its powers to ensure that hospitality businesses can survive the winter and have a vision for revival into 2021 – powering the nation's economic and employment recovery.

The support received by the sector remains greatly appreciated, including recent announcements on the extension of furlough for our staff and grants for closed businesses. Yet these do not go far enough to protect businesses' bottom line, and, in the case of the removal of the Job Retention Bonus (JRB), actively damage their ability to survive.

As a sector we are clear that the best mechanism to help us make it through the winter and return to the robust growth that we have delivered in recent years is to open up the sector and allow us to trade viably and welcome customers to Covid-safe, supervised environments. We are working actively with colleagues across Westminster and the devolved nations to create the right conditions to do this safely.

Nevertheless, we need additional financial support to provide the platform for us to again contribute significantly to the UK economy in every region. We are set to lose the majority of our 'golden quarter' with Christmas sales severely depressed, as we head into the worst quarter for sales, from January through March.

Job Retention Bonus

The extension of furlough was welcome for our employees whose jobs have once more been hibernated, but the removal of the JRB was incredibly damaging for sector cashflow. This commitment from Government had been baked into company financial projections and in many cases had formed the basis of applications for borrowing. For most the JRB was a mechanism to retain staff, by plugging holes in their finances where staff were employed, while the business was running at a loss. Others had earmarked the JRB for negotiation and payment of rent debt from the first lockdown.

Its removal creates a **£2.1 billion black hole** in the sector's finances in February. This is a material hit to hospitality businesses, more so than any other sector, given the number of staff involved and the trading restrictions we have faced.

The consequences of the withdrawal of the JRB are severe. While the sector has done its utmost to retain staff, with just 11% of its February workforce no longer employed, with support from Government, 45% of businesses believe that they will now be forced to make redundancies (with 47% reining back investment plans). Worryingly, around 8% of businesses believe this single decision will make them technically insolvent.

We recognise the positive intent that the decision on furlough was based upon and welcome the Government's commitment to reinstate a form of retention bonus. **We would urge the Chancellor to announce the successor scheme to JRB as soon as possible** so that businesses can factor it into their forecasts and to reassure investors. We also **propose that the Government makes available an early drawdown facility** to allow access to distressed businesses at the earliest opportunity. Business could forecast the jobs that will be retained, with up to 50% of funds available in advance.

<u>Business rates</u>

The business rates holiday has been extremely welcome, eliminating a significant fixed cost. This is due to return from April 2021 and is being written into financial forecasts. We **believe it is imperative for hospitality's revival that there is a further year of business rates holiday in 2021/22** to rebuild the sector's finances, which have been left tragically vulnerable by the coronavirus crisis.

This would also be extremely popular with businesses. When asked to choose from a long suite of support measures from Government, a further year of business rates relief was the most popular choice, with 65% of "hospitality businesses" choosing this in their top three measures in our latest survey. It is also important that any relief provided in England is mirrored in the devolved nations.

<u>VAT</u>

The cut in VAT for the hospitality and tourism sector to 5% announced in July boosted summer trading and gave great confidence to many businesses. Sadly, with restrictions, closures and consumer uncertainty it has been significantly underused. **It is now crucial that the VAT cut is extended for the duration of 2021**.

The benefits of maintaining the 5% VAT rate are clear. It will avoid otherwise inevitable price increases ahead of the Easter Bank Holiday weekend, should rates reverts to 20%; it will unleash the potential of the sector to recover through the year with consequent increases in employment and investment; it will boost consumer confidence when we are hoping to see a pick-up across the country; and it will allow us to stay competitive against our international tourism rivals in a post-Brexit world, against nations that have long had reduced VAT rates.

<u>Rent</u>

The issue of rent debt continues to hang over the sector from the first lockdown, where virtually no revenue was coming into businesses but rent liabilities continued to accrue. We have worked proactively with colleagues at BEIS and MHCLG to bring landlords and tenants together to collaboratively deal with this burden.

We have made a number of proposals to those departments but a critical part in getting agreement is financial support from Government. The latest proposal would see Government offering tax reliefs for landlords who forgive debt and low-cost, long-term loans or bonds for those tenant organisations who need support in paying a portion of their rent. **We strongly urge the Treasury team to engage with other departments to broker solutions in this very important area**.

<u>VAT Retail Export Scheme (RES)</u>

The decision to withdraw the VAT Retail Export Scheme significantly impacts the tourism sector, of which hospitality is an intractable and sizeable part. It has been estimated that the annual spend by international visitors is more than £22 billion, 10% of which is on tax-free shopping. The knock-on effect of the withdrawal of the VAT RES would damage the attractiveness of UK retail, exacerbating the adverse effect already being felt as a result of the COVID-19 pandemic, the consequential recession and the ongoing uncertainty over the outcome of Brexit trade negotiations. **We recommend that the VAT RES is maintained.**

With the right support you can unlock the challenging environment that hospitality faces in terms of accessing private finance. A signal of intent would change the conversations that have become more negative from mid-October and allow for us to plan and revive into 2021, bringing renewed prosperity across all parts of the country, allowing people to enjoy the hospitality of their local areas and to reignite domestic and international tourism.

We would welcome further discussions with you and the broader Treasury team on the issues raised above, and the future of the hospitality sector, that continues to employ around two million people.

Yours sincerely,

Kate Nicholls, CEO, UKHospitality