

27 September 2021

Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
1 Horse Guards Road
London
SW1A 2HQ
27/9/2021

Dear Chancellor

I am writing on behalf of the hospitality community across Greater Birmingham to voice our serious concern at the imminent reversal of VAT reductions introduced during the height of the pandemic and the ongoing need to reform our outdated business rates system.

From a national perspective, the commercial importance of the hospitality industry in the UK cannot be underestimated. In 2019, the hospitality sector contributed £59.3bn in GVA to the UK economy – the equivalent of 3% of total UK economic output. In the three months to September 2020, there were 2.38 million jobs in the hospitality sector in the UK which accounted for 6.9% of total employment in the UK. In total, hospitality businesses represent 3-5% of businesses in each region.

The negative impact of the pandemic has been well documented on the hospitality industry both nationally and locally as restrictions introduced on trading significantly impacted output. According to research carried out by UK Hospitality, the industry lost £53.3bn in sales last year and over 33,000 licensed premises closed at the end of October 2020. From a regional perspective, analysis undertaken by the West Midlands Growth Company revealed that Birmingham lost 8.5% of its bars, pubs and licensed restaurants or hotels at the end of 2020.

As a membership body which represents over three thousand businesses across Greater Birmingham, we recognise the unprecedented financial support the Government has provided to businesses throughout this crisis. Many hospitality businesses in the region have clearly benefitted from the introduction of the Coronavirus Job Retention Scheme, business rates relief and the launch of the Eat Out to Help Out Scheme. In particular, the temporary reduction in VAT to 5% charged on visitor accommodation, visitor attractions and out of home meals has proved to be an invaluable driver in sustaining economic activity for many hospitality firms.

However, given the nature of work carried out in the industry (which predominantly focusses on face-to-face interaction in close proximities), the damaging impact of Covid-19 has been more pronounced in the hospitality sectors compared to others. The fact that at the end of January 2021, 56% of eligible jobs were furloughed under the CJRS compared to 16% across all industries is a case in point.

Continued/...

A: Birmingham Chamber of Commerce
75 Harborne Road, Edgbaston
Birmingham, B15 3DH

T: 0121 454 6171

F: 0121 455 8670

E: info@birmingham-chamber.com

W: greaterbirminghamchambers.com

As national restrictions ease, we can only hope that consumer spending continues to fuel an economic revival. However, as the GDP results revealed for July 2021, the pace of economic recovery has stagnated over the summer and the UK economy is still 2.1% below the pre-pandemic level registered in February 2020. The stagnant level of growth is perhaps linked to the practical issues that many firms (and particularly those in the hospitality sector) are facing in attempting to comply with self-isolation guidelines.

Clearly, the knock-on impact of supply chain bottlenecks and a shortage of labour is having a detrimental impact on businesses up and down the country. Research from the Recruitment Employment Confederation & KPMG recently revealed that the number of available workers fell in June at the fastest rate since 1997. In particular, this occurrence is creating upward pressure on wages, which simply adds to the massive overheads that many businesses are currently facing.

The findings from our latest Quarterly Business Report underline the issues raised throughout this letter. 27% of local firms saw their cash flow position worsen over the last three months. 21% expect the end of the Job Retention Scheme to have a negative impact on their cost base and 14% expressed a similar sentiment in relation to the proposed reversal of VAT reductions. Of those businesses that have attempted to add to their headcount in the last three months, 63% have faced recruitment difficulties.

It is within this uncertain context that many hospitality businesses find themselves operating in that we urge you extend the current arrangement in relation to VAT reductions for a further twelve months. This measure would benefit hospitality firms of all sizes, but in particular, smaller businesses that are struggling to survive and facing closure due to the extreme cost pressures they continue to face. It's also no secret that many are carrying unsustainable levels of debt which have been accrued during the crisis.

The fact of the matter is that the VAT reduction has allowed many businesses to stay afloat. Anecdotally we've heard from leading restaurants on the unprecedented increased costs in production they are currently experiencing - as an example fryer oil is now more expensive than a litre of diesel in some instances. The VAT reduction has allowed hospitality firms to absorb these additional costs without passing them onto the consumer. We also need to consider the fact that the VAT reduction is currently confined to food only and as a Chamber we have campaigned for many months for the relief to include cold food takeaways, cold beverage takeaways and alcoholic drinks in a bid to further stimulate demand.

Restoring VAT to its previous levels risks many businesses having to forward on the cost to their customers, which in turn, will have a negative impact on consumer demand. Coupled with the end of the Coronavirus Job Retention Scheme, a reduction in demand would have serious consequences for hospitality firms facing the prospect of making more redundancies, which would lead to a further drain on state resources.

Maintaining a reduction in VAT levels at the current 5% will not only help to stimulate consumer demand but will also offer a welcome wider boost to domestic tourism levels. The money which many hospitality businesses will save with the continuation of this policy could be used to stimulate investment in training and technology and ultimately create a raft of jobs as we look to avoid long term scarring of our regional and national economy.

Continued/...

A: Birmingham Chamber of Commerce
75 Harborne Road, Edgbaston
Birmingham, B15 3DH

T: 0121 454 6171

F: 0121 455 8670

E: info@birmingham-chamber.com

W: greaterbirminghamchambers.com

However, policy related to VAT cannot be considered in isolation given the significant overheads hospitality businesses have faced for several years. The 100% Business Rate relief scheme introduced in 2020 for eligible retail, hospitality and leisure firms helped many businesses avoid long term closure during the pandemic and the extension of the rate relief (albeit at the lower rate of 66%) to March 2022 will give firms much need breathing space.

Nevertheless, in the long term, we would encourage the Government to tackle the structural issues at the heart of the business rates system which act as a drag on business growth and disincentivise company investment. Even prior to the outbreak of the pandemic, the Greater Birmingham Chambers of Commerce has long campaigned for reform of business rates with many hospitality businesses suffering from huge expenses because of this outmoded system. The additional costs generated by paying business rates will hamper a return to prosperity for many of these firms— especially given the huge overheads they are currently grappling to overcome. These issues are likely to be magnified when deadlines are due to repay Government loans secured via the Coronavirus Business Interruption Loan Scheme (CBILs) for example.

In the short term, it is essential for the Government to extend the current relief system for an initial six months given the extreme financial hardships many hospitality businesses are still facing. In addition, it is crucial the Government urgently brings forward the introduction of the Business Rates Relief Fund by accelerating the legislative process in a bid to ease the cost pressures that many businesses in the region are still facing. Finally, we are calling on you to use the Fundamental Review of Business Rates to ensure the value of the multiplier reflects the current market conditions that businesses are trading in to create a more fair and equitable system.

The upcoming Autumn Budget seems like the perfect time to explore these options and demonstrate the Government's commitment to creating an entrepreneurial platform for businesses to expand and grow. It would also go some way in counter-acting the concerns associated with the Government's decision to introduce a National Insurance hike which will simply add to the cost burden firms are saddled with as we emerge from the pandemic.

Whether it's relation to the initial extension of the Job Retention Scheme or the introduction of Bounce Back Loans, the Government has shown a welcome degree of flexibility to help businesses overcome the extreme pressures they are facing right now. On behalf of the hospitality sector of Greater Birmingham and beyond, we hope you can demonstrate the same adaptability in relation to VAT reductions and business rates reform and give businesses the best possible chance of returning to growth and prosperity.

Yours sincerely

Henrietta Brealey, CEO, Greater Birmingham Chambers of Commerce
Andreas Antona, Owner, Simpsons in Birmingham and The Cross in Kenilworth
Luke Tipping, Executive Chef at Simpsons, Edgbaston
Adam Bennett, Chef Director of The Cross, Kenilworth
Adam Stokes, Chef Owner, Adam's and The Oyster Club

Continued/...

A: Birmingham Chamber of Commerce
75 Harborne Road, Edgbaston
Birmingham, B15 3DH

T: 0121 454 6171

F: 0121 455 8670

E: info@birmingham-chamber.com

W: greaterbirminghamchambers.com

Paul Halsey, Owner, Pure Craft Bar & Kitchen
 Jayne O'Malley, Hotel Group General Manager, The Edgbaston
 Sarah Parkinson, Assistant Hotel General Manager, The Edgbaston
 Darren Insall, Owner, The Edgbaston
 Stuart Insall, Owner, The Edgbaston
 Rick Cressman, Owner, Nailcote Manor
 Aktar Islam, Chef Director for Opheem, Pulperia & Aktar @ home
 Jabbar G. Khan, Founder & Director, Lasan Group
 James Hill, Managing Director, Hampton Manor
 Glynn Purnell, Chef Patron, Purnell's
 Claire Lisham, PR Manager, Purnell's
 Brad Carter, Chef Owner of Carters of Moseley
 Alex Claridge, Head Chef and Owner of The Wilderness
 Sam Morgan, Owner, Craft at The International Convention Centre
 Ajay Kenth, Owner, Tap & Tandoor, Zindiya, Vita, Greens, Taste Collective
 Ann Tonks, Managing Director, Chapter Restaurant Ltd
 Irene Allan, Restaurant Director, Chapter Restaurant Ltd
 Ben Ternent, Chef Director, Chapter Restaurant Ltd
 Jason Kirsch, Operations Director, Resorts World Birmingham
 Ellie Beattie, Group Sales and Marketing Manager, Hogarths Hotels and Restaurants
 Byron Carnegie, Director, Jamaya
 Joe Barber, Finance Director, The Barn at Berryfields
 Emma Morgan, General Manager, Malmaison Birmingham
 Anne Marie Simpson, Simpsons Gin Bar
 Mark Tasker, General Manager, Crowne Plaza Birmingham
 Harpreet Sian, General Manager, IBIS Birmingham New Street Station
 Tracey Stephenson, Co-Founder & Joint Owner, Staying Cool
 Michele Wilby, CEO, Colmore BID
 Lawrence Barton, Chairman, Southside BID

A: Birmingham Chamber of Commerce
 75 Harborne Road, Edgbaston
 Birmingham, B15 3DH

T: 0121 454 6171

F: 0121 455 8670

E: info@birmingham-chamber.com

W: greaterbirminghamchambers.com