



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

1st April 2022

Dear Chancellor,

A 'cost of business' crisis in the hospitality sector

We wrote to you collectively and individually earlier this year in advance of your Spring Statement to highlight the substantial input cost crisis facing pubs and the wider hospitality sector. We noted the precarious position facing the sector - after nearly two years of lockdowns, trading restrictions and reopening setbacks the sector has no financial resilience, cash reserves and many are operating at marginal viability.

Just as pubs, brewers and wider hospitality businesses began to turn their attention towards a sustainable recovery and helping to build back the UK, the invasion of Ukraine has also exacerbated the growing energy crisis, pressures on the food and drink supply chain and labour shortages we were already facing. Input cost price inflation in Q1 for hospitality was running at 11-13% but is now forecast to rise to 15-17% over the next six months. This is fuelled by 100% increases in utility bills over the last quarter, with 150-250% increases over recent weeks, 13% food price inflation and, for certain key products a 35-50% jump in price. We ask that the Government considers putting in place mechanisms that will help pubs and the wider hospitality sector manage their energy costs. We fear for wide scale failure of small businesses who are at the heart of communities throughout the UK, imperilling the Government's levelling up agenda.

Whilst we recognise difficult decisions have to be taken at this challenging time and very much welcome measures to address business taxation over the longer term, we were disappointed that the Government decided not to extend the 12.5% rate of VAT. Extending the VAT cut would have given us much needed headroom with these unprecedented costs.

Of particular concern is the Office for Budget Responsibility forecast on disposable household income. Consumers may already be struggling to afford leisure activities, before the impact of increases in the cost of business is fully reflected in prices at the bar, and the return to full VAT will double the price increases being planned. This will not only dampen demand and undermine economic growth, but could also fuel further inflationary pressures – the disproportionate weight of hospitality in the basket of goods could see a further 1.7ppt added to headline CPI.

The importance of hospitality as a driver of economic growth, jobs and investment across all regions makes it all the more important that the sector continues to work with the Government through the Hospitality and Tourism Recovery Strategies, to accelerate recovery and to bring forward co-created solutions to deliver that at pace.

We therefore very much welcome the intent behind your tax plan to reform the business tax system to incentivise and stimulate investment in productivity, but this also needs to specifically address the ongoing punitive overall tax burden on our sector and we look forward to working with your colleagues

on the reforms we need on online sales, business rates, apprenticeship levy and capital allowances. These measures are not just critical to our recovery but also to city centre regeneration and investment in infrastructure, skills and boosting our export earning potential. We would urge you to bring forward the implementation of alcohol duty reform proposals that support Britain's brewers, pubs and drives consumers towards lower-strength products at the earliest opportunity.

Furthermore, a year ago, the Government announced £1.5bn under the Covid Additional Relief Fund (CARF) but still most eligible businesses, such as breweries, have not received any payments from local authorities under the scheme. We hope that you will consider prioritising that these payments are made at a local level but also extending the scheme for another year in line with the relief offered to hospitality businesses in the Autumn.

The recovery from the pandemic is still uncertain and extremely fragile, many businesses are operating under a heavy burden of debt and the sector requires ongoing support and vigilance from the Government. We saw the Spring Statement as a missed opportunity to help our sector play its part to the fullest in delivering levelling up in practice in the immediate face of sharp increases to the cost of doing business. However we very much want to engage with you and the Treasury to ensure all further opportunities to support the sector are explored in the coming weeks and months and as we look to the critical Autumn Budget.

A strong and sustainable economic recovery rests on the foundations of a robust and reinvigorated hospitality sector. With the right support, we can continue to re-connect and bring together communities, create more jobs and reignite our status as the foundation of local economies throughout the UK. To do so, we need to work together to overcome the growing cost of doing business crisis we are facing.

Yours sincerely,



Emma McClarkin, Chief Executive, British Beer & Pub Association (BBPA);



Tom Stainer, Chief Executive, Campaign for Real Ale;



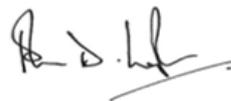
Kate Nicholls, Chief Executive, UKHospitality (UKH);



Steve Alton, Chief Executive, the British Institute of Innkeeping;



James Calder, Chief Executive, the Society of Independent Brewers (SIBA);



John Longden OBE, Chief Executive, Pub Is The Hub;



Rick Bailey, Independent Family Brewers of Britain (IFBB)