



UKHospitality response into cask beer APPG inquiry

A year of Covid

Cask beer has been hit harder than any other part of the alcoholic drinks market over the past year by Covid and its related lockdowns and restrictions. The hospitality sector as a whole has borne the brunt of Government instructions to stay at home and avoid contact with others. And with cask beer being (almost) exclusively sold within hospitality premises it has lost its critical route to market. The fortunes of cask beer are intrinsically linked to those of hospitality and pubs in particular.

Over the course of the last year hospitality sales have dropped by £86.4 billion – a fall of 68%, with pubs particularly hard hit. Cask ale sales have fallen by around 90% over 2020 – and this figure will drop further as it faces months more of hospitality closure. It still makes up 5.5% of alcoholic drinks sold in the on-trade according to CGA data.

Hospitality has proven itself to be incredibly safe while open. In a survey of 12,500 venues, employing 358,000 people, UKHospitality found that in 14 weeks the sample reported 1,728 infections within their workforce. An infection rate of 0.48% of employees over the entire period. This number of infections covers approximately 20 million work shifts.

In relation to customers there were just 780 notification of customers having been infected with the virus. This is 0.06 customer infections per venue. Over this period, we believe there have been 250 million customer visits in the premises surveyed, the notification rate is therefore 0.0003% of all customer visits.

Having committed to Test & Trace, hospitality businesses surveyed had just 104 contacts, a tiny fraction of the 250 million customer visits.

The yo-yo approach of restrictions and the tier system in 2020 meant that cask beer was particularly hard-hit compared to other drinks. Its unique selling point – its freshness – became a major hindrance as proprietors did not have the confidence that they could sell stock before another closure order came.

The consequence of the pressure on cask ale meant a reduction in consumer choice, a switch to drinking from home as pubs lost a critical incentive for people to leave the home (even when they were allowed) and critical damage to the cask beer infrastructure – small- and medium-sized breweries and community pubs – that could take years to fix.

In all this there is hope for a strong recovery. During the closure period there was a new-found sympathy from many for the plight of their local pub which it must be hoped translates into additional visits, and uptake of cask beer. This was bolstered by the breadth and variety of community services that pubs put on. The growth of takeaway beer, while small in the grand scheme of things, could be an opportunity to build on in the future.

Conditions for a cask beer recovery

The link between the strength of hospitality and pubs and cask beer is undeniable and proven beyond doubt over the last year. **A strong hospitality sector is vital for a strong cask beer market.** The focus of our response will therefore be on how to rebuild a strong hospitality sector, with specific measures for cask ale as part of that. We will break this down into a number of sections: a successful reopening, a tax regime that stimulates hospitality, a skilled and happy workforce and a



supportive regulatory environment that permits investment and innovation. There also needs to be a focus on promoting cask beer to consumers but we will leave that to experts.

1. A successful reopening

The pattern of reopening across the UK will vary due to the different approaches by devolved nations. However, across the UK the successful rollout of the vaccine gives great hope of significant reopening of the hospitality sector in the early summer. In principle, we believe that all nations should follow an approach that delivers a safe, swift and sustainable recovery.

It is in the interests of everyone that safety is paramount and the investment that the hospitality and pub sector has put into their premises is a credit to all of the businesses in the sector. Customers should feel safe to return, regardless of whether they have been vaccinated or not, to their favourite places. Lessons learnt from 2020 will contribute to making venues welcoming to people and it is likely that some trading practices will have evolved as a result. For example, there may be more table service available, to complement the return of bar service, which is vital to showcase a premise's full beer range – so important to cask beer.

Given the improved health picture across the country, and thanks to the Government's vaccine programme, the country is able to move swiftly to a return to a normal trading regime. The timetable set out in England (the clearest set out to date) has a number of milestones: April 12th – for outdoor hospitality; 17th May for indoor hospitality; and 21st June for a removal of all restrictions.

UKHospitality, like others, is disappointed that the opening dates are not sooner but understand that the decisions the Government has made are in the interest of a restart that will not be undone by a new wave of infections, which would be disastrous for hospitality. It is imperative that this is the last lockdown. We believe within the Westminster Government's roadmap there is room for some a less restrictive reopening – such as allowing counter service and outdoor consumption while standing from May 17th.

The reopening must also be sustainable for business. As mentioned above, the reopening rules in England could be more relaxed to help more premises reopen successfully. But, ultimately, the priority is making sure that all restrictions are removed by June 21st. **Government must ensure that this target date is hit.** Within this we need to see a removal of social distancing rules at the earliest opportunity and the restoration of entertainment, such as live music, beer festivals and the like.

Linking removal of social distancing rules to vaccine passports risks giving pubs the option between opening with a costly and divisive measure in place, or at reduced capacity. Either approach is likely to mean pubs remain unprofitable.

The Westminster Government has relaxed a number of rules to promote reopening, with relaxation around outdoor licences, more space on pavements and permissions for outdoor marquees and other structures. These should be promoted in the rest of the UK and local authorities should work collaboratively with business to make reopening a true success.

Government must also recognise and help to address a major legacy of the last year – accrued debt – which will have a major impact on reopening and recovery. This can take multiple forms – rent debt, Government-backed Covid loans and other finance, as well as remaining HMRC debts. There needs to be a patient approach from holders of the debt to how this is dealt with.



Rent debt remains a particular area of concern for the hospitality and pub sector. On the whole, pub company landlords have been very supportive, offering substantial rent discounts for closure periods and deferrals elsewhere. This is not frequently seen with commercial landlords and has resulted in substantial rent debts being accrued, with no realistic prospect of repayment in the short-term. **All stakeholders must continue to work to resolve this situation.**

2. A positive tax regime

The tax burden on hospitality and pubs has long been a barrier to the level of successful trade that the sector could be capable of. There does need to be a review of the overall tax burden on the sector. The key areas that impact on the sector are VAT, excise duty, business rates and employment taxes.

In response to the pandemic Government reduced the rate of **VAT** on out-of-home food, non-alcoholic beverages, accommodation and tourism services. This was a vital intervention that supported hospitality's restart during 2020. The 5% rate is now extended until the end of September, at which point it will move to an interim rate of 12.5% until the end of March 2022. It is crucial for the long-term success of the hospitality sector that **this reduced rate of VAT becomes permanent**. UKHospitality also believes this should be expanded to cover parts of the sector that are not eligible, including wedding venues, nightclub admissions, ten-pin bowling and alcoholic beverages.

With Government seemingly reluctant to reduce VAT on alcohol, a route to incentivise cask beer sales would be to introduce a **reduced rate of duty on draught beer** – this could be done very easily with a lower rate on beer packaged in containers over a certain size such as 20 litres. To further boost pubs and hospitality this could be extended to other alcohol products through a rebate system.

A reduced rate would help to restore the core product sold by pubs. It would provide an opportunity to take advantage of the increased flexibility available to the UK from its exit from the European Union. Most importantly it should be mutually successful – brewers and pub owners would benefit from a lower tax rate and consumers could share the benefit from a lower price.

A consistent bugbear for the pub and hospitality trade has the unbalanced and unfair **business rates** system. This is a system that has managed to overlook the huge growth in online sales that has occurred over the last two decades – in both goods and services. This leaves existing property-based businesses, such as pubs, facing an even greater burden under rates, which as a tax must legally keep raising the same amount of money.

In the short-term Government has offered a further three-month business rates holiday from April to June 2021 in England. From July a 66% discount will apply for pubs through to March 2022 – though this will severely limited, for around 10,000 hospitality venues due to a £2 million cap applying on relief per company. **UKH believes that the three-months of relief should be extended to six-months to benefit businesses of all size and support cashflow upon reopening.**

In 2022-23 there will need to be another mechanism to relieve the burden on pubs and hospitality – particularly given that hospitality venues will have changed in their value. Depending on circumstances, this should be a **discount of at least 25% in business rates bills for 2022-23.**

From April 2023 there must be a new system in place. Government must urgently proceed with their review into the business rates system, and come to conclusions that can be implemented by this



point. The current business rates system sees the hospitality sector overpay by £2.4bn each year, *relative to its turnover* – or a 300% overpayment. We believe **this must involve a differential business rates multiplier for hospitality businesses (around 35% lower than the standard rate), a vast improvement in administration and protection for investment to encourage operators to improve their premises – with sustainability measures being exempt from valuation altogether.**

3. A skilled and supported workforce

At its peak in 2019, hospitality employed one in ten of the UK's workforce, right across the country. Post-Covid, the ambition is to return to this level. As part of this the industry needs to work hard to improve the perception of sector jobs. The ability to work with such interesting products as cask beer should be crucial to making the sector one people are proud to work in.

One challenge put at the sector's door is on wage levels. Many jobs are minimum wage (though many are not) and increases in the National Minimum Wage provide a challenge to operators working to low margins. The industry must embrace the challenge of increasing wage levels in the medium-term but it will need Government support. UKHospitality has long **promoted increasing the Employer National Insurance Contributions (NICs) threshold to take more lower-paid staff, typically younger people, out of employer contributions. This would facilitate paying higher wages and greater levels of recruitment.**

Government has introduced a number of schemes during the pandemic to help to keep a lid on unemployment, including the Kickstart scheme and incentives for apprenticeships. These need to remain in place for pubs and hospitality to benefit from, and in turn benefit new employees. As one of the last sectors to fully re-open our employment recovery could be slower, but this should not affect our ability to provide young people with life experience.

Apprenticeships will continue to be a critical part of the training and development offer of the hospitality sector. The industry will continue to support these and rebuild to the levels we had previously aimed for (30,000 apprenticeship starts by 2025 across hospitality, tourism and leisure, as per the Tourism Sector Deal). However, this needs to be part of a wider focus on skills development for hospitality, including throughout the education system. The introduction of a T-Level for catering is a positive start down this road, but it needs to be more comprehensive. **Government must work with industry to ensure that the right training and qualifications are in place to ensure a route into pubs and hospitality, with a focus on the products sold.**

4. Supportive regulatory environment

While issues around taxation and staffing are seen as the critical issues for business success, on top of the entrepreneurial skill within the sector, there are a whole raft of regulatory parameters that must be set at the right level. These include licensing and planning, but can stretch to a wide range of other measures.

As set out in the reopening section, Government has made some very positive temporary steps to address regulatory constraints. We believe **there should be an assumption that temporary Covid regulatory changes should be made permanent.** These include permissions to erect structures in pub gardens, simple and cost-effective applications for pavement licences and greater permissions for off-sales.

On licensing more generally there has been too much of a combative attitude between local authorities and premises. The relationship must become more mutually constructive. Publicans have



a huge amount to contribute to their local communities and this must be recognised. Local authorities have a range of responsibilities to balance, not least the views of residents, but a collaborative approach with licensees could help to alleviate any problems.

Specifically, **there needs to be an abolition of Late Night Levies**. These are a disproportionate and untargeted measure that are effectively just a tax on pubs (and other night-time economy venues). Dealing specifically with premises on any problems that might arise, rather than applying a blanket measure will provide better outcomes.

On planning, Government and local authorities need to make it much easier for enhancements of premises. It can be prohibitively difficult to undertake even simple developments, such as an outdoor terrace, so many do not even consider it. Others must persevere for years, often with no success but a significant bill to pay at the end. **A presumption in favour of planning adaptations should be adopted, unless of a significant size.**

With a focus on more housebuilding there will be housing in new areas, or previously underdeveloped areas. **Any new housing development should have a list of amenities, including pub and hospitality businesses, to consider building when they put in an application for planning to a local authority.**

With the changing nature of work (and housing) there is going to be a demand for different workspaces, with a move away from office spaces. Pubs and hospitality have an opportunity to capitalise on this in areas traditionally away from office spaces, offering workspaces and meeting facilities. **Government should consider grants to allow pubs and hospitality venue to offer high-quality workspaces and meeting areas.**

Finally, on property **there is a need for a fundamental review of commercial landlord tenant legislation**. Government launched its intention to do this in December 2020 and intends to return to this later in 2021. We believe this could help to facilitate a more balanced relationship that would encourage greater partnership and investment, and work to the benefit of pubs, hospitality businesses and local communities and high streets.

As we, hopefully, return to a period of normality we believe **there are grounds for introducing a new Bank Holiday in the autumn/winter**. This could be used to be a celebration of the UK and what it has to offer and could feature cask beer prominently. This would help to bring people together and be positive for pubs and the wider hospitality sector.

One final initiative linked to this celebration of Britishness could be the replacement of the “CE” mark on pint glasses in the UK. Previously, this signal of measure standardisation was the crown sign. **Government could hold a national competition (for adults only) to redesign a symbol that could be used to designate the British pint** and what it means for the country, providing an opportunity to celebrate cask and other forms of beer.



Key points and recommendations

- A strong hospitality sector is vital for a strong cask beer market.
- Government must ensure that the target date of 21st June for all restrictions to be removed is hit.
- Linking removal of social distancing rules to vaccine passports risks giving pubs the option between opening with a costly and divisive measure in place, or at reduced capacity.
- Government must also recognise and help to address a major legacy of the last year.
- All stakeholders must work together to resolve the rent debt crisis the hospitality industry faces.
- The reduced rate of VAT must become permanent at 12.5% or below, and, if possible, extended to other goods and services, such as alcoholic beverages.
- A reduced rate of duty on draught beer must be introduced as soon as possible, and then a mechanism to reduce duty on other products sold in the on-trade should be developed.
- The current three-months of business rates relief should be extended to six-months to benefit businesses of all size and support cashflow upon reopening.
- There should be a discount of at least 25% in business rates bills for hospitality in 2022-23.
- The current business rates system sees the hospitality sector overpay by £2.4bn each year, *relative to its turnover* – or a 300% overpayment.
- Business rates must be overhauled by April 2023 - this must involve a differential business rates multiplier for hospitality businesses (around 35% lower than the standard rate), a vast improvement in administration and protection for investment to encourage operators to improve their premises – with sustainability measures being exempt from valuation altogether.
- Government should urgently increase the Employer National Insurance Contributions (NICs) threshold to take more lower-paid staff, typically younger people, out of employer contributions. This would facilitate paying higher wages and greater levels of recruitment.
- Government must work with industry to ensure that the right training and qualifications are in place to ensure a route into pubs and hospitality, with a focus on the products sold.
- There should be an assumption that temporary Covid regulatory easements should be made permanent.
- Late Night Levies should be abolished.
- A presumption in favour of planning adaptations should be adopted, unless of a significant size.
- Any new housing development should have a list of amenities, including pub and hospitality businesses, to consider building when they put in an application for planning to a local authority.
- Government should consider grants to allow pubs and hospitality venue to offer high-quality workspaces and meeting areas.
- there is a need for a fundamental review of commercial landlord tenant legislation.
- There are grounds for introducing a new Bank Holiday in the autumn/winter.
- Government could hold a national competition (for adults only) to redesign a symbol that could be used to designate the British pint.