



Labour migration in the hospitality sector

**A KPMG report for the
British Hospitality
Association**

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Contents

1	Executive summary	4
	Key findings	4
2	Context behind this KPMG analysis	11
2.1	What our report and analysis covers	11
3	The UK hospitality sector is highly reliant on EU nationals	13
3.1	The hospitality sector employs an estimated 3m people	13
3.2	Official sources report that 12.3% of hospitality employees are EU nationals ...	13
3.3	... although we estimate that around a quarter of the hospitality sector's workers could potentially be EU nationals	14
3.4	London is more heavily reliant on EU nationals than other regions	16
3.5	There is a large disparity in employment of EU nationals across hospitality industry service lines	18
3.6	43% of lower level occupations in the hospitality sector are filled by EU nationals	19
4	Potential recruitment gap from restricted EU immigration	22
4.1	Each year, the hospitality sector needs to recruit new workers to the sector as a result of labour turnover and employment growth	22
4.2	In 2016, 62,000 of all external recruits to the hospitality sector were from the EU	25
4.3	Restricted access to EU migrant workers will have a cumulative impact on the UK hospitality sector over time	26
5	Challenges facing the hospitality sector in replacing EU migrants	30
5.1	The hospitality sector already faces challenges in recruiting enough workers, particularly in specific roles and regions	30
5.2	It will be difficult to fill the potential increased recruitment gap with unemployed UK workers	34
5.3	It will be difficult to fill the potential increased recruitment gap with UK economically inactive	36
5.4	It could be challenging to fill the recruitment gap with workers from other sectors	39

5.5	Qualitative evidence of challenges in filling the potential recruitment gap	40
6	Opportunities for addressing the potential recruitment gap	45
6.1	Action by the hospitality sector may mitigate the impacts of restricted access to the EU workforce	45
6.2	The sector needs time to adjust	46
7	Conclusions	47
8	Appendix 1: Technical appendix on the comparison of the Labour Force Survey and the KPMG survey of BHA members	50
8.1	ONS Labour Force Survey (LFS)	50
8.2	KPMG's survey of BHA members	52
9	Appendix 2: Technical appendix on the approach taken to estimating the potential future recruitment gap	55
10	Appendix 3: KPMG stakeholder consultation	57

1 Executive summary

Key findings

- Between 12.3% and 23.7% of the UK hospitality sector workforce is currently made up of EU nationals.
- In a scenario in which there is no new migration into the UK hospitality sector from 2019; existing EU nationals are not required to leave; and the recruitment of UK and rest of world workers remains constant, we estimate that the hospitality sector faces a recruitment shortfall of upwards of 60k per annum workers from 2019.
- Based on this scenario, by 2029, the hospitality sector could face a total recruitment gap of over 1 million workers (over a quarter of its expected total ~3.5m employment) due to lack of access to EU workers unless it is able to replace EU workers with other types of employees – from other sectors, the unemployed and those not currently in the workforce.
- However, it will be hard to fill the potential recruitment gap with the current unemployed and inactive population – existing vacancies in the hospitality sector are already proving hard to fill despite existing initiatives in place to attract these workers.
- There may be some scope to reduce the sector's labour force requirements through productivity improvements and automation, however extensive productivity gains are unlikely to be possible due to the manual nature of many of the roles and the demand from customers for the human interaction that typifies the sector.
- Long term, it may be possible to recruit *some* more unemployed or inactive workers into the hospitality sector, and to reduce head count requirement through productivity gains and increased retention. However, in the short to medium term, the recruitment gap is unlikely to be met through these routes.
- Regions such as London (with 25.7% - 38.0% EU nationals), service lines such as hotels (22.1% - 34.1% EU migrants) and restaurants (13.8% - 26.1% EU nationals) and within these businesses, roles including waiters and waitresses (75.3% EU nationals), chefs (24.6% EU nationals) and housekeeping staff (37.1% EU nationals) are more highly reliant on EU workers.

The hospitality sector currently needs around 62,000 new EU migrants¹ per annum to maintain its current activities and to grow.

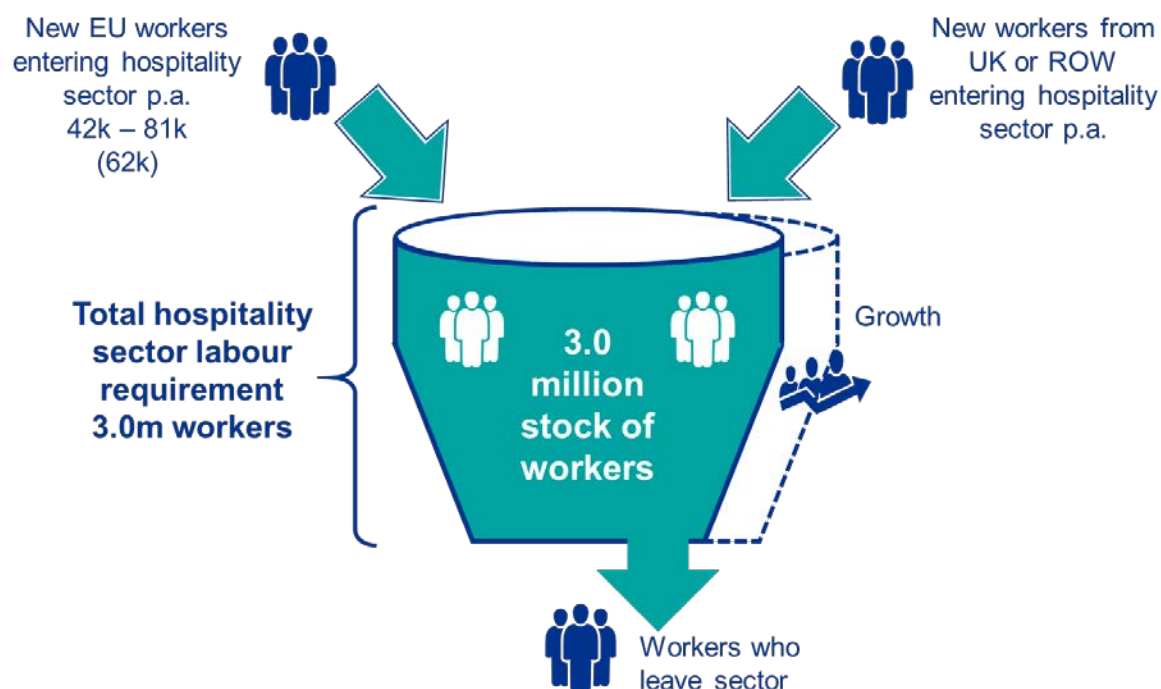
The UK hospitality sector is highly reliant on EU nationals, with between 12.3% and 23.7% of the sector's workforce made up of EU migrants. KPMG estimates that the hospitality sector currently requires 62,000 EU migrants per annum to be able to maintain current activities and to grow.

Figure 1 illustrates the current labour flows in the hospitality sector and the determinants of the total labour requirement. To maintain the stock of workers in the sector, the sector needs

¹ In this report, by the term "EU migrants" or "EU nationals" we refer to all non-British EEA nationals.

to recruit workers to replace workers who leave the sector and fill jobs created through employment growth.

Figure 1: Labour flows in the hospitality sector (2016)



Source: KPMG analysis

The sector currently has five main sources of labour from which it can recruit:

- 1 UK unemployed labour;
- 2 UK economically inactive;
- 3 UK workers from other UK sectors;
- 4 EU nationals; and
- 5 rest of the world nationals.

Even with the current open access to the EU labour market, the hospitality sector faces a challenge in recruiting enough workers to meet its needs. The sector has a higher proportion of hard-to-fill vacancies, and greater growth in the number of monthly job postings, than any other sector.

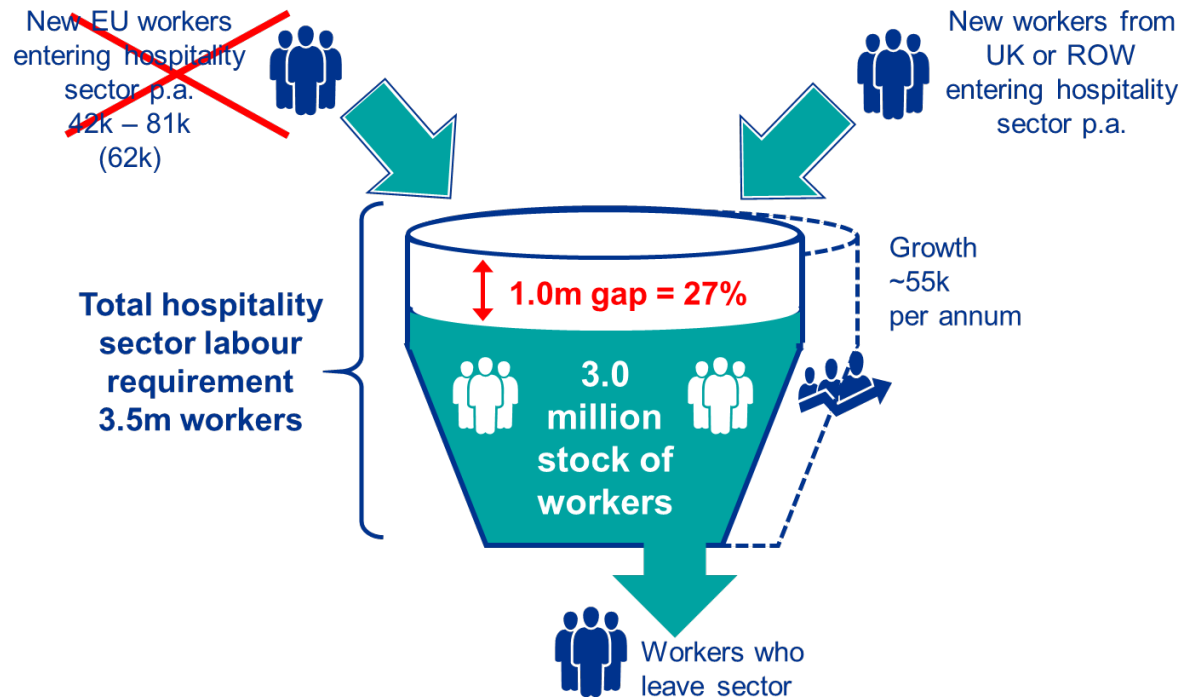
The recruitment gap will increase over time if EU migrant workers cannot be replaced with other workers.

The combination of employment attrition from the sector and the continued growth of the hospitality sector means any annual shortfall in the inflow of new workers will have a cumulative impact over time.

Figure 2 below shows the cumulative impact of zero EU migration into the hospitality sector from 2019, after 10 years, if the recruitment need is not filled from other sources.

Critically, this shortfall is not a prediction of the actual shortage of workers that the UK hospitality sector will experience. Rather it represents the additional recruitment challenge the sector will face if EU migration into the UK hospitality sector fell to zero from 2019.

Figure 2: Labour shortfall 10 years following Brexit (2029) if recruitment need is not filled by other sources



Source: KPMG analysis

This estimate is based on an estimate of current employment in the hospitality sector of around 3.0 million workers.

Whilst the research focus of this report is on the hospitality sector, the BHA represents the whole of the hospitality and tourism industry.

There is some overlap between the hospitality and tourism sectors, with sub-industries such as hotels and similar accommodation being captured under both sectors. Despite this overlap, the tourism sector has not been completely captured under the definition of the hospitality sector used within this report.

The BHA estimates that there were 4.5 million² workers employed in the hospitality and tourism sectors combined as of 2014 (1.6 million workers over and above those captured within the definition of the hospitality industry). Therefore, whilst we are not able to extrapolate our analysis directly to cover the tourism sector, it is clear that when taking into account both the hospitality and tourism sectors the implied recruitment gap if there was no new EU migration into the sectors combined as of 2019 would be even greater.

² <http://www.bha.org.uk/wp-content/uploads/2015/11/Backing-the-future-for-hospitality-and-tourism-web.pdf>

The hospitality sector is already struggling to recruit enough workers to fill its vacancies.

The hospitality sector³ has the highest number of vacancies as a share of its total employment compared to any other sector⁴ and the number of vacancies has grown by 79% in the last 5 years. A third of all vacancies in the sector are classed as hard-to-fill⁵ vacancies.

Key drivers of this are: the high rate of staff turnover in the sector, the lack of interest in hospitality jobs among UK workers and job seekers; and skills gaps.

It will be hard to fill the recruitment gap with UK unemployed workers, inactive persons or workers in other sectors.

Low rates of unemployment in the UK as a whole mean that there are simply not enough unemployed workers in the right places to fill the recruitment needs that would be generated by a complete cut off of the inflow of EU migrants into the UK hospitality sector.

In 2016, there were 1.3 million unemployed workers within the UK. Unemployment is currently 4.8% nationally, the lowest it has been for 11 years.

Of these, 44.2% were long-term unemployed, meaning that they have been unemployed for 6 months or longer. Third-party research shows there are additional challenges in recruiting from the pool of long term unemployed, due to skills atrophy and a lack of work-readiness. This contributes to job finding rates declining by approximately 50% within eight months of unemployment.⁶

Similar challenges are faced in attracting and recruiting currently inactive persons.

Furthermore, the regions of the UK which are most reliant on EU nationals, such as London and the East of England, are those with the lowest rate of unemployment and inactivity and, therefore, the smallest available pool of unemployed labour. In short, even when there are unemployed workers in the UK, they tend to be located in the wrong place to mitigate for any future loss of hospitality workers from the EU. Not only that, UK workers tend to be less willing to move to where the work is than employees from overseas who are, by definition, already fundamentally geographically mobile.

While there may be opportunities for hospitality companies to recruit from other sectors, the hospitality sector faces challenges in attracting UK workers due to inherent negative perceptions of it among UK job-seekers (evident from KPMG's survey of the industry). The hospitality sector is already working to address these challenges but more needs to be done. However it will take time for action by the industry to feed through and change perceptions.

Furthermore, the hospitality sector will not be alone in facing a recruitment shortfall if EU migration into the UK were restricted, meaning overall competition among employers for suitable workers is likely to increase.

³ We use the hotel and restaurant sector as a proxy for the hospitality sector.

⁴ UK Commission's Employer Skills Survey

⁵ These are positions that respondents to the UKCES Survey reported that they were finding it difficult to fill, for any reason. UKCES (2016) UKCES explains: skills shortage vacancies. Accessed: <https://ukces.blog.gov.uk/2016/01/29/ukces-explains-skills-shortage-vacancies/>

⁶ World Economic Forum, 2016, The longer you're unemployed, the less likely you are to find a job. Why? (available at <https://www.weforum.org/agenda/2016/08/the-longer-youre-unemployed-the-less-likely-you-are-to-find-a-job-why>)

Other sectors such as retail, construction, care and manufacturing are likely to see a similar shortfall in their available service workforce.

When taking into account the estimated flows of EU migrant workers into service roles in these sectors, the shortfall generated by a cut off of the inflow of EU migrant service workers to the UK could reach 1 million within 5 years and 2 million within 10 years.

Hospitality will be affected by restrictions to EU migration more than any other sector.

The existing challenges in recruiting to the sector, combined with the sector's high reliance on an EU workforce means that the hospitality sector will be more heavily hit by any other sector by any restrictions to the availability of EU migrant workers.

LFS data suggests that the hospitality sector⁷ is the business sector with the greatest proportion of EU nationals as a percentage of total workforce, with 12.3% of workers coming from the EU, compared to 6.9% across all sectors. This reliance could be even higher based on insights from KPMG's survey of BHA members which estimates that the EU nationals make up 23.7% of those employed in the hospitality sector. The actual share of EU nationals employed in the hospitality sector compared to all sectors is uncertain as the LFS may also underestimate the number of EU nationals working in other sectors. However, our research suggests that the LFS may underestimate the number of EU nationals in the hospitality sector more than the general workforce, which means that the relative share of EU nationals in the hospitality sector would be even higher than the LFS suggests compared to other sectors.

Within the hospitality sector, specific regions, services lines and roles will be more heavily affected.

Sector level averages mask disparity in the reliance on EU workers, and availability of an alternative labour supply, across regions, service lines, roles, and individual businesses.

London is more reliant on EU nationals than other regions, with between 25.7%⁸ and 38.0%⁹ of its total hospitality sector workforce made up of EU nationals.

Among the sub-industries of hospitality, hotels (with between 22.1% and 34.1% of the workforce being EU nationals) and restaurants (with between 13.8% and 26.1% of the workforce being EU nationals) are most reliant on EU workers.¹⁰ Within these industries, roles including waiters and waitresses (75.3% EU nationals), chefs (24.6% EU nationals) and housekeeping staff (37.1% EU nationals) are more highly reliant on EU workers.¹¹

These are the areas where a shortfall in EU workers could hit most significantly.

⁷ Based on the SIC and SOC code definitions used by Oxford Economics (Oxford Economics. 'The economic contribution of the UK hospitality industry, A report prepared by Oxford Economics for the British Hospitality Association'. September 2015). See footnote 16.

⁸ Labour Force Survey

⁹ KPMG Survey of BHA members

¹⁰ Ibid.

¹¹ Ibid.

There are opportunities to reduce the impact of a reduction in the supply of EU migrant workers.

To attract more UK workers to the industry the sector will need to become more competitive within the labour market, and will likely need to employ a number of initiatives, at a business, sector and national level, to recruit the long-term unemployed and economically inactive workers. Examples include:

- introduction of or extension of employment programmes, e.g. apprenticeships and graduate schemes;
- increased training offerings, including training in hard skills e.g. for chefs;
- initiatives aimed at specific population groups e.g. the long-term unemployed and ex-prisoners;
- increased pay and/or reward packages;
- adoption of flexible working arrangements; and
- a move towards increased use of permanent contracts.

However there are limits in the extent to which some of these can be achieved.

One of the impacts of the introduction of the national living wage in the UK is that it reduces the extent to which the sector can use increased pay and reward packages to attract workers, as it reduces the scope for differentiation in pay among lower paid workers.

In relation to flexibility working arrangements and permanent contracts, while the sector can take action in these areas, the underlying operational needs of the sector limit the extent to which it can adapt to the understandable work-life balance needs of many workers.

A further option for the sector would be to reduce the impact of a reduction in the supply of EU migrant workers by reducing the overall labour intensity of its operations through increased labour productivity, and/or increased capital investment (for example increased automation).

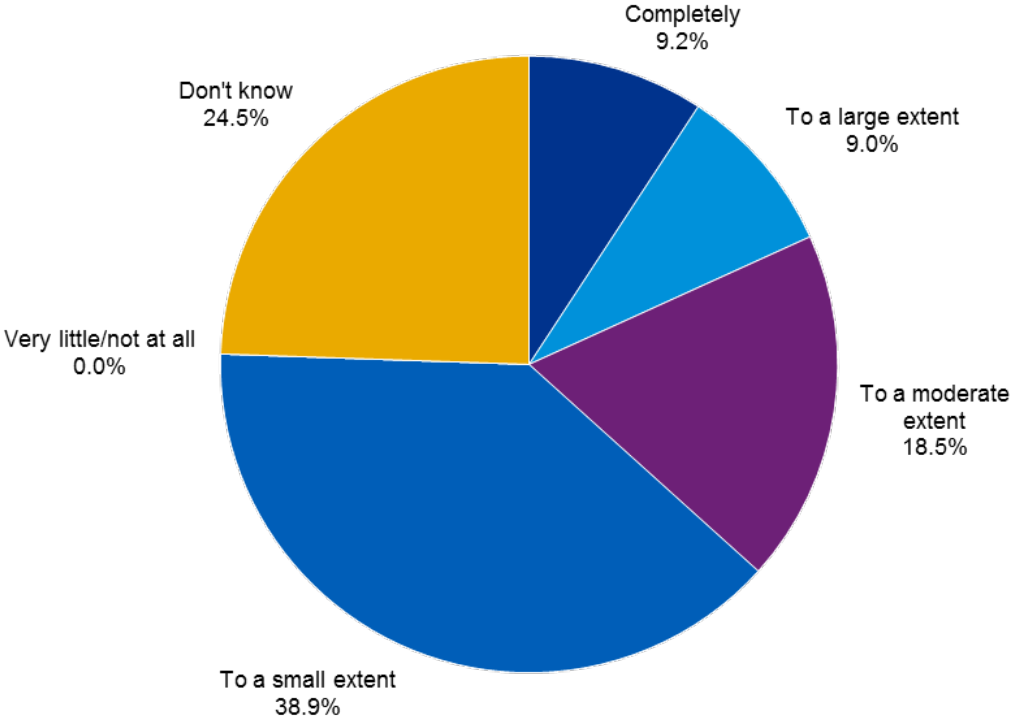
However, the nature of the industry means that opportunities for productivity gains and automation are limited.

The hospitality sector will need time to address the recruitment gap.

Due to the challenges highlighted, the transition of the sector to increased recruitment of more UK workers, and/or increased productivity and automation, will take time.

While the majority of BHA members considered that they would be able to offset a reduction in the available EU workforce to some extent, two fifths of respondents considered that this would only be possible to a small extent, and only a fifth considered it would be possible completely or to a large extent.

Figure 3: The extent to which BHA members would be able to offset any potential reduction in the available EU workforce through an increase in their UK workforce



Source: KPMG survey of BHA members

Furthermore, only 14% of respondents considered any offsetting (to the varying extents) would be possible within 1 year, with a further 23% thinking it possible within 3 years. Almost a third thought it would only be possible within a 5-10 year time period.

And the hospitality sector will need support to overcome the challenges it faces.

BHA members consider that investment will be needed by the sector, and Government, in skills and training, and promotion of the industry.

Furthermore, BHA members report that the hospitality sector will need support to overcome the additional costs generated by a reduction in the available EU workforce, including recruitment costs, potential wage inflation and training costs. These will hit at a time when margins have already been squeezed as a result of business rates and the national minimum wage.

Despite the opportunities for reducing the size and/or the impact of the recruitment gap, the available solutions and forms of support are likely to take time to achieve results. The hospitality sector is unlikely to be able to meet the recruitment gap in the short-term, and may suffer through restricted growth as a result.

2 Context behind this KPMG analysis

In the EU referendum held on 23 June 2016, the UK public voted to leave the European Union (EU).

Whilst the full implication of this for Government policy is unknown at the time of writing this report.

The extent of any potential restrictions on EU nationals coming to live in the UK is still to be determined and we may not know the full extent of how they will be affected for months or even years. However, restrictions on the supply of labour from the EU for UK businesses that employ EU nationals would be expected to pose challenges to their business operations and may require action to mitigate any negative impacts.

The British Hospitality Association (BHA) commissioned KPMG to undertake independent analysis of the extent to which the UK hospitality sector currently relies on EU nationals and how the supply of labour in the sector may be affected were EU migration to the UK restricted.

In undertaking this report, KPMG has been supported by Madeline Sumption, an academic at the University of Oxford with particular expertise in migration research.

2.1 What our report and analysis covers

Our report and analysis is focussed on EU migration in the UK hospitality sector, and considers:

- the current reliance of the hospitality sector on EU nationals;
- the potential gap in available labour for the hospitality sector were EU migration into the UK hospitality sector to fall to zero from 2019; and
- the opportunities available to the sector to fill any gap in available labour from other sources, or through other means.

Our analysis draws on data from the Office for National Statistics (ONS) Labour Force Survey¹², publicly available reports and data, a survey of BHA members¹³, and qualitative interviews with a selection of BHA members and immigration experts from outside the industry.¹⁴

We provide details of our approach to this research and analysis in the appendices to this report.

¹² Office of National Statistics, Labour Force Survey. See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/qmis/labourforcesurvey/lfsqmi>

¹³ A survey was sent to all BHA members and we received 136 responses, covering 266,799 employees.

¹⁴ Stakeholders for interview were selected by the BHA. See Appendix 3 for a list of stakeholders consulted.

Our report does not provide recommendations on how policymakers may wish to proceed with immigration policy or wider public policy, either for the hospitality sector or more widely.

3 The UK hospitality sector is highly reliant on EU nationals

3.1 The hospitality sector employs an estimated 3m people

The hospitality sector makes a substantial contribution to UK employment and growth.

We estimate that in 2016 the hospitality sector employed¹⁵ a total of 3.0 million people in the UK.¹⁶

The sector has also contributed disproportionately to employment growth in the UK over the last few years. Since 2011, the hospitality sector has grown by 275,739 workers, or 13.0%, compared to 6.2% employment growth in the economy overall.

3.2 Official sources report that 12.3% of hospitality employees are EU nationals ...

The Office for National Statistics (ONS) Labour Force Survey (LFS) is the only source of official data on breakdown of workers in the UK, including the proportion of the UK workforce that are EU nationals.

Our analysis of LFS data suggests that 12.3% of employees in the UK's hospitality sector are EU nationals¹⁷, compared to 72.7% who are British nationals and 15.0% are nationals of the rest of the world.¹⁸

The UK hospitality sector employs a much higher proportion of EU nationals when compared to the UK workforce as a whole, where 6.9% of the workforce consist of EU nationals.

Furthermore, within the UK, the hospitality sector is the largest business sector employer of EU nationals as a proportion of total workforce. Among all sectors of employment only 'Activities by households as employers' comes higher in terms of employment of EU nationals as a proportion of workforce.

¹⁵ Including agency workers.

¹⁶ This figure is based on the definition of the hospitality sector used by Oxford Economics, in a report for the BHA. This includes Standard Industrial Classification ('SIC') codes: hotels and similar accommodation (5510); holiday and other short stay accommodation (5520); camping grounds, recreational vehicle parks and trailer parks (5530); other accommodation (5590); licensed restaurants (56101); unlicensed restaurants and cafes (56102); take away food shops and mobile food stands (56103); licensed clubs (56301); public houses and bars (56302); event catering activities (5621); other food service activities (5629); and convention and trade show organisers (8230); as well as Standard Occupational Codes to cover in-house catering employees in all sectors outside the core hospitality industry and an estimated share of temporary/agency employees within the hospitality industry. We arrive at the 3 million figure by using Oxford Economics' estimate of employment in for 2014 and uplifting this based on the growth in the number of employees in the sector derived from the Labour Force Survey based on the SIC and SOC code definitions used by Oxford Economics (Oxford Economics. 'The economic contribution of the UK hospitality industry, A report prepared by Oxford Economics for the British Hospitality Association'. September 2015)

¹⁷ In this report, by the term "EU nationals" we refer to all non-British EEA nationals.

¹⁸ Rest of the world excludes UK and EEA nationals.

Figure 4: Percentage of workforce that are EU nationals by sector



Source: KPMG analysis, LFS data

Overall, this suggests that the UK hospitality has a greater reliance on EU nationals in their workforce compared to other UK business sectors¹⁹ and the UK workforce as a whole.

As a result, the hospitality sector is likely to be more significantly impacted by any change in the availability of EU labour than other sectors which rely less heavily on EU nationals.

3.3 ... although we estimate that around a quarter of the hospitality sector’s workers could potentially be EU nationals

Our survey of BHA members suggests that the UK hospitality sector’s reliance on EU nationals could be much greater than is suggested by the LFS data.

Through the BHA survey, 136 BHA members, representing 266,799 employees, reported that, on average, 25.2% of their workforce was made up of EU nationals.²⁰ When adjusted to take account of a disproportionate representation of London businesses, this figure is 23.7%.

The LFS may, therefore, significantly underestimate the proportion of EU nationals in the hospitality sector.

This is quite possible, for a number of reasons (see Appendix 1 for a more detailed analysis of the issues):

¹⁹ The only sector with a higher proportion of EU nationals is activities of households as employers, where employers are households rather than businesses.

²⁰ KPMG survey analysis

- Firstly, the sample sizes used in the LFS provide reasonable confidence intervals around results at the aggregate level. However, when analysing sub-categories of individuals (such as EU nationals in the hospitality sector) the sample sizes can drop very low, resulting in higher standard errors and confidence intervals, and therefore less accurate results. For example, in each quarter, the LFS captures only around 3,000 hospitality sector workers and around 300 EU nationals in working in the sector.
- Secondly, the sampling methodology of the LFS means that it under-represents certain groups of individuals. The LFS sampling includes only those individuals who have been resident at a single residence for more than six months, and is based on private households (excluding communal residences such as hostels and employer accommodation). This means that it excludes all temporary migrants who are in the UK for less than a six months and will also exclude any individuals who live in temporary or communal accommodation (which migrants are more likely to do).
- Thirdly, while the LFS can be considered representative of the overall population due to stratification in terms of respondents' age, gender and location, it is not stratified in terms of specific characteristics such as sector of work or nationality. This means that any under-representation of specific groups (as discussed above) would not be adjusted for.

The combination of these factors, means that estimates of the number of EU nationals in the hospitality sector based on LFS data may be inaccurate, and the number is likely to be underestimated.

The under-representation of nationals by the LFS is well recognised.²¹ Furthermore, the reasons driving this under-representation are likely to impact the hospitality sector more than other sectors, due to its relatively greater reliance on temporary and seasonal workers, and the common provision of communal staff accommodation, particularly in the hotel sector.

Given these limitations, we consider that KPMG's survey of BHA members may be a more reliable source of estimates of the number of EU nationals in the hospitality sector.

In contrast to the LFS, the KPMG survey of BHA members covers 266,799 employees, approximately 8.9% of all employees in UK hospitality sector. It, therefore, provides far larger sample sizes in relation to coverage of hospitality sector employees and EU nationals within the sector. Furthermore, as the data is reported by businesses based on their current employee records, it should provide a comprehensive view of their whole workforce, regardless of length of tenure.

There is, however, potential for some bias in responses to our survey of BHA members that we should point out: it is possible that those who responded to the survey may be more likely to be businesses that are particularly concerned about the impact of changes to EU immigration policy, due, for example, to their employment of a higher than average percentage of EU nationals.

Taking into account, for the purposes of the analysis in this report, we consider the estimate of EU nationals in the hospitality sector generated by the LFS to constitute a lower bound,

²¹ See: The Migration Observatory, Migrants in the UK: An Overview, Feb 2017. Accessible from: <http://www.migrationobservatory.ox.ac.uk/resources/briefings/migrants-in-the-uk-an-overview/>; ESRC Centre on Migration Policy and Society, Current data on international migration and migrants in the UK: implications for the development of the Migration Observatory at Oxford, June 2010. Accessible from: <http://www.migrationobservatory.ox.ac.uk/wp-content/uploads/2016/05/AlessioToR.pdf>

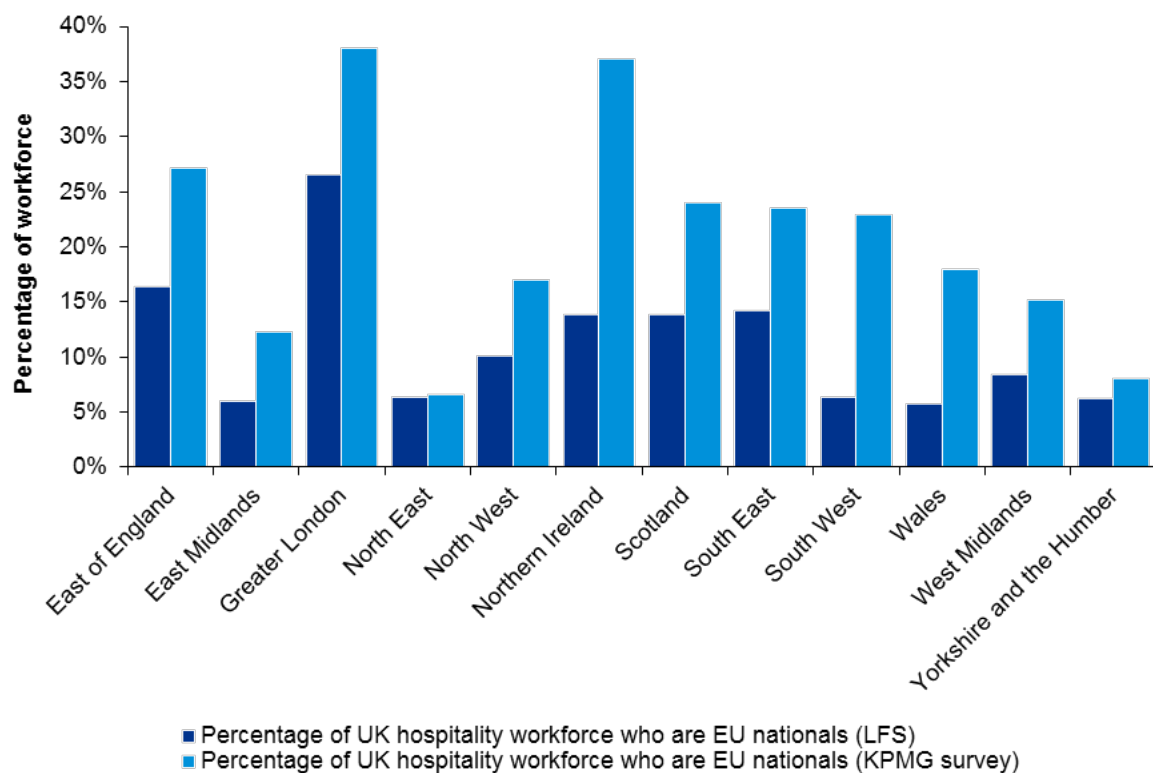
and the estimate generated by the BHA survey to constitute an upper bound, with the true number of EU nationals within the UK hospitality likely to lie somewhere between the two.

These averages, however, mask significant variation in reliance on EU workers across sectors, service lines, roles and business to business.

3.4 London is more heavily reliant on EU nationals than other regions

The reliance on EU nationals by the hospitality sector varies significantly across the regions of the UK.

Figure 5: Percentage of total UK and UK hospitality workforce that are EU nationals



Source: KPMG analysis of LFS data and BHA survey data

The results from our survey of BHA members indicates that the LFS underestimates the proportion of hospitality sector that are EU nationals across all regions, though to a varying degree. EU nationals in Northern Ireland, the South West of England and Wales appear to be particularly under-represented when compared to the BHA survey data.

This could be for a number of reasons.

In the case of Northern Ireland, this may be driven by the fact that the LFS would not pick up hospitality sector workers who work in Northern Ireland but reside in the Republic of Ireland. However, these workers would be captured in the BHA member survey.

In the case of the South West of England and Wales, the more significant underestimation of EU nationals by the LFS that is indicated may be driven by the lower population density of these areas, meaning that the provision of staff accommodation for workers in the sector may be more prevalent.

Aside from Northern Ireland, the figure for which is likely to be explained by workers from the Republic of Ireland commuting over the border for work, it is clear that London is more reliant on EU workers than other regions. This is true both in terms of the proportion of the hospitality sector workforce made up of EU nationals, and the absolute number of EU nationals employed in the sector.

Further, evidence from our interviews with BHA members suggests that within businesses there is a disparity in reliance of EU nationals across sites. For example, one BHA member mentioned that they have a particular site where there is a small local labour pool and due to the seasonal nature of their business they struggle to recruit UK-born workers from the local region. As a result, they have a significantly higher proportion of their workforce that are EU nationals on this particular site, when compared to the businesses' other sites in the UK.

According to LFS data, London has the highest percentage of EU nationals working in the hospitality sector with 25.7% of hospitality sector workers coming from the EU in 2016. This rises to over a third in Central London.

Our survey of BHA members suggests an even higher percentage of EU nationals in the capital, with members based in the Greater London region reporting a weighted average of 38.0% of their workforce being EU nationals. This varies significantly across businesses and service lines, with one respondent based in Greater London reporting that 100% of their employees are EU nationals, and a number reporting figures of around 80-90%.

Qualitative evidence from the BHA survey and the interviews with BHA members suggest that in London the hotels and restaurants service lines rely more heavily on EU labour. Furthermore, as with the rest of the UK, in London EU nationals tend to be concentrated in roles such as chefs, front of house staff as well as cleaners and housekeeping.

Our interviews with BHA members provide insights as to why there may be a higher concentration of EU nationals in the hospitality sector in London.

One of the reasons cited for the high concentration of EU nationals in London is the high house and rental prices in the area. These can discourage UK workers from applying for hospitality jobs in London because they are unwilling to pay higher living costs or commute from outside of London. EU nationals on the other hand are more inclined to live in shared accommodation and also to commute longer distances.²²

Furthermore, BHA members have suggested that the Greater London region is more disposed to seasonal trends, peaking in the summer months. To deal with these peak seasons, businesses employ temporary workers. It is generally accepted that UK workers

²² Broughton, A. Adams, L. Cranney, M. Dobie, S. Marangozov, R. Markaki, Y. and Sumption, M., 2016, Recruitment in Britain: Examining employers' practices and attitudes to employing UK-born and foreign-born workers, Equality and Human Rights Commission Research report 104

are less willing to accept seasonal employment²³, which means businesses turn to non-UK workers to make up their temporary staff.

3.5 There is a large disparity in employment of EU nationals across hospitality industry service lines

As well as variation across regions, the average figures for the sector mask significant disparity across service lines and roles in terms of the extent of reliance on EU nationals.

It should be noted that the sample sizes of some service lines are relatively small, particularly those in the LFS data, but also to an extent in the BHA survey. As a result, while the service line analysis provides an indication of the differences within the sector, the results are not as reliable as those for the sector as a whole.

Figure 6: Distribution of workforce by hospitality service line

	Percentage of workforce that are EU nationals (LFS data)	Percentage of workforce that are EU nationals (BHA survey data)
Hotels and similar accommodation	22.1%	34.1%
Holiday and other short stay accommodation	6.1%	21.3%
Camping grounds, recreational vehicle parks and trailer parks	15.6%	-
Other accommodation	12.9%	-
Licensed restaurants, unlicensed restaurants and cafes and take away food shops and mobile food stands	13.8%	26.1%
Licensed clubs and public houses and bars	4.3%	8.1%
Event catering activities and other food service activities	7.5%	10.1%
In-house catering sectors outside the core hospitality industry ²⁴	-	29.4%
Convention and trade show organisers	2.5%	n/a ²⁵

Source: KPMG analysis of LFS data

Both the LFS and the BHA member survey indicate that the ‘hotel and similar accommodation’ services lines is one of the most reliant on EU nationals, with over a fifth of the workforce in this service line being EU nationals as reported by the LFS, and over a third being EU nationals based on the BHA member survey.

Within our interviews with BHA members a number of hotels reported EU nationals making up at least 50% of their total workforce. And in some cases EU nationals made up 80-90% of the total workforce.

²³ Broughton, A. Adams, L. Cranney, M. Dobie, S. Marangozov, R. Markaki, Y. and Sumption, M., 2016, Recruitment in Britain: Examining employers’ practices and attitudes to employing UK-born and foreign-born workers, Equality and Human Rights Commission Research report 104

²⁴ The in-house catering sectors outside the core hospitality industry is not aligned to a specific SIC code. For this reason we have been unable to analyse this service line using the LFS data.

²⁵ We only received one response in this category and therefore do not consider the response to be representative.

However, even within each business type the proportion of EU nationals varies greatly across businesses. For example, within the 'hotels and similar accommodation' service line the reported proportion of the workforce that are EU nationals ranged between 0% and 100% among survey respondents, with a relatively even spread across all percentage groupings.

KPMG's interviews with BHA members revealed a number of reasons for the disparity of EU nationals across hospitality service lines. Industries such as the hotel industry value skills that EU nationals tend to possess such as language skills as well as customer service skills. In addition the results from the survey of BHA members shows that service lines with higher proportions of EU nationals, for example restaurants and cafes, tend to have a high number of low occupation level roles which EU nationals are more likely to be employed in. This is covered in more detail in Section 3.6.

3.6 43% of lower level occupations in the hospitality sector are filled by EU nationals

Similarly, LFS data shows EU nationals employed in the hospitality sector tend to be concentrated in lower level occupation groupings. Less than 1% of EU nationals in the hospitality sector were employed in the 'higher managerial and professional' occupation grouping in 2016. There is greater concentration of EU nationals in the lower-skilled 'Routine occupations' grouping, compared to UK and rest of world nationals.

Although a similar pattern is seen with UK workers and rest of world nationals employed in the hospitality sector, likely to be a result of pyramid-shaped organisational structures, there is an under-representation of EU nationals in higher occupation groupings and an over-representation of EU nationals in the lower-skilled occupations.

The concentration of EU nationals across different roles also varies greatly. The LFS does not provide data to the level of detail needed to analyse specific roles, therefore this analysis is based solely on data provided by the KPMG survey of BHA members. Results from the survey of BHA members suggest that three-quarters of waiter and waitress roles within the hospitality industry are occupied by EU nationals. Whereas, just 4.7% of customer service assistants are EU nationals.

Figure 7: Distribution of UK, EU nationals and rest of world nationals employed in hospitality across occupations²⁶

Occupation grouping	UK-born	EU nationals	Rest of world nationals
Higher managerial and professional	3.4%	0.7%	2.1%
Lower managerial and professional	18.6%	9.9%	14.1%
Intermediate occupations	4.3%	3.5%	5.3%
Small employers and own account workers	10.6%	2.5%	11.4%
Lower supervisory and technical	21.2%	35.7%	27.2%
Semi-routine occupations	20.9%	20.2%	20.6%
Routine occupations	21.1%	27.6%	19.3%

Source: KPMG analysis of LFS data

Figure 8: Percentage of workers in each role made up of EU nationals²⁷

	Percentage of workers in each role made up of EU nationals
Bar staff	11.3%
Catering and bar managers	20.8%
Chefs	24.6%
Cleaning and housekeeping managers and supervisors	23.7%
Cooks	15.4%
Customer service assistants	4.7%
Customer service managers and supervisors	7.2%
Hotel and accommodation managers and proprietors	13.5%
Housekeepers	37.1%
Kitchen and catering assistants	21.6%
Other	15.7%
Receptionist	18.7%
Waiters and waitresses	75.3%

Source: KPMG analysis of BHA survey

The distribution of EU nationals across different roles within the hospitality sector means that any change in migration levels of EU nationals into the UK hospitality industry is likely to impact specific occupations more than others.

As shown above, EU nationals employed in the hospitality sector are more likely to be employed in lower level occupations when compared to UK-born and rest of work migrant employees. Therefore any restrictions on the inflow of EU migrants that discriminates against lower level workers, is likely to have a greater relative impact on the hospitality sector's ability to employ EU nationals in the future.

One of the key themes that emerged during KPMG's interviews with BHA members is that despite being thought of being low-skilled roles due to their service nature, a number of the

²⁶ The sample sizes from the LFS data that this analysis is based on are small. As a result this analysis may not be considered to be robust.

²⁷ The sample sizes from the BHA survey data that this analysis is based on are small. As a result this analysis may not be considered to be robust.

roles in the hospitality sector are far from being unskilled. In particular, hospitality roles often require softer skills such as customer service and language skills. EU nationals employed in the hospitality sector tend to be more highly-skilled than their UK-born counterparts (see Section 5.1 for further details). Without consideration of these skills whilst EU migration policy is being designed, the existing skills gap in the UK hospitality sector is likely to worsen through restrictions to EU migration.

Qualitative evidence from KPMG's interviews with BHA members suggest that the industry already struggles to recruit, with particular challenges in recruiting chefs, other kitchen staff, housekeeping and front of house staff. These roles align with findings from the BHA member survey which found that these are among the roles with the highest proportion of EU migrant workers.

4 Potential recruitment gap from restricted EU immigration

4.1 Each year, the hospitality sector needs to recruit new workers to the sector as a result of labour turnover and employment growth

The hospitality sector is associated with high levels of labour turnover.

The hospitality sector has high levels of staff turnover; each year it loses and has to recruit a large number of people relative to its total employment.

People 1st estimate organisation level turnover²⁸ to be 30% in the sector.²⁹

However this could understate labour turnover in the sector – our survey of BHA members puts the estimate as high as 50.2%. Furthermore, the estimated average rate of turnover hides the nature of turnover which, anecdotally³⁰, is split between team members who stay within an organisation for a number of years, and those who have much higher turnover rates, staying only a few months in role.

Not all those leaving their position at a hospitality sector organisation will leave the sector completely; many will move to another similar role within a different hospitality organisation.

However, data on the sector level turnover³¹ is unavailable from any of the official statistics and our analysis has revealed that organisations tend not to capture the information needed to determine sector level turnover (such as information on where individuals move to when leaving their jobs) in a way that can be systematically reported. For these reasons, we have made a range of different assumptions on the rate of sector level turnover based on anecdotal evidence from the sector.

Figure 9 shows how the hospitality sector's requirement for new recruits depends on the assumed rate of attrition of workers from the sector (sector level turnover).

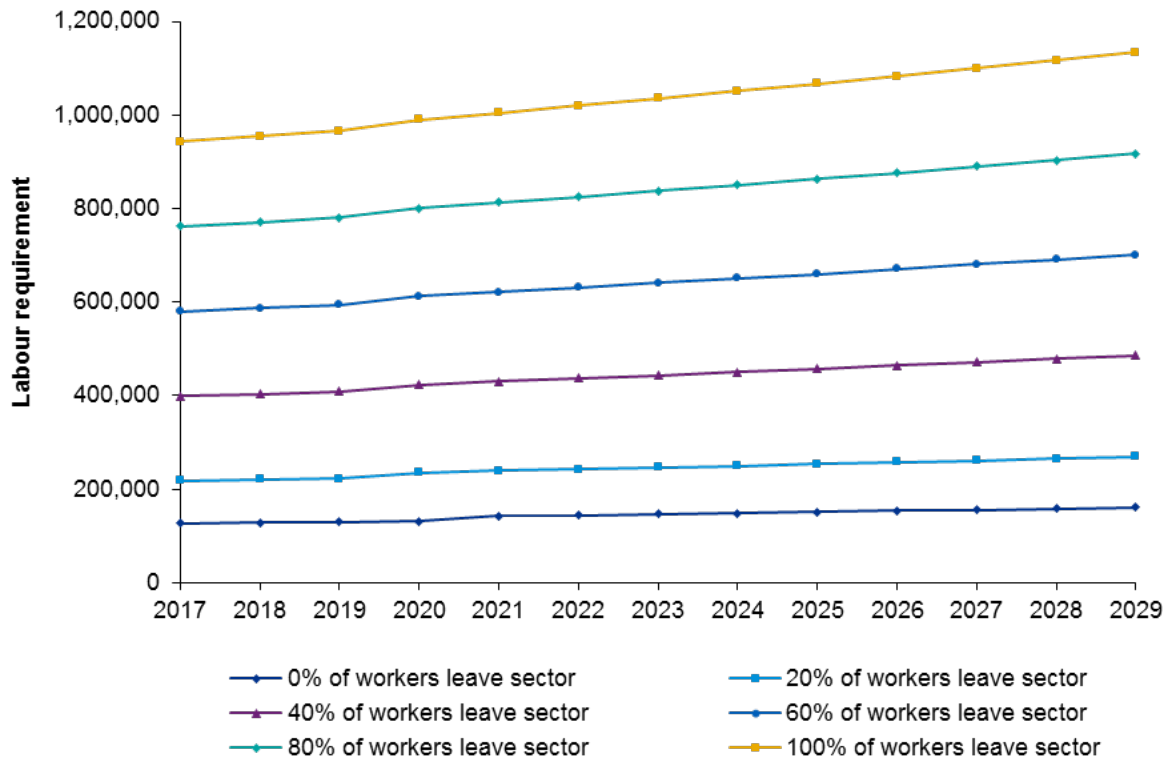
²⁸ The proportion of individuals in UK hospitality roles that leave their job each year.

²⁹ State of the Nation (2013), People 1st

³⁰ Based on interviews with BHA members.

³¹ The proportion of individuals in UK hospitality roles that leave the sector each year – either moving to jobs in other sectors, moving into unemployment or inactivity, or leaving the country.

Figure 9: Total annual labour requirement assuming different rates of sector level turnover (presented as the % of those who leave jobs that leave the sector entirely)



Source: KPMG analysis

For the purposes of our analysis, following discussions with BHA members, we have assumed in the rest of our calculations that of all individuals that leave roles in the hospitality sector each year, between 10-30% leave the sector completely.

Based on current sector employment of 3.0 million workers, this equates to a recruitment need of between 91,000 and 272,000 for the sector in 2017 as a result of sector level turnover. This is based on a gross turnover figure of 30%, for which there is only one published source.³²

Growth of the sector generates additional employment needs.

The hospitality sector has seen significant employment growth over the last 5 years, and is forecast to grow further over the next 5-10 years.

The latest labour market projections produced by the UK Commission for Employment and Skills (UKCES)³³, for the period 2014-2024, forecast that employment will grow by an average of 1.2% per annum between 2014 and 2019 for the 'accommodation' and 'food and

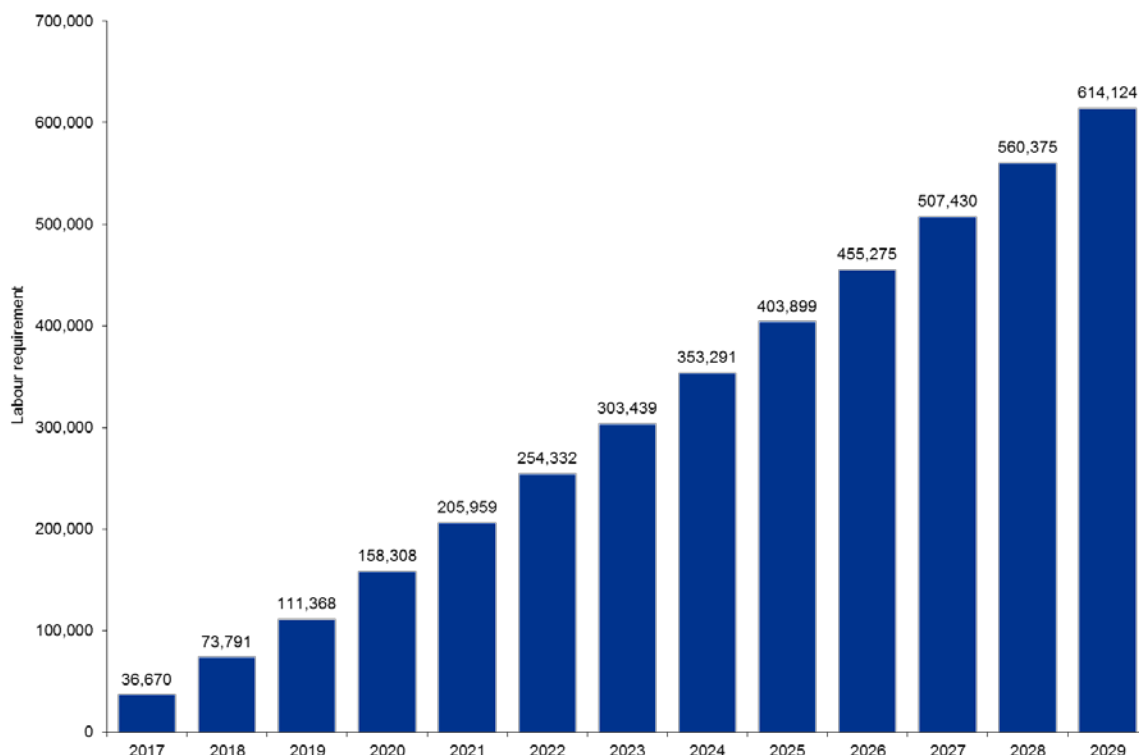
³² State of the Nation (2013), People 1st

³³ UKCES Working Futures 2014 to 2024. Data accessible from: <https://www.gov.uk/government/publications/ukces-labour-market-projections-for-the-uk-2014-to-2024>

beverage services' sectors, and by an average of 1.5% per annum between 2019 and 2024.³⁴

We use these forecast growth rates for the sector in our analysis and extend the projected growth rate for 2019-2024, of 1.5%, through to 2029.

Figure 10: Labour requirement in the hospitality sector due to employment growth



Source: KPMG analysis of UKCES data

These forecasts potentially underestimate employment growth in the sector. For example, in its 2015 report for the BHA, Oxford Economics forecast that between 2014 and 2020 the hospitality sector would grow by an average of 2.2% per annum as a baseline scenario.

Due to this forecast extending only to 2020 we have not included it within our growth scenarios. However, it indicates that the employment growth projections produced by UKCES, focussed on the 'accommodation' and 'food and beverage services' sectors, may underestimate the potential for employment growth within the sector as a whole.

EU migrant workers currently enable the sector to fill its recruitment needs.

Combined, we estimate that sector level turnover and employment growth will generate a labour market requirement for workers from outside the sector of between 127,000 and 309,000 in 2017. This figure will increase over time as the total employment in the sector grows.

³⁴ These are rounded figures. The exact compound average growth rates for these periods, based on employment projections, are used in the analysis.

This recruitment need is currently filled through a combination of:

- UK workers previously unemployed or inactive;
- UK workers moving from other sectors;
- EU nationals; and
- rest of the world nationals.

Therefore, assuming the continuation of current levels of recruitment from UK and rest of world migrant workforce, restrictions to new EU migrants entering the UK for work will generate a recruitment gap.³⁵

4.2 In 2016, 62,000 of all external recruits to the hospitality sector were from the EU

The primary source of UK immigration data, used by the ONS to measure Long Term International Migration (LTIM)³⁶ and Short Term International Migration (STIM)³⁷, is the ONS International Passenger Survey (IPS).^{38,39}

The latest IPS data⁴⁰ estimates that 180,000 EU migrants entered the UK in 2016 for work for a period of longer than a year. The latest available data on annual short term migration⁴¹ estimates that 72,000 EU migrants entered the UK for work for a period of 3-12 months.⁴²

This implies an estimated total of 252,000 EU migrants entering the UK for work in 2016.

However, while data from the IPS is able to identify the reason for migration, it does not identify the sectors into which those entering the UK for work go.

We must, therefore, estimate the number of new EU migrants entering the hospitality sector each year based on the data available to us. For the purposes of our analysis, we assume that new EU migrants enter UK sectors of employment in the same proportions as the existing stock of EU migrant workers across sectors. This may or may not be an accurate assumption but there is, in short, no obvious alternative way to apportion new EU workers to sectors (let alone an approach that would be more accurate).

As was explained in Section 2, we estimate that EU migrants may comprise up to 23.7% of the hospitality sector workforce. This figure equates to 707,000 EU migrant workers in the sector⁴³. Based on the LFS estimate of the total number of EU migrant workers in the UK, of

³⁵ The difference between estimated future employment needs in a given year and the estimated current levels of recruitment of UK and rest of world workers.

³⁶ Migrants entering the UK for longer than a year.

³⁷ Migrants entering the UK for less than a year.

³⁸ ONS, Comparing sources of international migration statistics: December 2016. Accessible from: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/articles/comparingsourceofinternationalmigrationstatistics/december2016>

³⁹ The IPS collects information about passengers entering and leaving the UK, including the reason for entry and exit.

⁴⁰ ONS Migration Statistics Quarterly Report: Feb 2017.

⁴¹ ONS Short-term international migration annual report: mid-2014 estimates, May 2016.

⁴² For the purposes of our analysis we have conservatively excluded any EU migrants entering the UK for a period of less than 3 months.

⁴³ Based on a total UK hospitality sector workforce of 3 million.

2.2 million, this indicates that 32.1% of the total EU workforce in the UK are working in the hospitality sector.

This figure represents the upper bound in terms of the percentage of EU migrant workers in the UK that are working in the hospitality sector.

However, as is explained in Section 3.3, we know that the LFS has a tendency to under-report the number of EU migrants in the UK.

If the number of EU migrants in all UK sectors were under-reported to the same extent as the BHA member survey indicates for the hospitality sector, then this would imply that the total number of EU migrant workers in the UK was in fact 4.2 million. Based on this, the proportion of all EU migrant workers in the UK that are working in the hospitality sector would be 16.7%. This estimate would hold even if the true proportion of the UK hospitality sector workforce that are EU migrant workers were closer to the LFS estimate of 12.3%.

This figure, therefore, represents the lower bound in terms of the percentage of EU migrant workers in the UK that are working in the hospitality sector.

However, as discussed in Section 3.3, while it is reasonable to assume that the overall number of EU migrant workers in the UK is underestimated to some extent – meaning the true proportion that are working in the hospitality sector would be lower than 31%, the factors which result in under-representation of EU nationals are likely to be more prevalent in the hospitality sector than in other sectors – meaning the true proportion that are working in the hospitality sector would be greater than 16.7%.

Using the range of 16.7% - 32.1% as the potential range of proportions of EU migrant worker in the UK that are working in the hospitality sector, and applying this to estimate the number of new EU migrants that enter the hospitality sector, this implies that the number of EU migrants entering the hospitality sector each year lay somewhere within the upper and lower bounds of 42,000 and 81,000 in 2016.

We do not know where within this range the true value is most likely to sit although the range itself is, in our view, a reasonable approximation. In view of this, for the purposes of our analysis, we have used the mid-point of the range, of 62,000 EU migrant workers entering the hospitality sector in 2016, as our best estimate of the number of EU migrant workers that the sector currently relies on to fill its recruitment needs each year.

4.3 Restricted access to EU migrant workers will have a cumulative impact on the UK hospitality sector over time

Without EU migration to the UK, upwards of 60,000 workers per annum will no longer be available to meet workforce replacement and projected employment growth.

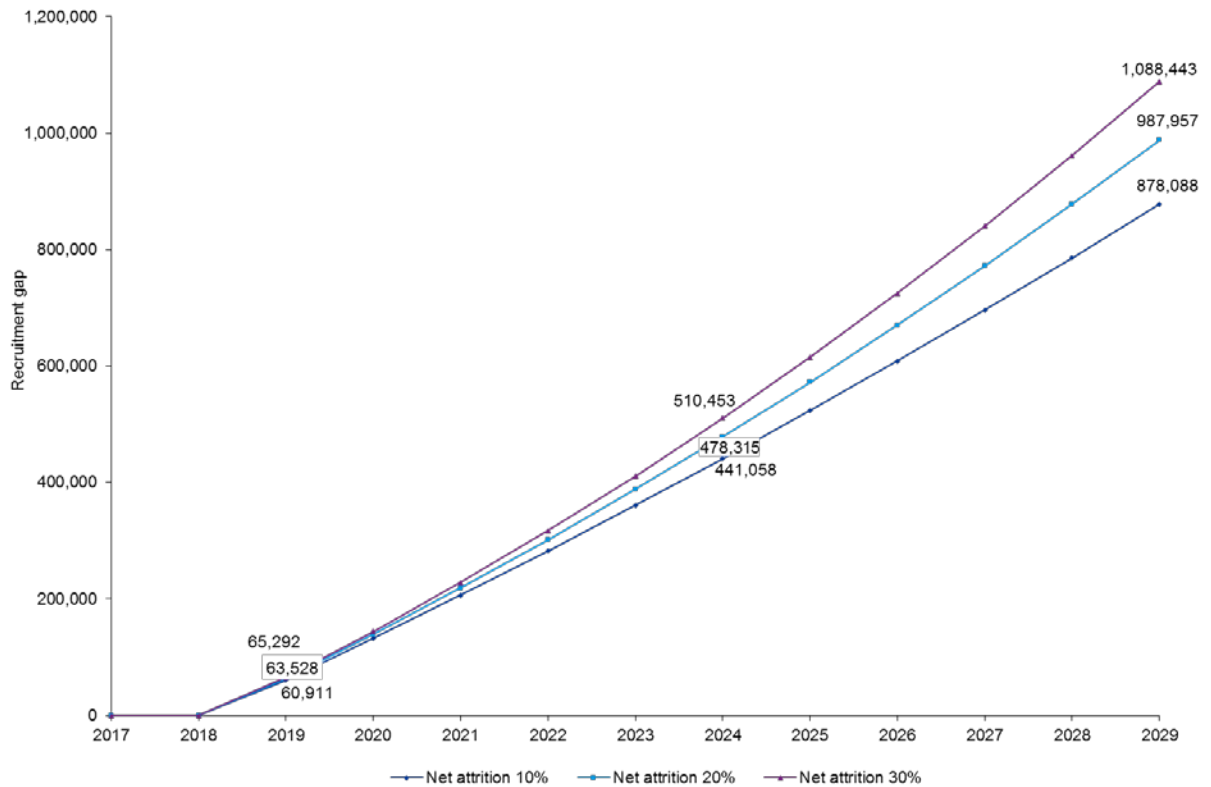
The absence of an inflow of new EU migrants into the sector each year would generate a recruitment gap which would grow over time.

Unless it can be filled with workers from other sources – such as other UK workers, workers from the rest of the world, or with people who are not currently a part of the economically active workforce – this recruitment gap will turn into an employment shortfall.

We estimate the cumulative recruitment gap generated for the hospitality sector should EU migration into the UK hospitality sector fall to zero from 2019 could reach almost 500,000 within 5 years of 2019, and almost 1 million by 2029. These figures represent 14% and 27% of projected total hospitality employment the respective years.

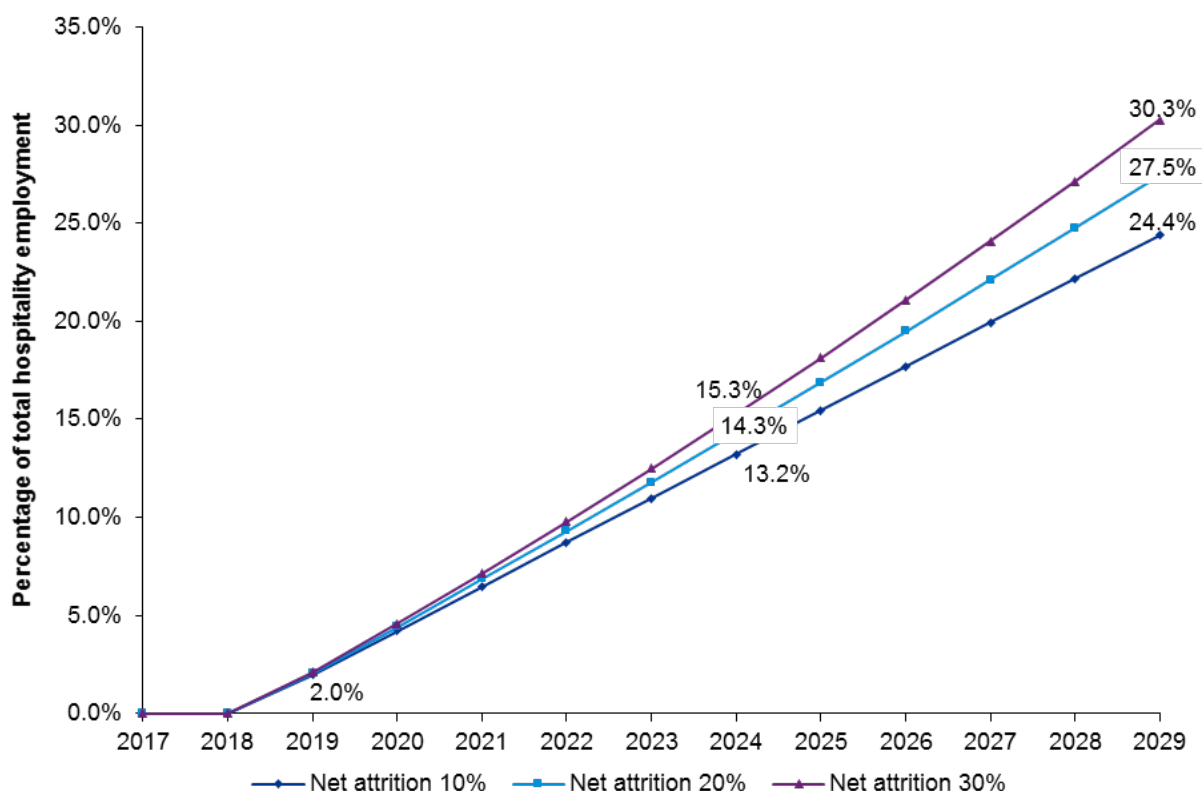
These estimates are presented in Figure 11 and Figure 12 below, with the range of estimates driven by the scenarios relating to the rate of sector level turnover.

Figure 11: Cumulative recruitment gap



Source: KPMG analysis

Figure 12: Recruitment gap as a proportion of total hospitality sector employment



Source: KPMG analysis

Our estimates of the recruitment gap potentially resulting from an absence of new EU workers in hospitality from 2019 onwards are based on the following assumptions:

- 1 Employment growth rates as explained in Section 4.1.
- 2 Organisation level labour turnover of 30%.
- 3 A range of sector level turnover of 10% - 30% of total organisation level turnover (i.e. between 10% and 30% of workers leaving their jobs will leave the sector).
- 4 Continuation of the pre-Brexit baseline of new workers entering the hospitality sector from UK (unemployed, inactive, or other sectors) and non-EU migrants.

Further details of our approach to calculating these estimates are including in Appendix 2.

This gap would need to be addressed in order to allow the sector to continue to operate and grow.

Our estimates of the recruitment gap do not necessarily represent a labour shortfall if hospitality firms are able to replace workers otherwise sourced from the EU with either workers from elsewhere and / or productivity gains. However, they do demonstrate the additional recruitment challenge that would be generated were EU migration into the hospitality industry to be severely limited after 2019.

In order to maintain and grow the output of the sector, in the absence of an inflow of new EU migrants, there are six options available to the sector:

- reduce labour turnover;
- increase recruitment from the pool of unemployed jobseekers;
- increase recruitment from the pool of currently inactive individuals;
- increase recruitment of migrants from the rest of the world;
- increase recruitment of workers from other sectors; and/or
- reduce the reliance on labour through increased productivity (for example through automation).

We explore the ability of the sector to address the recruitment gap through the above measures in the following section.

5 Challenges facing the hospitality sector in replacing EU migrants

5.1 The hospitality sector already faces challenges in recruiting enough workers, particularly in specific roles and regions

Data from the UK Commission's Employer Skills (UKCES) Survey shows that in 2015 there were 104,293 vacancies in the hotels and restaurants sector in the UK. And as a proportion of total employment, the hotels and restaurant sector had the highest level of vacancies at 5.3%, in comparison to other sectors across the UK.

The number of vacancies in the hotels and restaurants sector has increased by 79.4% since 2011⁴⁴, while the number of monthly job postings⁴⁵ for the hospitality sector has increased by 60% per month over the two years to December 2016, with the hospitality sector seeing greater growth in jobs postings than any other sector over this period. Furthermore, it is one of the only sectors to see year-on-year growth in monthly job postings over the period since early 2016.

The number of vacancies across the full breadth of the hospitality sector⁴⁶ is even higher.

Almost of a third of vacancies identified in the UKCES Survey were classed as 'hard-to-fill' vacancies.⁴⁷ Jobs may be difficult to fill if the job involves unsociable hours or if they are based in a difficult to access location.⁴⁸

The hospitality sector has, at any one time, such a large number of vacancies for jobs because, in part, of known difficulties it experiences in recruiting workers. These include a lack of willingness by jobseekers to work in the sector, lack of necessary skills and overall labour market conditions in the context of low unemployment.

KPMG's survey of the BHA's members revealed that the main reason, by far, that the hospitality sector looks to new workers from the EU to fill vacancies is a perceived lack of interest by UK employees to work in hospitality, or a shortfall in the right people with the right skills in the right places. There is also a significant sentiment that EU workers applying for jobs in the hospitality industry are more skilled, for example with more qualifications and often useful language skills.

That is not to say that the hospitality sector looks exclusively to the EU to fill new positions; it does not and continues to provide new jobs to many UK workers every year. But there are not enough UK workers to fill all of the positions on offer by the hospitality sector and EU

⁴⁴ UKCES Survey 2011

⁴⁵ Indeed UK Industry Employment Trends data 2014-2017. Accessible from: <https://www.indeed.co.uk/jobtrends/industry>

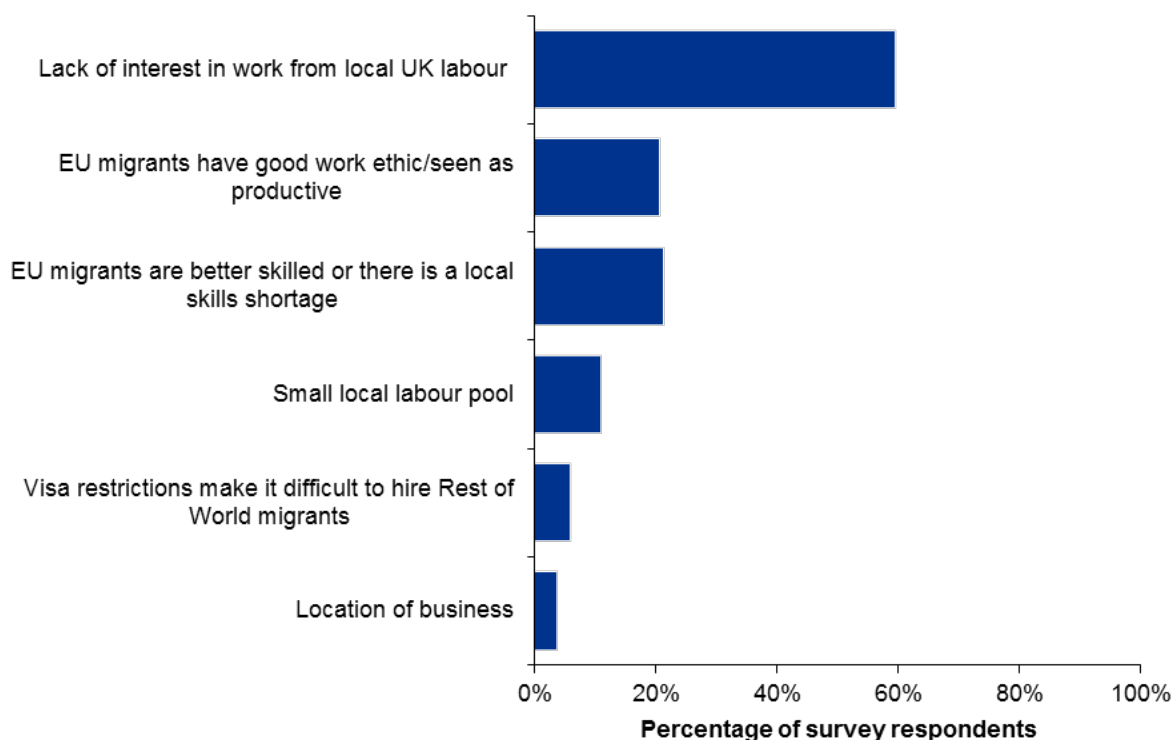
⁴⁶ Based on the definition referenced in footnote 3.

⁴⁷ UKCES define hard to fill vacancies simply as those vacancies which are proving difficult to fill. This is based on the questioning of survey participants whether any of their vacancies are proving hard to fill.

⁴⁸ UKCES (2016) UKCES explains: skills shortage vacancies. Accessed: <https://ukces.blog.gov.uk/2016/01/29/ukces-explains-skills-shortage-vacancies/>

workers have provided an important 'safety valve' for the sector for many years now, allowing it to recruit enough people to continue to operate at the same level and, in addition, to grow.

Figure 13: Reasons for the level of EU nationals currently hired



Source: KPMG analysis of BHA survey

The hospitality industry is perceived as unattractive to some UK workers.

Based on forecast growth rates, every year the hospitality industry will add another 45,000 jobs to the UK economy. It is continually a significant source of new employment.

However, UK workers alone are not enough to fill all of the positions the hospitality industry has on offer.

A large part of the perceived reason for this by the sector itself is that the hospitality industry is perceived as unattractive to some UK workers. Around 60% of the BHA members surveyed by KPMG cited receiving low or no job applications for vacancies from UK citizens or a lack of interest by the local population as a reason for the level of EU nationals employed.

Insights gained through the KPMG survey and interviews with BHA members suggest there are a number of reasons why the hospitality industry does not receive a higher level of applications from UK workers for vacancies including:

- Careers in hospitality are not seen as viable in the long-term – roles are often seen as short-term and temporary and primarily aimed at young people/students.
- Roles are perceived to be low-paid and high-effort.

- Seasonal work and shift patterns in the industry are not desired by UK workers.
- Lack of knowledge about career progression and opportunities within the hospitality industry.

Evidence from other research supports these assertions.

A recent study by London School of Economics reports that UK-born workers tend to have higher reservation wages and expectation of working conditions when compared to nationals despite tending to have lower skill levels.⁴⁹

Furthermore, a commonly cited issue of recruiting UK-born workers, and one that is particularly relevant for the hospitality sector, is that those who are currently in receipt of benefits are unwilling to accept temporary or seasonal work as the advantages are not viewed as sufficient.⁵⁰ Research has found that moving off benefits and into temporary employment is deemed too 'risky' by job seekers due to the way the benefits systems operates in that there is a delay in claiming benefits again following a period of employment.⁵¹

In some regions of the UK, the hospitality sector may be seen as more unattractive to UK-born workers. For example, in London and the South-East of England, UK-born workers may be even more discouraged to work in the hospitality sector as high living costs combined with a perceived level of low pay in hospitality roles mean that individuals cannot have the same standard of living as they might be able to in other parts of the country or in higher paid roles. See Section 3.4 for a more in-depth discussion of the regions of the UK that could be most impacted by a reduction in the EU workforce.

There is a skills shortage in the hospitality sector amongst the UK workforce.

The Recruitment and Employment Confederation (REC) reports that employers in the hospitality sector are:

- the second most likely to report a shortage of candidates for temporary jobs in at least one skill set after construction sector employers; and
- the third most likely to report a shortage of candidates for permanent roles, in at least one skill set, after engineering and health and social care employers.⁵²

According to the UKCES Survey, almost half (49%) of employers in the hotels and restaurants sector cited the quality of applicants as a main reason for hard-to-fill vacancies. 31% of employers reported that there were a low number of applicants with the required skills, a further 13% reported a lack of work experience amongst applicants and finally 7% stated that applicants lacked the qualifications required.⁵³

⁴⁹ Green, A. Atfeld, G. Adam, D. and Staniew icz, T., 2013, Determinants of the composition of the workforce in low skilled sectors of the UK economy: Lot 2: Qualitative Research, Final Report, Warwick Institute for Employment Research

⁵⁰ Broughton, A. Adams, L. Cranney, M. Dobie, S. Marangozov, R. Markaki, Y. and Sumption, M., 2016, Recruitment in Britain: Examining employers' practices and attitudes to employing UK-born and foreign-born workers, Equality and Human Rights Commission Research report 104

⁵¹ Green, A. Atfeld, G. Adam, D. and Staniew icz, T., 2013, Determinants of the composition of the workforce in low skilled sectors of the UK economy: Lot 2: Qualitative Research, Final Report, Warwick Institute for Employment Research

⁵² The Recruitment and Employment Confederation (2017) Jobs Outlook: January 2017.

⁵³ UKCES Survey

Further, as set out in Section 3.6, there is a skills shortage amongst specific roles in the hospitality sector. Chefs and front of house staff are the two most frequently cited hard-to-fill roles during KPMG's interviews with BHA members.

Overall, this evidence suggests that within the hospitality industry there is an existing skills shortage. One-fifth of the BHA members that responded to KPMG's survey cited EU nationals as being better skilled or having a skill set for which there is a shortage amongst UK labour force as a key reason for hiring EU nationals.

Academic research also suggests that EU migrant workers tend to be more highly educated than their British-born counterparts in the same positions.⁵⁴ Wadsworth et al.⁵⁵ found that 44% of EU nationals working in the UK have some form of higher-education compared with 23% of UK-born. Other academic research suggests that migrant workers have higher levels of productivity and are often over-qualified for their jobs.⁵⁶ One reason for this being that qualifications gained abroad are not always recognised by employers, meaning that migrant workers have to resort to roles for which they are overqualified.

It is possible, therefore, to conclude that UK-born workers and EU migrant workers are far from perfect substitutes for each other⁵⁷ and that any restriction on the availability of EU nationals would likely worsen the current skills shortage experienced by the hospitality industry.

The high level of turnover in the UK hospitality industry increases the recruitment challenge.

As highlighted in Section 4.1, the hospitality sector is associated with high levels of staff turnover.

Data from the UKCES Survey shows that 14% of businesses in the hotels and restaurant sector had issues retaining staff, compared to 8% of all UK businesses. Linked to the points highlighted above in relation to the perceptions of the hospitality sector among UK workers and job-seekers, the main reason cited for staff retention difficulties was that there is a lack of interest in doing this type of work, with 63% of hotels and restaurant businesses surveyed citing this.⁵⁸

Similarly, this reason was frequently reported in our interviews with BHA members as one of the key reasons for the high level of vacancies in the sector and difficulties recruiting new employees, specifically those from the UK.

The high level of turnover and low rate of staff retention within the industry exacerbates the recruitment challenge, as it increases the volume of workers that need to be recruited per annum relative to other UK sectors with lower rates of staff turnover.

⁵⁴ Petronglo, B. 2016, Brexit and the UK labour market, Centre of Economic Performance, London School of Economics

⁵⁵ Wadsworth, J., Dhinra, S., Gianmarco, O. and Van reenen, J. 2016, Brexit and the Impact of Immigration on the UK, Centre for Economic Performance, London School of Economics

⁵⁶ Broughton, A. Adams, L. Cranney, M. Dobie, S. Marangozov, R. Markaki, Y. and Sumption, M., 2016, Recruitment in Britain: Examining employers' practices and attitudes to employing UK-born and foreign-born workers, Equality and Human Rights Commission Research report 104

⁵⁷ Petronglo, B. 2016, Brexit and the UK labour market, Centre of Economic Performance, London School of Economics

⁵⁸ UKCES Survey

5.2 It will be difficult to fill the potential increased recruitment gap with unemployed UK workers

In 2016, there were 1.3 million unemployed UK workers within the UK. The rate of unemployment is currently 4.8% nationally, the lowest level it has been for 11 years.

In July 2015, the Office for Budget Responsibility (OBR) estimated that in the medium-term the non-accelerating inflation rate of unemployment (NAIRU) was 5.4%.⁵⁹

The NAIRU is an estimate of the lowest possible level of unemployment that can be achieved without having an inflationary effect on wages.⁶⁰ It is based on the premise that at lower levels of unemployment, the scarcity of labour means that employees can demand higher rates of pay and therefore having an inflationary effect on the economy.

The current level of unemployment is lower than the OBR NAIRU estimate, therefore suggesting that any further reduction in unemployment in the UK will drive inflation upwards.

Of those unemployed UK workers, 44.2% were long-term unemployed, meaning that they have been unemployed for 6 months or longer.⁶¹

Long-term unemployment is associated with skills atrophy, including as a result of a lack of opportunity to obtain new skills gained on-the-job.⁶² This contributes to job finding rates declining by approximately 50% within eight months of unemployment.⁶³

For those that are long-term unemployed, although they may be willing re-enter the workplace, they may not be job-ready immediately. Recruiting the long-term unemployed is likely to require greater resources in terms of on-boarding and training to get individuals up to the required skill level.⁶⁴

There is a geographical mismatch between the demand and supply of labour.

Many of those regions which are more heavily reliant on EU migrant workers are also those with lower levels of unemployment, and therefore a smaller pool of available unemployed labour. Conversely, those regions with high unemployment tend to have a lower reliance on EU migrant workers.

The ability to fill the recruitment gap with UK workers will vary significantly across the country depending on the regions' current reliance on EU labour and the local unemployment rate. LFS data shows that in regions such as London and the East of England, where there is currently a higher than average reliance on EU migrant labour in the hospitality sector, as well as a low unemployment rate, businesses are likely to struggle to fill the recruitment gap from the local pool of unemployed workers.

⁵⁹ Office for Budget Responsibility, July 2015, Economic and fiscal outlook. Available at: http://budgetresponsibility.org.uk/docs/dlm_uploads/July-2015-EFO-234224.pdf

⁶⁰ UK Parliament, 2015, Measuring Full Employment, Available at: researchbriefings.files.parliament.uk/documents/LIF-2015.../LIF-2015-0031.pdf

⁶¹ KPMG analysis of LFS data.

⁶² European Commission, 2015, Re-employment of the long-term unemployed- a pressing European challenge (available at http://ec.europa.eu/social/main.jsp?langId=en&catId=1196&new_sld=2324&furtherNews=yes)

⁶³ World Economic Forum, 2016, The longer you're unemployed, the less likely you are to find a job. Why? (available at <https://www.weforum.org/agenda/2016/08/the-longer-youre-unemployed-the-less-likely-you-are-to-find-a-job-why>)

⁶⁴ This is based on insights provided to us during interviews with BHA members.

Figure 14 compares the stock of unemployed UK workers by UK region and the proportion of hospitality workers comprised of EU citizens. It is clear that in those regions most reliant on EU workers, there are no more unemployed UK workers to draw upon than in any other region of the country.

Figure 14 - The stock of unemployed UK workers is no higher in regions most heavily reliant on EU hospitality workers



Source: ONS data, KPMG analysis of LFS data

Figure 15 shows the same data in tabular form.

Figure 15: Unemployment rate and the percentage of workforce that are EU nationals, by region

	Unemployment rate	Percentage of UK hospitality workforce that are EU nationals	Percentage of total UK workforce that are EU nationals
East	3.8%	16.4%	7.9%
East Midlands	4.2%	6.0%	7.2%
London	6.0%	26.5%	13.7%
North East	6.8%	6.3%	2.9%
North West	5.1%	10.1%	4.8%
Northern Ireland	6.2%	13.8%	8.4%
Scotland	4.9%	13.8%	5.3%
South East	4.2%	14.2%	6.5%
South West	4.1%	6.4%	4.9%

Wales	4.7%	5.7%	3.9%
West Midlands	5.7%	8.4%	5.3%
Yorkshire and the Humber	5.6%	6.3%	4.7%
UK average	5.0%	12.3%	6.9%

Source: ONS data, KPMG analysis of LFS data

There is, therefore, a potential shortfall in certain regions where the greatest recruitment gap will be, with no corresponding greater access to a pool of unemployed workers. Furthermore, it will be hard for regions with greater employment shortfalls to draw upon the pool of unemployed workers in other regions. This is because there is evidence that UK workers and job seekers tend to be less geographically mobile and have a higher dependence on public transport to commute when compared to their migrant counterparts.⁶⁵ This relative inflexibility means that it is less likely that UK job-seekers, compared to EU nationals, will be willing to move or commute to address a recruitment gap in another region of the UK.

This will particularly be the case for the lower level and lower paid jobs that are typically filled by EU migrant workers in the hospitality sector.

5.3 It will be difficult to fill the potential increased recruitment gap with UK economically inactive

There is a large pool of people in the UK who are economically inactive.

In 2016, there were 7.2 million economically inactive persons of working-age⁶⁶ in the UK.⁶⁷ However, only around half of these (53.6%) reported that they thought they would return to work at some point in the future.

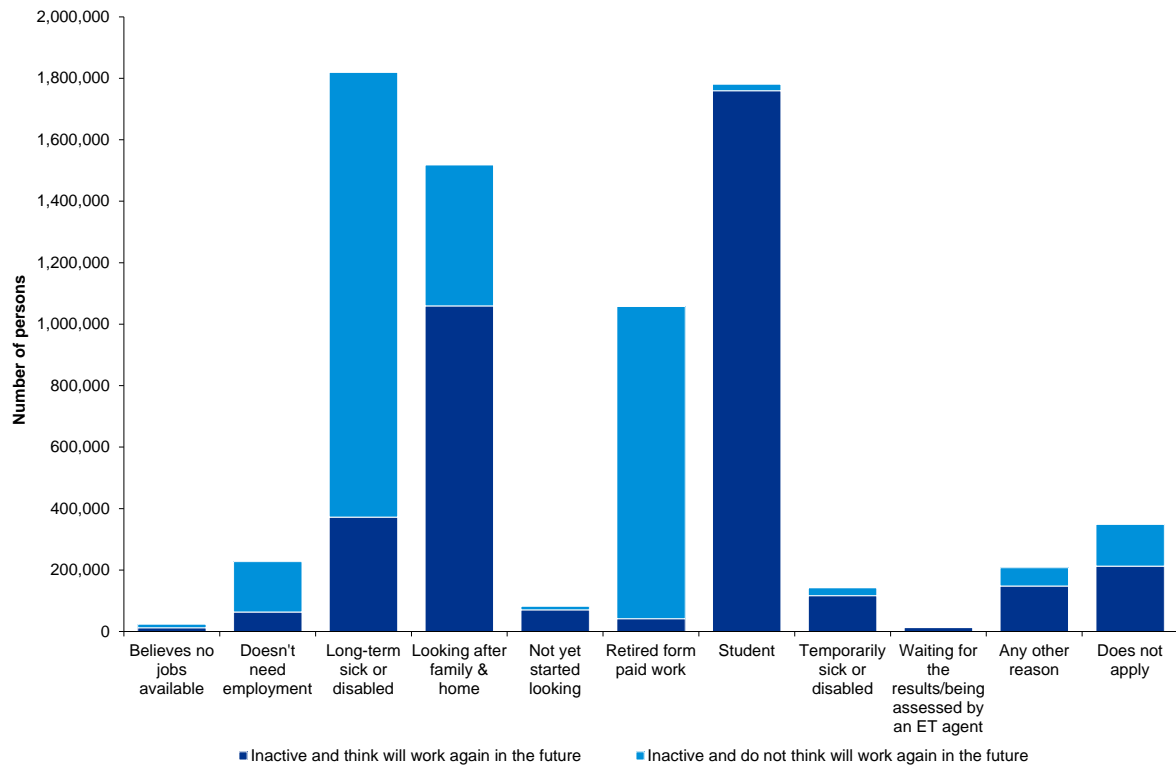
The proportion of those economically inactive who believe that they will work again in the future differs significantly depending on the reason for inactivity, as shown in Figure 16 below.

⁶⁵ Green, A., Atfeld, G., Adam, D. and Staniewicz, T., 2013, Determinants of the composition of the workforce in low skilled sectors of the UK economy: Lot 2: Qualitative Research, Final Report, Warwick Institute for Employment Research

⁶⁶ We have defined working age as being between the ages of 16 and 64.

⁶⁷ KPMG analysis of LFS data

Figure 16: UK inactive persons of working-age by reason for inactivity



Source: KPMG analysis of LFS data

The long-term sick or disabled, students and those looking after family and home represent are the largest groups of inactive persons in the UK. Only 20.5% of the long-term disabled think they will return to work again in the future, compared to 69.8% of those who are inactive because they are looking after family and home. Almost all students (98.9%) think that they will work in the future.

What this shows is that although there is a large number of people who are economically inactive, almost half of them cannot realistically be expected to enter the UK workforce. The rest might at some point. However, whether they will be willing or able to take up employment in hospitality is questionable. For example, for those who are currently economically inactive because they are looking after family or home, the availability of affordable child-care options and the time of day at which workers are required may affect the suitability of hospitality jobs for these people. Similarly, while many students who will enter the labour market following study would not consider entering the hospitality sector, they may be a potential source of part-time and temporary labour whilst still studying which could be tapped. Fundamentally, while the hospitality sector can take some action to better accommodate the needs of its workers, there is a mismatch between understandable work-life balance needs of these currently inactive groups and the dynamic operational needs of a customer service facing business.

However, there are challenges in bringing inactive people back into the workforce.

Although the number of EU nationals currently employed in the hospitality sector is a relatively small proportion (5.6%) of the total number of UK-born who are inactive but think

that they will work again, there is no certainty that those that think they will work again will in fact do so, or if they do, when.

Furthermore, these two groups cannot necessarily be easily substituted. Many of those that are economically inactive may have been out of the workplace for an extended period of time. Similar to the challenges in recruiting long-term unemployed, those that have been out of the workplace for an extended period are likely to have gone through a level of skills atrophy.

Therefore, when looking at employing those that are long-term unemployed or economically inactive, the context with which this can be done successfully needs to be considered. Discussion during our interviews with BHA members suggests that a tailored approach may need to be adopted, and on-boarding is likely to require a greater investment in training. Therefore, a higher level of resources will need to be committed to getting a candidate up to the required standard.

As a result, new joiners from these groups will only be able to make up a small percentage of the total workforce.

As with recruitment from unemployment, the ability to fill the potential recruitment gap with economically inactive people will differ across regions of the UK.

It will be more difficult to fill the recruitment gap in regions where there is currently a large stock of EU nationals employed in the hospitality sector and/or there is a low stock of economically inactive persons who think they will return to work in the future.

Specifically, filling the recruitment gap will be most difficult in the Greater London and East of England regions where EU nationals employed in the UK hospitality sector currently make up 14.7% and 9.9%, respectively, of the total number of inactive UK workers who may re-enter the workforce.

Figure 17: EU nationals employed in the UK and the UK hospitality sector in comparison to economically inactive UK-born persons, by region of the UK

	EU nationals employed in the UK hospitality sector	Economically inactive UK-born persons who think they will return to work	EU nationals employed in the UK hospitality sector as a % of economically inactive UK-born persons who think they will return to work
East of England	12,099	122,043	9.9%
East Midlands	6,681	278,329	2.4%
Greater London	64,275	437,125	14.7%
North East	5,804	195,023	3.0%
North West	20,416	433,824	4.7%
Northern Ireland	5,987	141,743	4.2%
Scotland	22,736	325,595	7.0%
South East	41,769	667,253	6.3%
South West	10,416	316,092	3.3%
Wales	5,425	225,756	2.4%
West Midlands	10,048	372,444	2.7%
Yorkshire and the Humber	8,942	357,143	2.5%

Source: KPMG analysis of LFS data

In addition to the specific challenges highlighted in relation to recruiting the economically inactive, similar challenges associated with recruiting unemployed persons, such as a skills gap and the perception of the hospitality industry among UK workers and job-seekers, may also be relevant to the economically inactive.

5.4 It could be challenging to fill the recruitment gap with workers from other sectors

The hospitality sector will not be facing a recruitment challenge in isolation.

In 2016, there were approximately 13.9 million people in the UK employed in “low-skilled” roles, as defined by the Migration Advisory Committee.^{68 69} Of these, 8.3%, or 1.2 million, were EU nationals.⁷⁰ This included many lower level roles in the hospitality sector.

Based on the same approach⁷¹ as applied in our analysis for the hospitality sector, this indicates that upwards of 133,000 “low-skilled” EU migrants enter the UK for work each year,

⁶⁸ Low -skilled roles have been based on SOC codes: 41, 42, 61, 62, 71, 72, 81, 82, 91 and 92.

⁶⁹ Migration Advisory Committee (2014) Migrants in low -skilled work: The growth of EU and non-EU labour in low -skilled jobs and its impact on the UK.

⁷⁰ Analysis based on LFS data.

⁷¹ The lower bound reported assumes the distribution of EU migrants across sectors is reported correctly.

and that were this flow to fall to zero from 2019, the cumulative shortfall in lower occupational level workers could be in upwards of 0.9 million by 2024 and 1.9 million workers by 2029.

These include migrants filling roles such as administrative roles, nursing and personal care roles, leisure and travel roles, retail sales and customer service and manufacturing and plant assembly roles, and construction trade roles.

Therefore, while in theory, it may be possible for the hospitality sector to address the recruitment gap in part through recruitment of workers from other sectors/roles, who are likely to have transferable skills and are suitable to take on similar roles within the hospitality sector, in practice, a restriction to the flow of EU migrants will result in the hospitality sector competing for workers (including existing workers, job seekers and inactive persons) among other sectors also needing to fill such roles, such as retail, construction and care.

In addition, as set out in Section 5.1, the evidence suggests that the UK hospitality industry is not seen as an attractive industry to work in for UK workers and job-seekers. As a result, the hospitality industry is likely to be less competitive in recruiting directly from other sectors.

An aging population adds to the challenges

The aging population means that the total population is projected to grow faster than the workforce from 2016 to 2030, creating further labour shortages even in the absence of any change to EU migration.⁷²

5.5 Qualitative evidence of challenges in filling the potential recruitment gap

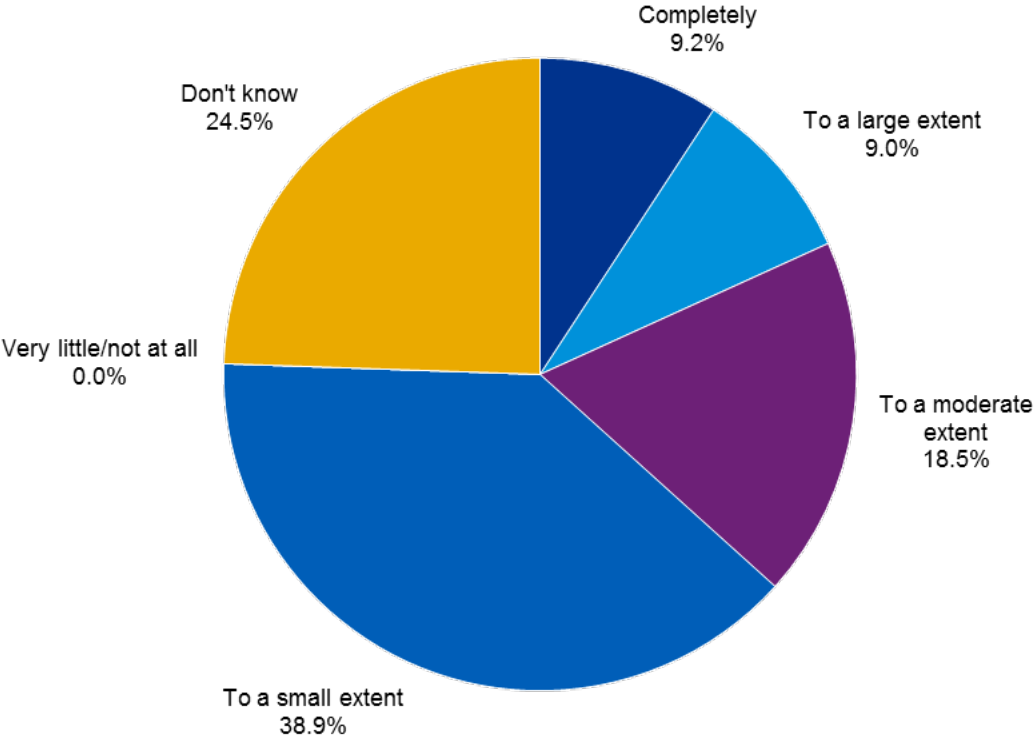
Over two-thirds of BHA members do not think they can fully offset a reduction in the EU workforce with UK workers.

In our survey of BHA members, we asked whether respondents would be able to offset any potential reduction in the available EU workforce through an increase in their UK workforce in the event that stricter immigration controls were applied to EU citizens. Almost two-fifths of respondents stated that they would only be able to replace their EU workforce with a UK workforce to a small extent.

Only 18.2% considered that they would be able to offset any reduction in their available EU workforce completely or to a large extent. For almost three-fifths of BHA members, there would be a large or moderate gap between the demand and supply of labour as a result of restricted EU immigration.

⁷² Mercer, The Emerging UK Workforce Crises, January 2017.

Figure 18: The extent to which BHA members would be able to offset any potential reduction in the available EU workforce through an increase in their UK workforce

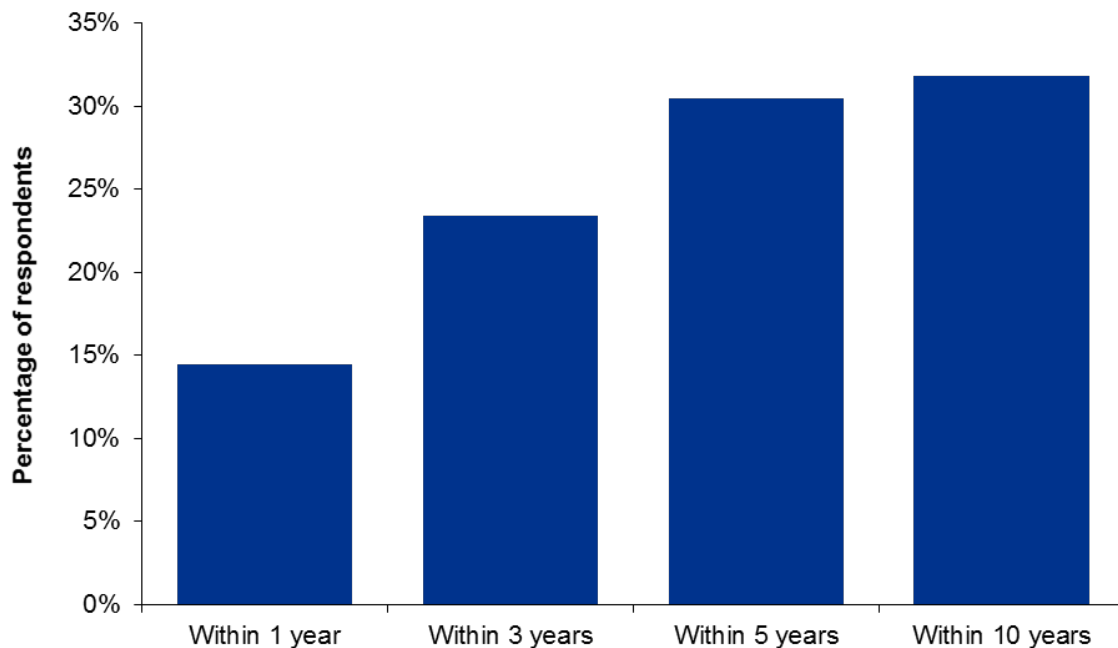


Source: KPMG survey of BHA members

Only 14.4% of BHA members think that the EU workforce can be replaced within 1 year.

Among all BHA survey respondents, only 14.4% thought it would be possible to offset any reduction in the EU workforce within 1 year, a further 53.8% within 3 or 5 years and a further 31.8% thought it would be possible within a 10 year time horizon.

Figure 19: Timescales for offsetting any reduction in the EU workforce



Source: KPMG survey of BHA members

Availability of labour is the biggest concern among BHA members when considering their ability to offset a reduction in the available EU workforce with UK workers.

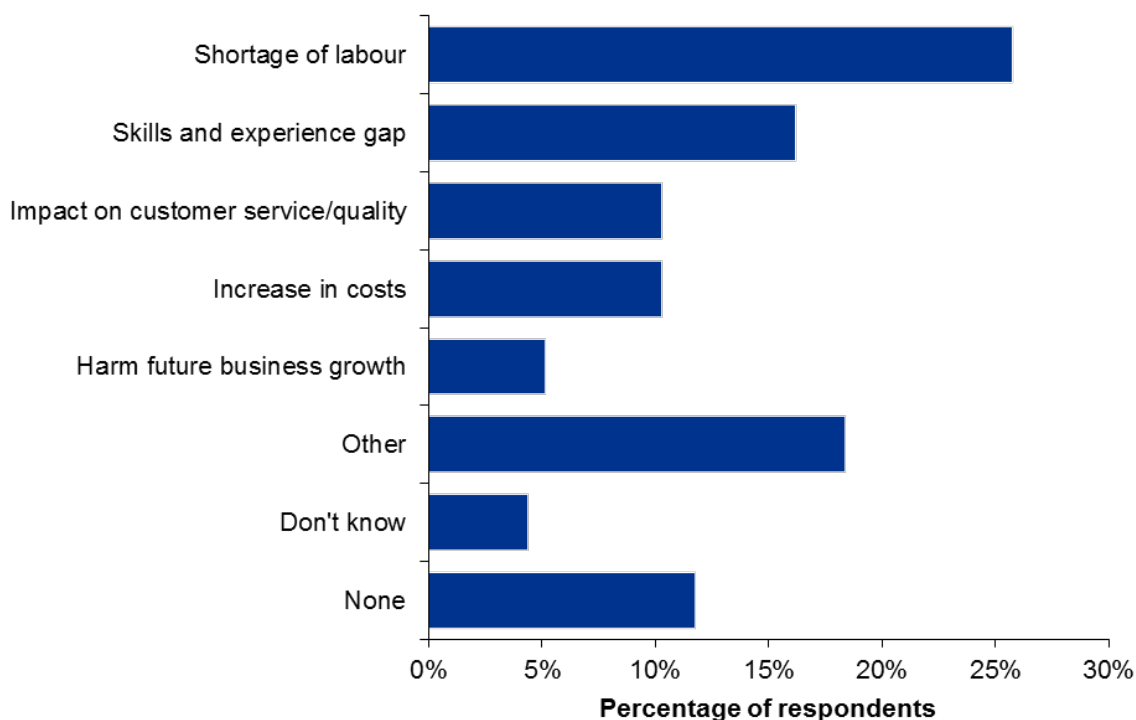
The BHA members' biggest concern was the availability of labour interested and willing to work in the hospitality sector. This theme also emerged during our interviews with BHA members, who had a general feeling that roles in the hospitality sector, especially those at the lower skill levels, were not perceived as attractive by UK workers. This combined with low rates of unemployment meant there would be a shortage in the number of workers available and willing to work in the sector.

Furthermore, 16.2% of BHA members surveyed felt that there was a gap in the skills and experience between EU and UK workers. The most common skill gaps that were mentioned in both the survey responses and in the interviews, related to language skills and customer service skills.

Similarly, 10.3% of BHA members surveyed felt that as a result of replacing EU migrant workers with UK workers the level of customer service and the quality of the service that they offered would be negatively impacted.

A small percentage (5.1%) of BHA members surveyed reported that stricter controls on EU migrant workers would harm the future growth of their business. Again, this is a subject that came out in the interviews, with a number of BHA members stating that the availability and flexibility of EU migrant workers had meant that they had been able to expand easily and quickly. Without the availability of EU migrant workers, it was felt that this would not be possible to the same degree in the future.

Figure 20: Impact of replacing EU migrant workers with UK workers



Source: KPMG survey of BHA members

Over half of BHA members reported that replacing EU migrant workers with UK workers will increase their costs.

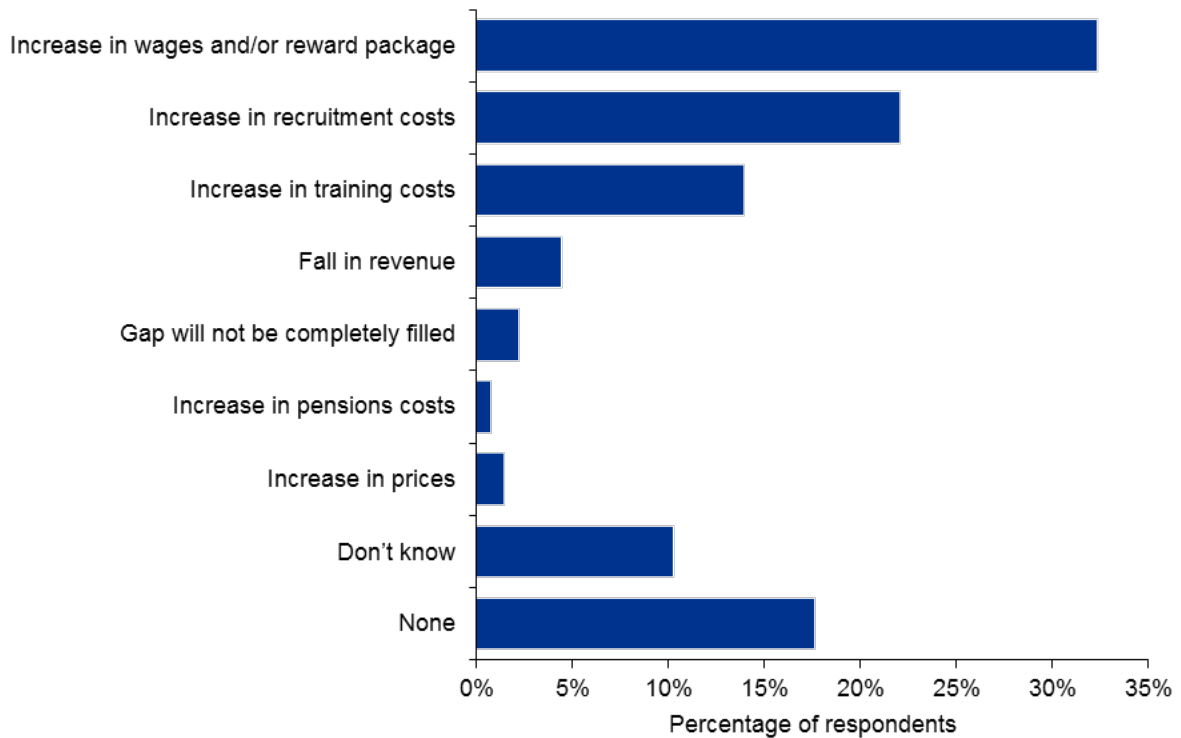
Over half (51.5%) of BHA members surveyed reported that their costs would increase as a result of replacing EU migrant workers with UK workers.

Cost increases are expected to be seen in several ways.

32.4% of BHA members surveyed expect an increase in wages and/or the overall reward package of employees should they have to replace EU workers with UK employees. Concerns around wage inflation were also frequently mentioned during KPMG's interviews with BHA members.

In addition, over a fifth (22.2%) of BHA members surveyed expect an increase in recruitment costs as a result of replacing EU migrant workers with UK workers, and a further 14.0% are concerned there will be an increase in training costs.

Figure 21: Cost implications of replacing EU migrant workers with UK workers



Source: KPMG survey of BHA members

Qualitative evidence from the interviews with BHA members suggested that the increased costs resulting from restrictions to EU immigration will have a knock-on effect on the profit margins of businesses in an industry where margins are already tight: BHA members reported that the hospitality industry has already been heavily impacted by the introduction of the national living wage, VAT and business rates meaning the capacity to absorb further cost increases will have been exhausted.

If higher costs in the industry cannot be passed on to the consumer, businesses will need to absorb these costs which will, in turn, lower profit margins. Lower profit margins mean that there are fewer resources available for businesses to re-investment into the business. This may prevent a business from expanding its operations or force it to re-think investments in improvements that would increase the quality of the goods and services produced or improve business efficiency and productivity. Overall, for the hospitality industry this means that future growth and investment in the industry may be restricted.

6 Opportunities for addressing the potential recruitment gap

6.1 Action by the hospitality sector may mitigate the impacts of restricted access to the EU workforce

Addressing recruitment and retention issues in the sector could reduce the extent of the recruitment gap.

Despite the challenges identified in offsetting any reduction in the availability of EU workers, there could be opportunities for the hospitality sector to take mitigating actions.

Interviews with BHA members identified the following actions that could be taken to increase their recruitment of and retention of UK workers:

- increased pay and/or reward packages;
- introduction of or extension of employment programmes, e.g. apprenticeships and graduate schemes;
- increased training offerings, including training in hard skills e.g. for chefs;
- adoption of flexible working arrangements;
- initiatives aimed at specific population groups e.g. the long-term unemployed and ex-prisoners; and
- a move towards increased use of permanent contracts.

Furthermore, the UK hospitality sector will need to continue work on changing the perception of the industry amongst UK workers. It needs to better advertise the industry as a viable long-term career option by emphasising the opportunities for career progression.

Increasing productivity of the current workforce could reduce the impact of the recruitment gap.

Increasing productivity would allow businesses to be able to sustain current operations with a smaller workforce, or achieve growth with a smaller increase in employment than it has previously.

Productivity gains could be achieved through increased training or automation. However, our understanding based on interviews with BHA members is that the opportunity for increasing the productivity of the hospitality industry is limited. The sector is highly labour intensive, which means opportunities for automation are small.

6.2 The sector needs time to adjust

The hospitality sector will need time and support to address the recruitment gap.

For the hospitality sector to have the best possible chance at reducing the recruitment gap, the BHA's members believe that they will need support from Government. During KPMG's survey and interviews of BHA members a number of forms of support have been suggested, including:

- promotion of the hospitality industry on a national scale;
- investment in education/skills relevant to the hospitality industry;
- investment in soft skills education in schools to increase the work-readiness of UK workers;
- reduction in the tax burden for the industry or an introduction of tax incentive schemes to compensate for increased costs, including related to the loss of EU workers; and
- changing current VISA requirement to make employment of migrants easier.

These suggested forms of support all have the advantage of either increasing the attractiveness of the hospitality industry, reducing the skills gap or reducing the tax/administrative burden on businesses. Further, the benefits of some of the suggested options for support would not be exclusive to the hospitality sector. For example, investment in soft skills education in schools will be beneficial to all sectors within the UK by ensuring that people are leaving school with relevant and appropriate skills for the workplace.

Despite the opportunities for reducing the size and/or the impact of the recruitment gap, the available solutions and forms of support are likely to take time to achieve results. The hospitality sector is unlikely to be able to meet the recruitment gap in the short-term, and is likely to suffer through restricted growth as a result.

7 Conclusions

The hospitality sector faces a significant recruitment gap if the inflow of migrant workers is restricted.

We estimate that a complete cut-off of further inflows of EU migrant workers into the hospitality sector would generate an annual shortfall of upwards of 60,000 workers, and that the cumulative shortfall for the sector could grow to 0.5 million within 5 years and 1 million within 10 years.

The hospitality sector will not be alone in facing a reduction in its available workforce.

Other sectors, such as retail, construction, care and manufacturing, which are also highly reliant on EU workers, are likely to also see a shortfall in their available workforce.

When taking into account the estimated flows of EU migrant workers into lower level roles in these sectors, the shortfall generated by a cut off of the inflow of EU migrant workers to the UK could reach 0.9 million within 5 years and 1.9 million within 10 years.

The hospitality sector is already struggling to recruit enough workers to fill its vacancies.

The hospitality sector⁷³ has the highest number of vacancies as a share of its total employment compared to any other sector⁷⁴ and the number of vacancies has grown by 79% in the last 5 years. And a third of all vacancies are classed as hard-to-fill vacancies.

The main drivers of this are: the high rate of staff turnover in the sector, the lack of interest in hospitality jobs among UK workers and job seekers; and skills gaps.

It will be hard to fill the recruitment gap with UK unemployed workers, inactive persons or workers in other sectors.

Low rates of unemployment mean that there are simply not enough unemployed workers in the right places to fill the recruitment needs generated by complete cut off of the inflow EU migrants to the UK hospitality sector.

And there are likely to be challenges in recruiting long term unemployed workers or currently inactive workers which mean these would require a gradual approach.

While there may be opportunities to recruit from other sectors, the hospitality sector faces challenges in attracting UK workers to the sector due to inherent negative perceptions of the sector among UK job-seekers.

⁷³ We use the hotel and restaurant sector as a proxy for the hospitality sector.

⁷⁴ UK Commission's Employer Skills Survey

Hospitality will be affected by restrictions to EU migration more than any other sector.

The existing challenges in recruiting to the sector, combined with the sector's high reliance on an EU workforce means that the hospitality sector will be more heavily hit by any other sector by restrictions to the availability of EU migrant workers.

Within the hospitality sector, specific regions, services lines and roles will be more heavily affected.

Sector level averages mask disparity in the reliance on EU workers, and availability of an alternative labour supply, across regions, service lines, roles, and individual businesses.

London is more reliant on EU migrant workers than other regions, with between 24% and 38% of its total hospitality sector workforce made up of EU nationals.

And hotels and restaurants, and within this roles including waiters and waitresses, chefs and kitchen staff and housekeeping staff are more highly reliant on EU workers.

These are the areas where a shortfall in EU workers would have the most significant impact.

There are opportunities to reduce the impact of a reduction in the supply of EU migrant workers

Addressing recruitment and retention issues in the sector could reduce the extent of the recruitment gap.

To attract more UK workers to the sector, it will need to become more competitive within the labour market, and will likely need to employ a number of initiatives, at a business, sector and national level, to recruit the long-term unemployed and economically inactive workers. Examples suggested by BHA's members include:

- increased pay and/or reward packages;
- introduction of or extension of employment programmes, e.g. apprenticeships and graduate schemes;
- increased training offerings, including training in hard skills e.g. for chefs;
- adoption of flexible working arrangements;
- initiatives aimed at specific population groups e.g. the long-term unemployed and ex-prisoners; and
- a move towards increased use of permanent contracts.

Furthermore, the sector can reduce the impact of a reduction in the supply of EU migrant workers by reducing the overall labour intensity of its operations through increased labour productivity, and/or increased capital investment (for example increased automation). However, the BHA's members consider that the personal service nature of the industry means that such opportunities for productivity gains and automation are limited.

The hospitality sector will need time and support to address the recruitment gap.

Due to the challenges highlighted, the transition of the sector to increased recruitment of more UK workers, and/or increased productivity and automation, will take time.

Investment will be needed by the sector, and Government, in skills and training, and promotion of the industry.

Furthermore, the hospitality sector will need support to overcome the additional costs generated by a reduction in the available EU workforce, including recruitment costs, potential wage inflation and training costs. These will hit at a time when margins have already been squeezed as a result of business rates and the national minimum wage.

Despite the opportunities for reducing the size and/or the impact of the recruitment gap, the available solutions and forms of support are likely to take time to achieve results. The hospitality sector is unlikely to be able to meet the recruitment gap in the short-term, and is likely to suffer through restricted growth as a result.

8 Appendix 1: Technical appendix on the comparison of the Labour Force Survey and the KPMG survey of BHA members

8.1 ONS Labour Force Survey (LFS)

8.1.1 Sampling methodology and coverage of the LFS

The LFS is a quarterly survey by the Office for National Statistics (ONS) of approximately 38,000 households across Great Britain (GB) and a further 1,500 households in Northern Ireland (NI). The survey represents around 0.15% of the GB population and 0.21% of the NI population.⁷⁵ Overall, the survey covers approximately 90,000-100,000 people per quarter.

The LFS mainly samples residents of private households, residents in NHS accommodation and residents of student halls. The LFS does not tend to cover residents of communal establishments or non-private households, for example hostels or employer provided accommodation (other than NHS accommodation).

For each person who takes part in the LFS, a person weighting is assigned to them to allow the LFS to be scaled up to the population of the UK. These weights are created based on an individual's age, gender and the local authority that they live in. The LFS sample is only stratified in these three areas. The LFS is not stratified in terms of nationality or the industry in which an individual is employed.

8.1.2 Standard errors and confidence intervals in the LFS data

We have estimated standard errors and confidence intervals for EU nationals in the hospitality sector based on the methodology set out by the ONS.⁷⁶ The following approach was used:

$$\begin{aligned} & \text{Standard error (for the given LFS design)} \\ & \quad = \text{Design Factor} \cdot \text{Standard error (assuming simple random sample)} \\ & = DEFT \cdot \sqrt{\frac{p(1-p)}{n}} \end{aligned}$$

Where the design factor is equal to 0.97 based on LFS estimates, p is the proportion of a specific group of people e.g. EU nationals employed in hospitality, represented in the LFS sample and n is the LFS sample size.

⁷⁵ Office for National Statistics (2015) Labour Force Survey: User Guide. Volume 1 – LFS background and methodology 2015.

⁷⁶ Office for National Statistics (2015) Labour Force Survey: User Guide. Volume 1 – LFS background and methodology 2015.

Based on the estimate of the standard error for the LFS, a 95% confidence interval would be estimated using the following approach:

$$\text{Confidence interval} = \pm (1.96 \cdot SE \text{ (for the given LFS design)})$$

Where $\pm(1.96 \cdot SE)$ reflects the estimation of a 95% confidence interval for a population estimate.

Taking the example of two quarters in 2016, for illustrative purposes, Figure 22 shows that the standard errors and confidence intervals for EU nationals in the hospitality sector for both 2016 quarters are higher compared to the overall LFS sample for people aged 16 and over.

Figure 22: Standard errors and confidence intervals for LFS samples

	January – March 2016		April – June 2016	
	LFS (all aged 16+)	LFS hospitality	LFS (all aged 16+)	LFS hospitality
Total sample size	71,317	3,253	70,879	3,250
EU nationals sample size	3,738	307	3,885	325
Percentage of total sample that are EU nationals	5.2%	9.4%	5.5%	10.0%
Standard error	0.0035	0.0162	0.0035	0.0161
Confidence interval (at a 95% level)	0.0069	0.0317	0.0069	0.0316

Source: KPMG analysis of LFS data

The LFS can generally thought to be representative of the UK as a whole. However, the sample coverage of the LFS means that when analysing specific and sub-groups of people or sectors, such as EU nationals and the hospitality sector, the results from the LFS are subject to higher standard errors and confidence intervals and are, therefore, bound to be less accurate.

The ONS suggests that LFS estimates for groups smaller than 10,000, corresponding to standard errors of 20% or less, are unreliable.⁷⁷

8.1.3 LFS coverage of EU nationals, and specifically EU nationals in the hospitality sector

There are several reasons why the LFS sampling methodology may underrepresent EU migrant workers:

- The LFS sample is primarily of private households. It excludes residents living in communal or non-private households, other than student halls of residences and NHS staff accommodation. This means that it under-represents individuals living in communal or other staff accommodation. This applies disproportionately to foreign nationals as they

⁷⁷Prior to 2005 thresholds were applied to the sample size for quarterly and annual LFS estimates, and any sample estimate smaller than the threshold was considered unreliable and was therefore not published. Since 2005, no estimates go unpublished, however the thresholds still provide an indication of the reliability of the estimates. The threshold for sample size applied to quarterly data was 10,000. See Office for National Statistics (2015) Labour Force Survey: User Guide. Volume 6 – Annual Population Survey (Local Area Database) 2015.

are more likely than UK born residents to reside in communal establishments than UK born residents.⁷⁸

- The LFS surveys the ‘usually resident’ population. This definition requires survey respondents to have been in the country for at least six months at the time of the survey. Therefore, the LFS excludes anyone who has been in the country for six months or less and will under-represent recent migrants to the UK and temporary migrants who are only in the country for a short period.
- The LFS requires an individual to have lived in the same address for at least six months. Foreign nationals in the UK tend to be more mobile than the UK-born population and tend to change address more frequently. As a result foreign nationals in the UK are less likely to fulfil this requirement.⁷⁹
- Finally, language barriers and mistrust of interviewers means that more recent migrants to the UK are more likely to refuse to answer questions during the LFS, or to provide incomplete information.⁸⁰

Overall, these factors are likely to result in an under-representation of EU nationals in the LFS. This will impact the results of any estimation of the level of EU migrants within the UK and any analysis associated with this.

These factors are also likely to disproportionately affect the estimation of the level of EU nationals within the hospitality sector specifically. This is due to the common provision of staff and on-site accommodation in the sector, particularly in hotels; the high proportion of temporary migrant labour used by the sector; and the lower occupational level of many roles, meaning language barriers are more likely to be an issue than in sectors employing more highly skilled workers.

8.2 KPMG’s survey of BHA members

8.2.1 Sample size

The KPMG survey of BHA members covered 136 businesses and 266,799 employees across the UK hospitality sector, representing approximately 9% of the UK hospitality sector by number of employees.

The confidence interval for those employed in the UK hospitality sector in the KPMG survey is 0.00105, considerably lower than the confidence intervals for both the LFS in general and the hospitality sector in the LFS. Using the same approach as set out in Section 8.1.2, the confidence interval for the KPMG survey was estimated as below:

$$\text{Standard error} = 0.97 \cdot \sqrt{\frac{0.089 \cdot (1 - 0.089)}{266,799}} = 0.000536$$

$$\text{Confidence interval} = \pm(1.96 \cdot 0.000536) = \pm 0.00105$$

⁷⁸ ONS, 2011 Census

⁷⁹ Walling, A. (2006) Labour market summary for the UK household population by country of birth. London. ONS.

⁸⁰ Cangiano, A., (2010) Current data on international migration and migrants in the UK: implications for the development of the Migration Observatory at Oxford.

Where 0.089 is the proportion of UK hospitality employees represented in the KPMG sample and 266,799 is the total number of hospitality employees covered in the survey.

8.2.2 Weighting

There is a bias in the BHA survey responses towards businesses in the Greater London region. 35% of the employees covered in the survey were based in the Greater London region. Data from the Business Register and Employment Survey (BRES) shows that in the 'accommodation and food services' sector⁸¹, 17% of employees in the UK were based in the Greater London region.

To correct for this bias, the results of KPMG's survey of BHA members were weighted based on BRES data on the distribution of employment across the regions of the UK for the 'accommodation and food services' sector.

Responses to the survey also show a bias towards large businesses compared to the UK population of hospitality businesses. However, as shown in Figure 23 below, small and medium businesses (SMEs) responding to the survey report having a higher percentage of EU nationals within their workforce. While we have not adjusted the results to account for this, it suggests that the bias towards larger businesses means that the total average percentage of EU nationals in the workforce would be higher than the figure used in our analysis.

Figure 23: Proportion of total workforce that are EU nationals by business size

Business size	Percentage of total workforce that are EU nationals (weighted by number of employees)
Small (less than 50 employees)	49.8%
Medium (50 – 249 employees)	55.5%
Large (more than 249 employees)	23.8%
Total average	25.5%

Source: KPMG survey of BHA members

8.2.3 Potential self-selection bias

While we considered the distribution of responses relative to the population of businesses in the sector, and adjusted for the bias towards London based businesses, the BHA survey may in addition be subject to some self-selection bias.

It is possible that those businesses who responded to the survey were more likely to employ a higher percentage of EU nationals and are therefore more concerned with the UK's exit from the EU. This concern may have motivated businesses to respond to the survey and may make the survey subject to a sampling bias. Such a bias would result in the implied percentage of the workforce that are EU nationals across the BHA members surveyed being overstated.

⁸¹ Although the 'accommodation and food services' sector does cover the majority industries that fall under KPMG's definition of the hospitality sector, it does not cover all 'in-house catering' and 'Convention and trade show events'. However, we have no reason to believe that the regional distribution of these industries varies significantly from the regional distribution of the 'accommodation and food services sector'.

However, we do not know the extent to which any such bias might exist in the KPMG BHA survey nor the extent to which it is likely to affect the results. We also have no reason to suppose that these biases will be larger than the respondent size bias that we know will tend to *understate* the hospitality sector's reliance on EU workers. Therefore, there is no reason to expect the results of the KPMG survey of BHA members to overstate the reliance on EU workers in any way, but we note that, as with all surveys, some caution should be attached to any results.

9 Appendix 2: Technical appendix on the approach taken to estimating the potential future recruitment gap

Our estimates of the total potential future recruitment gap for the hospitality sector are based on the following assumptions:

Assumption 1 – Total employment of 3 million in 2016, as detailed in Section 3.1.

Assumption 2 – Employment growth rates of 1.2% per annum until 2019, and 1.5% per annum from 2019 to 2029 based on UKCES estimates, as detailed in Section 4.1.

Assumption 3 – Organisation level labour turnover of 30%, as detailed in Section 4.1.

Assumption 4 – A range of sector level turnover of 10% - 30% of total organisation level turnover (i.e. between 10% and 30% of workers leaving their jobs will leave the sector), as detailed in Section 4.1.

Assumption 5 – EU migrants to the UK for work enter each sector in proportion to the current stock of EU migrant workers in each sector.

Assumption 6 – From 2019, entry of new EU migrant workers into the hospitality sector falls to zero.

Assumption 7 – Continuation of the pre-Brexit baseline of new workers entering the hospitality sector from UK (unemployed, inactive, or other sectors) and non-EU migrants.

Using these inputs, we estimate the future recruitment gap as follows:

- Total employment in the sector for each year is equal to total hospitality sector employment in 2016 (Assumption 1) and the assumed employment growth rate in each year going forward (Assumption 2).
- The total annual labour requirement of the sector in each year is equal to the sum of the replacement requirement and the growth requirement.
 - The replacement requirement is the number of people in each year who not only leave their hospitality job, but also leave the sector entirely. This is equal to the estimated total hospitality employment in each year and the assumed rate of sector level labour turnover (i.e. the product of Assumptions 3 and 4).
 - The growth requirement is based on the estimated total hospitality employment in each year and the annual employment growth rate (Assumption 2).
- We estimate the total number of EU migrant workers that entered the hospitality sector in 2016 based on IPS data on total EU immigration for work in 2016, and the estimated share of EU nationals in the hospitality sector (Assumption 5) as detailed in Section 4.2.

- The IPS data does not provide a breakdown of the sectors into which new EU workers go. Therefore the proportion of new EU migrant workers that take hospitality jobs, as opposed to jobs in other sectors, needs to be estimated using assumptions. The best estimate we are able to make is that new EU migrant workers join each sector in proportion to the number of existing EU workers across different sectors.
 - Our estimate of the number of EU workers in hospitality compared to other sectors is based, in the first instance, on data in the LFS. However, as explained in Section 4.2, it is virtually certain that the LFS understates (potentially substantially) the number of EU workers in hospitality. It is also possible that the LFS understates the number of EU workers in other sectors too, but we do not have a good estimate of by how much. If we were to assume that the LFS understates the number of EU workers in all sectors (including hospitality) in equal proportions, then this would imply that around 42,000 new workers from the EU joined hospitality companies in 2016. If, on the other hand, we were to assume that the LFS accurately records the number of EU workers for UK companies overall but understates those working in hospitality in line with the difference between the LFS (which suggests 12.3% of hospitality workers are EU nationals) and the KPMG survey of BHA members (which suggests 23.7% of hospitality workers are EU nationals), then this would imply that around 81,000 new workers from the EU join hospitality companies per annum. We cannot know with any degree of certainty what the right answer is but based on these parameters we estimate that it lies somewhere between these two extremes. The midpoint estimate is that around 62,000 new workers from the EU joined hospitality companies in 2016.
- The estimated total annual labour requirement of the hospitality sector in 2016 *minus* the estimated number of EU migrant workers that entered the hospitality sector in 2016 gives our estimate of the number of workers that entered the sector from other sources (UK workers or non-EU migrants).
 - We uplift the estimated number of EU migrant workers, and the estimated number of UK workers and non-EU migrants, entering the sector by the same proportions based on the growth in the total annual labour requirement between 2016 and 2018.
 - From 2019, we assume that the number of new EU migrants entering the sector falls to zero (Assumption 6). We also assume that the number of recruits from the UK or non-EU countries is held constant (Assumption 7). Critically, this part of the calculation is not, and should not be, considered to be a forecast of how many new workers hospitality companies will hire from the UK or rest of the world. Rather, we make this assumption to show the shortfall that would be implied if UK hospitality companies were no longer able to recruit new EU workers from 2019. Within the analysis we make no prediction about whether and how UK hospitality companies will be able to mitigate this shortfall, (for example through measures discussed in Section 6 above).
 - Our estimate of the annual recruitment gap is equal to the difference between the estimated annual number of recruits from the UK or non-EU countries as of 2019 and the estimated total annual labour requirement.

Our estimate of the total (cumulative) recruitment gap is equal to difference between the total projected employment in the sector and our estimate of the total available workforce, assuming no recruitment of new EU migrants (Assumption 6), constant level of recruitment from the UK and non-EU countries (Assumption 7), and the assumed rate at which workers are lost from the sector (based on Assumptions 3 and 4).

10 Appendix 3: KPMG stakeholder consultation

10.1.1 KPMG survey of BHA members

As part of KPMG's research, we surveyed BHA members regarding their currently reliance on EU nationals and the potential impacts of a reduction access to the EU workforce.

The KPMG survey was sent to all BHA members, a total of 644 member-accounts in the UK, with over 45,000 outlets. KPMG received 136 survey responses, representing a response rate of 21%. Those businesses that responded provided information relation to 266,799 employees, covering almost 9% of total employment in UK hospitality industry.

10.1.2 KPMG stakeholder interviews

As part of KPMG's research, we supplemented our survey of BHA members with telephone interviews with BHA stakeholders, including BHA member organisations and external stakeholders with expertise in the field of labour migration.

The stakeholders asked to participate in the research were selected by the BHA with a view to obtaining a broad range of views from across and outside of the hospitality sector.

Figure 24 lists the stakeholders consulted as part of the research.

Figure 24: List of BHA stakeholders consulted as part of KPMG's research

Organisation	Status
Azzurri Group	BHA member
Bourne Leisure	BHA member
Harbour Hotels	BHA member
Hilton Hotels & Resorts	BHA member
Marriott UK	BHA member
Westbury Street Holdings	BHA member
Whitbread	BHA member
British Future	External stakeholder
Fragomen Global LLP	External stakeholder
London First	External stakeholder
Dr Jonathan Portes (Kings College London)	External stakeholder
Recruitment and Employment Confederation (REC)	External stakeholder

Contact us

Paul Rowe

Director, KPMG Economics

T +44 (0)20 7311 5178

E paul.rowe@kpmg.co.uk

Ruth Beckett

Manager, KPMG Economics

T +44 (0)7795 047 312

E ruth.beckett@kpmg.co.uk

www.kpmg.com

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