The Impact of the Living Wage and Employment Law on Tourism

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Rates

- From 1st April 2016, the government will introduce a new national living wage (NLW) for workers aged 25 and above, initially set at £7.20 – a rise of 50p relative to the current National Minimum Wage (NMW) rate which is currently £6.70.
- The NMW will continue to apply for those aged 21 to 24, with the premium added on top for those aged 25 and over, taking the total hourly rate to the national living wage.
- The NLW is expected to rise steadily, surpassing £9 by April 2020.

Who will be entitled to the National Living Wage

- employees
- most workers and agency workers
- casual labourers
- agricultural workers
- apprentices who are aged 25 and over.

Is the National Living Wage compulsory?

Yes - If you're an employer, you'll need to make sure you're paying your staff correctly from 1st April 2016, as the National Living Wage will be enforced as strongly as the current National Minimum Wage.

In other words the NLW is a legal entitlement and cannot be reduced even by agreement.

Penalties for failure to comply

With the introduction of the National Living Wage the penalty for non-payment will be 200% of the amount owed, unless the arrears are paid within 14 days.

The maximum fine for non-payment will be £20,000 per worker.

Employers who fail to pay can be banned from being a company director for up to 15 years.

Immediate guidance for Employers

ACAS recommends taking the following four steps to be ready for the change:

1. Check you know who is eligible in your organisation. Find out on GOV. UK's employment status page.
2. Take the appropriate payroll action. Find useful guidance in HMRC's tutorials.
3. Let your staff know about their new pay rate.
4. Check your staff under 25 are earning at least the right rate of National Minimum Wage.

Employers can find out everything you need to know about the new National Living Wage, including the new rates of pay, on the employers' National Minimum Wage page on the Acas website.

Advantages of the National Living Wage to Businesses

Research conducted to identify the 'business benefits' of a living wage from the perspective of the employer, including those in the tourism industry, have included evidence of:

- reduced staff turnover,
- reduced absenteeism,
- reputational benefits,
- recruitment and retention of staff,
- worker morale, and
- productivity benefits

Disadvantages of the National Living Wage to Businesses

Some of the identified costs and potential barriers to implementing a living wage include:

- increased wage costs and expenditure,
- reduced profits/margins & impact on prices,
- issues around employee pay scales,
- decision making about wages being transferred to other agencies,
- negative impact on the morale of those not receiving a pay rise, and
- issues around the re-negotiation of employee or contractor contracts.

A key beneficiary: the government finances

As businesses increase wages, the Government benefits because revenues from tax and NICs increase. Since many of the low-paid also receive income- contingent benefits, welfare payments will fall.

Critics of the NLW including the British Hospitality Association (which represents the UK tourism businesses) have asked could the extra revenue that accrues to the Government be used to subsidise those firms who find it difficult to pay the higher costs?

Impact on Tourism – Positives

More than 70% of workers questioned in governments most recent survey on the NLW have said they will feel more positive for themselves and their families as a result of the introduction of the new National Living Wage. (https://www.gov.uk/government/publications/national-living-wage-employee-survey)

The Government survey anticipates that NLW will give a direct boost to over a million people. The security of a higher wage and crucially more disposable income will mean more people will go on holiday and visit places of interest more frequently.

Impact on Tourism – Negatives

Compared with other industries, the travel and tourism industry typically hires a disproportionately higher number of lower-skilled, lower-paid and temporary roles and, as a consequence, the impact of the move on the industry will be more considerable than that of others.

While the move may be more easily absorbed by cities where wages are already typically far higher than the national average — the plans may disproportionally hinder businesses operating in Britain's coastal, rural and less wealthy regions which heavily on tourism.

How Might Tourism Businesses React to the Change?

In the first instance, in a drive to enhance productivity businesses may choose to:

- renegotiate contracts of employment,
- rely more heavily on zero hour contracts, (however employers should beware that exclusivity clauses are now prohibited by law),
- cut back on the number of hours worked by existing employees;

Secondly, they may opt to alter the compositions of their workforce (i.e. the new Living Wage applies only to those aged 25 and over);

Thirdly to mitigate the effects of higher operating costs, businesses may choose instead to raise their prices, effectively passing the higher wage cost on to customers.

Reaction from the UK Travel and Tourism Industry

"As an industry employing a large number of individuals earning more than national minimum wage and less than the proposed living wage, we have tried to have a constructive dialogue with HM Treasury on building towards the living wage without job losses. We were very surprised the Chancellor made this announcement without consultation. Despite the Chancellor trying to alleviate the pain with adjustments to corporation tax and employment allowances, these changes do not go far enough to reduce the impact on small to medium sized enterprises and mitigate potential job losses."

-Ufi Ibrahim, the Chief Executive of the British Hospitality Association

Tourism VAT in the UK

- Of the 28 Member States of the EU, the UK is at present one of only two which levels the full rate of VAT across the industry.
- The Cut Tourism VAT lobby group is campaigning for the UK to reduce its VAT rate on tourist accommodation and attractions from 20% down to 5% (the average in the EU being somewhere around 10%).
- It is anticipated that the supposed greater level of spending in tourism and the wider economy would produce estimated gross domestic product (GDP) gains of up to £4bn annually, not to mention an anticipated 123,000 new jobs.

Conclusion