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# WHITE PAPER

## > **STAFFING: THE ISSUE OF OUR TIME**



## STAFFING: THE ISSUE OF OUR TIME

Staffing has always been an issue for the hospitality industry as any review of the professional and trade press over the last 50 years will testify. Yet it is now the issue that dwarfs all others. The growth of the industry, nationally and internationally has created demands for professional skilled staff that is not being met from local supply. This is evidenced in the UK by the scale and size of the migrant labor force that is now an absolute necessity for the industry to be able to function and meet the increasing customer demands.

In the US, a similar situation has recently been reported in the New York Times. (New York Times 8th June 2017, Visa Shortage Spurs Vacancies, for Jobs, at a Tourist Getaway, Miriam Jordan) In the past the shortage of staff and skills has normally been compensated for by short term work visa allocations for immigrant staff, the H-2B scheme. The scheme has a fixed allocation for short-term migrant labour divided into summer and winter allocations. Owing to a change in the method of allocation this summer will see very limited visas being granted for seasonal workers.

Hotelier's and tourism operators are badly affected by this and are having to significantly reduce their operations. For major tourist areas that are essentially reliant on summer trade, this is having a very significant impact. One hotel for example has had to close off one wing because they cannot recruit the 30 additional seasonal housekeeping staff they need to maintain the quality and standard of the operation. Employers are arguing that they are the victims of what has become a dysfunctional system and the industry is suffering as a result. As one



employer succinctly put it "The labor pool really doesn't exist."

As an interesting aside, President Trump who campaigned on a promise of reducing immigration and protecting American jobs uses some 500 H-2B workers in the winter at his Mar-a-Lago club in Palm Beach, Florida.

### THE CONTEXT

The interrelationship between the strength of the hospitality economy and the scale of migrant workers has never really been examined in any great detail. What is easier to consider is the impact and implications should the availability of a skilled labour pool be diminished.

The value of sterling has fallen since March 2016 against the sterling exchange rate index by 10.5%. At the same time consumer price index has risen by 2.6% to April 2017 and now sits at 2.9%. This is its highest since June 2013. One of the major contributing factors to the rise in the consumer price index is the cost of imports which will have risen by the same percentage as the net reduction in the value of the



sterling. All of this can also be set in the context of an unemployment rate of those eligible for work over the age of 16, of 4.6%. This is the lowest it's been since 1975 and follows a steady decline since a peak of 8.8% in 2012.

We have a situation where we have historically very low unemployment, increasingly challenging economic conditions brought about by the Brexit vote, significant political and economic uncertainty that in turn leads to; risk aversion by businesses, the scaling back or postponing of investment and an existing and continuing skills and labour shortage.

## THE ECONOMICS OF DEMOGRAPHICS

These are short-term issues with significant long-term implications but one of the more significant demographic and economic issues that gets lost in any debate related to migration is that of the “ageing demographic population”. The Office of National Statistics(ONS) provides estimates that:

**“...in 2015 12.4 million (of a total population of 65 million) people were of State Pension Age (SPA).”**

This is projected to rise by 32.5% to 16.5 million by 2039. The significance of this growth is not just the changing needs of this growing segment and the increase demand on health and public services but who is going to pay to support that population?

The ratio of those in receipt of pension to those in work will continue to rise, with fewer people of working age to support the larger pension age population. This ratio is wonderfully titled the Old-

Age Dependency Ratio (OADR) and it matters because that ratio currently is 300 - 1000 and that will rise, on current estimate, to 370 – 1000 by 2039. As all governments work on the principle of “annularity”, that is the need to raise the money in the year in which the money needs to be spent, there will be fewer people working and paying taxes to support those of pensionable age. The inexorable logic of the net reduction in migration of those who are economically active and paying taxes to support those of pensionable age, is a more rapid increase in the Old-Age Dependency Ratio (OADR) and higher and higher taxes for those still in employment .

## THE SERVICE SECTOR

The UK is more reliant on the service sector than any other G7 country. This sector, of which the hospitality industry is a very significant part now accounts for three quarters of the total UK economy and contributes 79% of the gross domestic product (GDP). Those workers deemed to be in the service sector, which includes financial services, distribution and business services, now exceeds 80% of the total of those in employment.

The service sector dominates the UK economy, in London 91% of the commercial activity is in the service sector, whilst the lowest contribution is to be found in the East Midlands at 71%. There has been consistent growth across the hospitality industry since 2014 and now the industry accounts for the second largest component of the service sector after finance and business services, excluding the public sector.

An industry of this size, magnitude, financial and employment importance should be receiving very



significant economic and political attention, yet it rarely if ever appears on the political radar.

The economic and social impact and implications of the hospitality industry are not contained to those directly employed. The industry does not operate in isolation but is mutually dependent on the supply and economic linkages. The economic multiplier of the impact of the industry in positive terms will have a commensurate impact in negative terms should the industry decline or shrink. This will be just as significant for employment as revenue. All taxi drivers know and understand the relationship between buoyant hotels and restaurants and their income, an understanding not matched by politicians.

## **“PLANNING FOR THE WORST”**

At the recent British Hospitality Association Hospitality Summit held in June 2017, it was suggested by the managing director of Nestlé Professional UK and Ireland, George Vezza, that the industry needs to “plan for the worst!”. “Before Brexit staffing was an issue, but now it is going to get a hell of a lot worse.”

The predicted response from politicians to the concerns of the industry are tautology and soundbites that clearly do not understand the realities. To suggest that future staffing will not be an issue because we need to; make recruitment more attractive to UK nationals and invest in training, misses the fundamentals of supply and demand. In a situation of almost full employment there is no obvious source of supply, or is the American hotelier succinctly put it “the labour pool really doesn’t exist”.

One of the mantras of the industry is always “location, location, location”. This equally applies to the pool of labour as it does to a hotel. The demand

for staff does not match with the geographic source of any potential supply. The key advantages of migrant labour coming into the country to seek work in the industry is the flexibility and skills they bring in terms of moving to where the work is. Those UK residents who are currently unemployed are not likely to want to move geographical location to seek work. They have family, friends and a geographically based support network, they want work where they live not to have to move to live where there is work at a significantly increased cost.

The other compounding factor is that every other industry that currently has a reliance on migrant labour, will be competing against each other for a greatly diminished labour pool. Be that construction, agriculture, financial services, IT, creative industries or the health sector, the story is the same.

## **OTHER SECTORS**

As an example, the House of Commons Committee for Environment, Food and Rural Affairs has recently published a report (April 2017) entitled Feeding the nation: labour constraints, Seventh Report of Session 2016 – 17.

This committee was inquiring into whether there was a shortage of labour in the agricultural and horticultural sectors and what the short and long-term causes of the shortages were and what policies the government would adopt in the short to medium term to prevent any such future shortages. The report clearly identifies the sector difficulties in attracting UK staff. There are many reasons cited which resonate with the hospitality industry including “unsociable hours, hard work and rural locations”. The rural locations may not apply but the other two factors clearly do. The report also noted a belief that





agricultural work was low paid and that despite the efforts to encourage UK workers, employers said that UK workers “did not want the work”. That statement could be equally applied to the UK and the US.

Witnesses to the committee noted that the lack of labour was already impacting on their business operations.

**“Around 20% of regular full-time staff in agriculture are thought to be migrant labour with an additional annual sector need of 80,000 seasonal workers.”**

The Brexit decision has significantly exacerbated the current problem, as migrant labour is now proving harder to source. Some of the reasons include the devaluation of sterling, the political uncertainty and a clear anti migrant rhetoric from politicians and in the media. A narrative picked up by foreign media. This then leads to the feeling of potential workers from anywhere “not being welcome”. Sound familiar?

When these issues were put to the relevant government ministers they responded by suggesting that this was an exaggeration based on press reports of anecdotal stories. The ministers added that, “we do not have a problem this year” and that, “certainly to date... There is no suggestion that there is a problem... Until we leave the European Union, we still have free movement of people and people are still able to come here. Nothing has changed”.

In the wonderfully anodyne language of such reports the committee expressed “concern that the industry has such different experiences to those reported by

the government”. It also stated that “We do not share the confidence of the government that the sector does not have a problem: on the contrary, evidence submitted to this enquiry suggests the current problem is in danger of becoming a crisis if urgent measures are not taken to fill the gaps in labour supply.”

The government’s medium to long term solutions to this issue are: reforms to the benefit system aimed at encouraging more people back into the workforce; greater automation and mechanisation; increasing skills and qualification of workers; trebling the number of apprentices; changes of perceptions of work in agriculture and encouraging the belief that it is a worthwhile career; increasing from a young age the understanding of food and farming and to heighten awareness of the possibilities of careers in the sectors.

For agriculture, food and farming read hospitality, finance, IT, health and these statements are set to become political universal panaceas for every sector. The hubris of these responses demonstrates a complete lack of understanding of the fundamental issues and a complete disregard of employers very real concerns.

## **CLOSER TO HOME**

Some basic arithmetic would easily reveal that the projected current and future demands from labour significantly exceeds supply across the economy. Kamal Ahmed the BBC Economics Editor quoted on the BBC News website of the 12th June 2017 in an article, Immigration - the Brexit dividing line that ‘Far from putting up barriers to immigration, many in the Treasury believe that Britain will be engaged in a



"global battle for immigrants" to support the economy.'

The impact of Brexit, well before it actually happens, is now becoming much more of the reality for many businesses. In an article in The Guardian on the 9th June 2017 - Gordon Ramsey's Brexit Nightmare, it reported that Gordon Ramsay has drafted in a specialist team of Brexit negotiators to tackle rising food costs at his restaurant empire, as the cost of imported goods increase because of the devaluation of sterling.

The annual accounts lodged at Companies House blamed concerns over recruiting staff on Brexit and a worry about uncertainty over the economy. In the accounts, for the 12 months to the end of August 2016, the firm warns: "As a consequence of the referendum in the summer of 2016 there is a great deal of uncertainty about the future direction of the economy.... This will have a number of potential implications including cost pressures due to the inflationary impact of sterling against the euro, recruitment and the general economic climate."

This is somewhat against the conventional wisdom that the luxury and high-end of the market tends to be safe against economic downturn.

The well-publicised KPMG report for the British Hospitality Association (BHA) published in March 2017, Labour Migration in the Hospitality Sector, identified the direct implications of a net reduction in migrant labour and concluded that the sector faces a significant recruitment gap if the input of migrant workers is restricted. It suggests that the potential cumulative staff shortfalls will be half a million within five years and a million within 10 years. It also points out quite correctly, that the sector currently has the

highest number of vacancies as a share of total employment compared to any other sector. It concludes that it will be hard to fill the recruitment gap with UK unemployed workers or workers from other sectors. For "hard to fill" read "impossible".

The competing demands from a diminishing labour pool from all the sectors significantly exceeds the available supply. Even if hospitality was ranked and rated number one employer there would still not be enough labour to satisfy the demand, subject of course to the potential for large-scale redundancies in other industries following a significant Brexit economic downturn and as more business activities move offshore.

There is no magic wand, no silver bullet, no one agency or organisation that can provide a solution. The industry has to take ownership of the problem, not just leave it to its professional organisations or trade bodies. Collectively it needs to understand the scale of the issue and then look to many initiatives to secure its future. Some of this has already started with initiatives such as the BHA's but that alone it is not going to be sufficient. Hospitality as an industry reaches the parts of the population that other industries cannot reach. It provides services to almost every person in the UK every week. This can be the local coffee shops, the restaurants, the hotels, the foodservice caterer feeding universities, business and industry and the public sector. The scale of the reach should be sufficient to mobilise the industry but the first step must be the shared awareness of the scale of the issues in a collective nonpartisan way. The response to a dysfunctional and extremely damaging situation must be loud and vigorous.

That may be an ask too far but we have to start the conversation somewhere

*Author:*

## **Professor Peter Jones, Dean - eHotelier Academy**

With a distinguished career in hospitality, education and training, Peter has been involved with national and international projects with clients involved in hospitality education.

He recently completed the role as the Project Director for the unique multi-million pound Edge Hotel School in the UK. This is a new concept in hospitality higher education, where the degree programmes are based on 'learning through doing' in a fully operational country house hotel. The school and hotel were formally opened by the Duke of Kent in September 2012.



Peter is a Director the Edge Hotel School and of Hotel Future, a new education and training initiative in Greater Manchester and is a Visiting Professor at the University of Derby. He was also awarded a Member of the Order of the British Empire for services to the hospitality industry.