

EXECUTIVE SUMMARY

State of the Nation 2011 is the third annual report from People 1st that examines the changing skills and labour market across the hospitality, leisure, travel and tourism sector. It looks at the effect that the economic downturn is having on recruitment and training decisions, focusing specifically on the impact of transient workers on labour turnover, employee engagement and how the sector is preparing itself for the 2012 London Olympic and Paralympic Games.

Economic performance

Despite the economic downturn, hospitality, leisure, travel and tourism continues to be one of the most important sectors for the UK's economy and employment.

- It accounts for one in 14 UK jobs
- Its contribution increased from 4.5 percent to 4.9 percent of the UK's economic output
- Its importance is recognised by all four UK Governments

Table 1: Economic output of the UK hospitality, leisure, travel and tourism businesses

	Approximate gross value added at basic prices (£ million)	Proportion of hospitality, leisure, travel and tourism
Restaurants	9,417	22%
Pubs, bars and nightclubs	7,613	18%
Hotels	7,572	18%
Gambling	6,321	15%
Travel services	5,069	12%
Food and service management	3,567	8%
Tourist services	837	2%
Events	777	2%
Self-catering accommodation, holiday parks and youth hostels	644	2%
Visitor attractions	431	1%
Hospitality, leisure, travel and tourism	42,248	100%
Whole economy	860,832	

Source: Annual Business Inquiry 2009, Office for National Statistics

Note: Data released 16 November 2010

- Whilst the restaurant industry generates the most revenue, it is not as profitable as other industries when staff and other fixed costs are taken into consideration, accounting for roughly £47.53 in GVA contributed for each hour worked. The gambling industry is by far the most profitable at £121.44 per hour worked which is largely attributed to increased online business. Travel services generate £102.74 per hour, followed by pubs, bars and nightclubs at £80.89.¹
- The sector's increased contribution to the economy impacts across all four UK home nations, particularly in Scotland and Wales. The latest figures highlight that the hospitality industries' proportion of overall GVA in these nations stands at 3.2 and 3.1 percent respectively.
- Economic contribution increased in all industries but the number of businesses fell by three percent between 2009 and 2010, with travel services businesses falling by the greatest proportion (eight percent). Events is the only industry to see an increase (three percent) in the number of businesses.
- The sector continues to be dominated by smaller businesses with almost half employing fewer than five people. A further 24 percent are sole traders. Yet, the workforce remains highly polarised – nearly half of workers are employed in larger businesses (over 100 staff). They have played a critical role in overcoming the recruitment and skills needs of the sector by over-recruiting and training staff in order to benefit the whole sector.
- The sector attracts large numbers of new businesses with 21,580 start-ups in 2009, but worryingly, business closures were higher. This does not yet reflect the true impact of the economic downturn as both figures are likely to continue down their current trajectory.
- Despite support for smaller businesses, over half of respondents to People 1st's Employer Survey said they had not made use of it. 41 percent believe that, with hindsight, they would have benefited from such advice, highlighting the challenge of supporting smaller businesses and examining how to incentive them.
- The hospitality industries continue to dominate the sector, representing 89 percent of the workforce. Self-catering accommodation, holiday parks and hostels have shown a huge growth (43 percent) whilst restaurants have increased by 29 percent.
- The latest figures from People 1st reflect the ongoing need for more chefs and managers and highlight an increase in the recruitment of both occupations. The skills base of managers gives great cause for concern. Employers are recruiting managers without the full range of required skills, yet increasingly report that their managers lack those skills to meet business objectives, raising wider concerns about businesses' ability to compete in a challenging economic climate and get the most out of their workforce.
- Nearly half of the sector's workforce is part-time – much higher than the 28 percent across the economy as a whole – and are in pubs, bars and nightclubs (58 percent) whilst fewer are in travel services (23 percent).
- The sector continues to employ a much younger workforce than across the whole economy – 44 percent are under 30 compared to a national average of 24 percent. The average age of those working in the sector is 34 compared to the national average of 41.

this sector employs
7.2%
of the total
working population

Workforce size and characteristics

- Hospitality, leisure, travel and tourism is the third largest sector for workforce size. It employs 2.1 million people across the UK, accounting for 7.2 percent of the total working population.
- The sector, through its diversity, is well-placed to support the UK Government's social mobility strategy by guiding and supporting those on unemployment benefits into higher skilled and management roles. The sector needs an additional 106,300 people to replace both those leaving and to fill new jobs.
- Female workers (58 percent) exceed males (42 percent) in the sector yet they are still under-represented in managerial and senior official roles. Less than half (44 percent) of senior manager positions are held by women. This highlights a missed opportunity as increasing evidence shows that greater gender balance on senior management teams and boards has clear financial benefits. Ongoing managerial skill shortages could also be alleviated if fewer women left.

- Hospitality industries continue to recruit a large percentage of international workers. Of the 21 percent of the workforce who were born overseas, many (64 percent) are from outside the European Economic Area (EEA). 13 percent were born in Bangladesh with 13 percent in India. Many are recruited as chefs in Asian and Oriental restaurants and takeaways, but changes to the UK's immigration policy means that this will soon become increasingly difficult and exacerbate existing skill shortages. However, the proposed Asian and Oriental centres of excellence in London, Birmingham, Leeds and Manchester should alleviate these problems.



Recruitment and retention

- The economic downturn has made it easier for employers to fill vacancies for lower skilled roles and the sector has continued to recruit during the downturn. On average, 17 percent of sector employers have vacancies compared to 12 percent across all sectors. The number of employers who consider that they have hard-to-fill vacancies is also higher than the national average (five percent compared to three percent) but has fallen from eight percent since 2007.
- Chefs and managers remain the most difficult roles to fill. Whilst there are clear progression routes in place for chefs, the number going through must increase to meet demand. The recruitment of managers is more challenging. Yet high youth unemployment and higher education tuition fees provide the sector with an opportunity to offer employment and structured training and qualifications, such as apprenticeships.

- The latest quarterly Caterer.com and People 1st Hospitality Employment Index shows that both job vacancies posted and applications continued to rise throughout 2011. Job applications averaged 18 per job posted, increasing from 16 in quarter two of 2009. All UK nations and English regions experienced an increase in jobs advertised throughout 2011, particularly in London and the South East which, collectively (26,376), far exceeded the total postings for all other regions and nations (19,343).
- Although the sector has one of the highest UK labour turnover rates (23 percent), this has significantly fallen from 31 percent in 2009, historically explained by the reliance on transient labour. 58 percent of employers believe that the sector relies heavily on transient workers and 47 percent agree that the level of reliance is too high.
- Transient workers enable businesses to respond to fluctuating business levels, but at a cost of more than £33 million every year in constant recruitment and initial training. The most common reason cited for recruiting transient workers is the need for short-term staff.

Employee engagement

- Independent research has found clear evidence that improving employee engagement improves organisational performance,² resulting in higher productivity, profitability and innovation, as well as greater customer and company advocacy.
- People 1st's 2011 Employer Engagement Survey found that three-quarters of employers (77 percent) consider that their staff are either quite engaged or very engaged at work.
- Businesses use a range of different practices to engage their employees. A third of businesses believe that flexible working is the most effective method of employee engagement. Over two-thirds (67 percent) have flexi-time arrangements in operation. A third (33 percent) offer condensed hours, 32 percent offer help to women returning to work and around a quarter (26 percent) offer job shares.
- The hospitality industries are perceived to offer low salaries. Indeed, salaries are, on average, lower than across the economy as a whole. Earnings have increased over the last five years; in some cases, considerably above the average rise of 11 percent across the entire economy. The average earnings of travel agency managers have increased by two-fifths (40 percent) over the last five years compared to hotel porters which fell by seven percent.

Workforce skills and development

- Recent figures show that 11 percent of staff in England have a perceived skills gap³ – just over one in ten employees or 164,700 workers.⁴ Overall, one in four establishments (26 percent) report skills gaps in their workforce. Since 2007, both the proportion of employers reporting skills gaps and the number of employees described as not being fully proficient has increased.
- Occupations that are least likely to be fully proficient are sales and customer service staff (14 percent) followed by skills deficiencies in operational, front-facing roles⁵ (12 percent). The latter includes waiting staff, bar staff, kitchen and catering assistants and receptionists.
- The sector has the highest collective training expenditure yet its impact is low given the extent of the skills gaps highlighted. Overall, the sector spends £4,242 million annually on training, equivalent to 11 percent of total training expenditure across the economy.⁶
- While training expenditure is rising, People 1st's Employer Survey 2011 shows a reduction in employers offering training (from 67 percent in 2009). 50 percent of businesses provided training for their staff in the last twelve months with variations by industry and size of business.
- Training levels are highest in tourist services (65 percent), hotels (58 percent) and visitor attractions (52 percent). Self-catering accommodation, holiday parks and hostels which has seen the most recent growth, accounts for the lowest provision of training.
- Almost two-thirds of businesses (64 percent) have moved more training in-house over the last year from 48 percent and 51 percent in 2009 and 2010 respectively, to reduce costs following the end of Train to Gain funding for work-based qualifications in England. Industry commentators have expressed their concern about the quality of in-house training and have suggested that training is a false economy if it does not result in any performance gains.
- The most popular training is for customer service, provided by 69 percent of sector businesses. Research from People 1st for the 2012 Olympic Games⁷ found that although training front line staff can play a crucial role in improving the customer service skills of individuals, this needs to be part of a wider holistic customer-focused culture within a business. Further research⁸ supports this, emphasising the importance of line manager support and organisational culture in embedding learning and improving customer service skills.
- Apprenticeships play an important role in addressing the skills needs of the sector as they develop the skills of those entering the workforce as well as those already working in the sector.

- Research shows that there are clear benefits to apprenticeships across the whole economy – increased competitiveness, productivity and reduced labour turnover. 45 percent of those not currently employing an apprentice say that they would consider employing an apprentice in the future, with businesses in Northern Ireland being considerably more positive (63 percent).

Sector employers' readiness for the 2012 Games

- The 2012 Games provide an enormous revenue generating potential for the sector, not only for specific businesses in the run-up to, and during, the Games, but long-term, as the Games showcase the UK as a tourism destination.
- Most employers believe that the 2012 Games will have a positive legacy for the sector. 90 percent of businesses believe that they will be a good thing for the sector as a whole. 77 percent believe that they represent an opportunity for the sector to secure tourism for years to come.
- There is also a clear contradiction between how employers see the Games benefiting the sector overall and how they see it impacting on their own business. Only 28 percent of employers who responded to the survey believe that the Games will benefit their business and even fewer (16 percent) perceive that they will directly benefit in the longer (post-Games) term.
- 60 percent of sector employers in London believe that there will be a short-term benefit to their business and 34 percent a long-term benefit. Similarly, 52 percent of employers in London believe that the Games will increase their sales levels, compared to just a quarter of businesses across the UK. This highlights the localised nature of the Games in London and that some employers, for example in business areas, will probably see a fall in custom.

¹ People 1st, 2011

² Engaging for Success: Enhancing performance through employee engagement, MacLeod and Clarke, 2009

³ Data for Scotland, Wales and Northern Ireland is available online: www.people1st.co.uk/sotnannex

⁴ National Employer Skills Survey, 2009

⁵ Referred to as elementary roles in the National Employer Skills Survey

⁶ National Employer Skills Survey, 2009

⁷ World Class Customer Service...For 2012 And Beyond', 2008, People 1st

⁸ Maximising The Returns Of Customer Service Training In The Hospitality, Leisure, Travel and Tourism Sector', People 1st 2010