Snapshot by:

UKHOSPITALITY

The cost of doing business:

Foundational Sector Snapshot

Hospitality

Key messages

- Hospitality is a major employer and a cornerstone of local communities, **directly providing over 2.6 million jobs across the UK[1]**. The sector plays a particularly important role in providing first-time employment opportunities for young people, **with 41% of hospitality employees aged between 16 and 24, significantly above the UK average of 11%[2]**.
- Hospitality businesses are facing acute cost pressures, with the sector contributing **£4.9 billion in employer NICs in FY25/26 – a 25% increase on FY24/25's contribution**, while higher energy costs continue to add pressure to already tight operating margins[3].
- Government can support investment, employment and venue viability by **addressing structural cost pressures within the operating environment**. Reforming business rates, avoiding further increases in employment costs and reducing unnecessary regulatory burdens would help hospitality businesses continue supporting jobs, local economies and community life across the UK.

Table 1: Key business tax contribution figures for the hospitality industry[4]

	2024/25	2025/26	Difference
Business tax contribution	£9.37bn	£10.69bn	+14.1%
Tax contribution as a share of GVA	12.8%	13.8%	+1.0ppt
Employers' NICs	£3.88bn	£4.85bn	+25.0%

UK Hospitality uses a broader calculation for taxation generated by the sector, which gives a larger figure of £54 billion[5]. This incorporates VAT on sales, employee National Insurance Contributions, alcohol excise duty and other levies that have not been included within the CBI analysis above.

Strategic importance

Hospitality is one of the UK's largest employers and a vital contributor to local economies, communities and social infrastructure. The sector provides employment opportunities across every region and nation of the UK, supporting millions of jobs directly and through its extensive supply chains.

The sector plays a particularly important role in providing first-time employment opportunities for young people, with 41% of hospitality employees aged between 16 and 24, significantly above the UK average of 11%[6]. The sector therefore acts as a critical entry point into the labour market, helping young people develop skills, gain work experience and progress into long-term careers. Hospitality businesses also provide substantial opportunities for part-time and flexible employment, with 54% of those working in the sector employed part-time, supporting workforce participation across a wide range of demographic groups, including parents and those seeking flexible working arrangements[7].

Beyond its economic contribution, hospitality plays an important role in supporting vibrant local communities and town centres. Pubs, restaurants, hotels and leisure venues provide social spaces that strengthen community cohesion, support local high streets and attract visitors to towns and cities across the UK. The hospitality sector alone generated £93bn in economic activity in 2022, with every £1 of GVA generated directly by pubs supporting a further £1.30 elsewhere in the economy[8].

Growing cost pressures

Hospitality businesses are facing significant cost pressures across labour, taxation, energy and supply chains. Labour costs have emerged as the most significant challenge for many operators. Since 2019, median hourly wages in hospitality have risen by around 40%, compared with less than 30% across the economy as a whole – and now equate to over 30% of sector turnover[9]. Rising National Living Wage rates, increases to employer National Insurance Contributions (NICs) and the labour-intensive nature of hospitality mean that businesses have experienced significant cost increases.

Energy costs have also increased sharply. Utilities costs for the sector have also soared, with bills nearly 250% higher than in 2016[10]. Energy remains substantially more expensive than pre-pandemic levels, while many businesses report increasing difficulty securing competitive contracts. Higher energy costs continue to feed through supply chains, increasing the cost of food, drink and other hospitality inputs.

The sector is also facing growing pressure from taxation. Changes to employer NICs have increased employment costs substantially, while hospitality businesses remain disproportionately exposed to business rates because of their reliance on physical premises. An analysis of 2022 data shows that hospitality paid 2.5% of the sector’s turnover in business rates, compared with an average of 0.6% across the sectors covered in the Annual Business Survey – more than four times its fair share. This is likely to have got worse since the 2026 revaluation, where the sector saw disproportionate increases.

For many operators, these cost increases are occurring at a time when consumer spending remains constrained and businesses have limited ability to pass costs on through higher prices without affecting demand. As a result, businesses increasingly report reducing hiring, limiting investment, reducing opening hours and scaling back operations in response to rising costs.

Improving the operating environment

Hospitality's contribution to growth depends on an operating environment that supports investment and employment. However, businesses report that several structural challenges are increasing costs, constraining investment and placing pressure on venue viability.

1. Business rates and property costs

Business rates continue to represent a significant fixed cost for hospitality businesses. Despite the introduction of a lower Retail, Hospitality and Leisure multiplier, operators report that business rates remain disproportionate relative to the sector's margins and ability to absorb costs. Given the sector's dependence on physical venues and high street locations, property taxes can reduce investment capacity and place additional pressure on venues that already face rising labour, energy and supply chain costs.

2. Employment costs and labour market flexibility

Hospitality businesses rely heavily on flexible, part-time and seasonal employment models. Rising labour costs, changes to employer NICs and reforms to employment legislation are increasing the cost of recruitment and workforce management. Businesses report that these pressures are affecting hiring decisions and reducing flexibility at a time when the sector continues to face labour shortages and difficulties attracting and retaining staff.

3. Investment, licensing and venue viability

Hospitality businesses require regular investment in venues, equipment and customer facilities to remain competitive. However, rising operating costs, higher financing costs and planning and licensing complexities can reduce investment appetite and slow business expansion. Businesses report that delays in planning approvals, licensing processes and wider regulatory requirements can increase costs and create uncertainty, particularly for operators seeking to refurbish, expand or diversify existing venues.

Tackling the regulatory burden

Hospitality businesses operate within a broad regulatory environment spanning employment law, consumer protection, environmental regulation, licensing, food safety, security requirements and sector-specific regulation. Businesses report that the burden is often driven not by individual regulations in isolation, but by the cumulative impact of multiple compliance requirements, reporting obligations and regulatory changes being introduced simultaneously.

For many operators, the challenge is compounded by limited management capacity and tight operating margins. Compliance costs can therefore absorb resources that would otherwise be invested in staff, venues and customer experience. Businesses also report concerns about the proportionality of regulatory interventions, the clarity of guidance and the consistency of enforcement across different regulators and jurisdictions.

Hospitality businesses engage with a wide range of regulations and enforcement bodies across government, including:

Department for Environment, Food & Rural Affairs (DEFRA)	
Regulation	**Regulator**
Deposit Return Scheme From October 2027, all PET, steel and aluminium (and glass in Wales) drinks between 150ml-3L will be subject to a 20p deposit. Particular cost challenges come from the scope divergence in Wales.	Environment Agency. Scheme operated by Exchange for Change.
Biodiversity Net Gain Under the legislation, most new developments must achieve a 10% net increase in the biodiversity value of the site, with an approved BNG plan as a pre-development condition. Often the cost of complying with burdensome regulation can have the opposite effect, with the financial and operational implications impacting businesses' ability to invest in a certain area.	Local Planning Authorities (supported by Natural England)

Department of Health and Social Care	
Regulation	**Regulator**
Calorie labelling Introduced in 2022, calorie labelling requires all businesses with over 250 employees in the hospitality sector to provide mandatory calorie information at the point of choice.	Local Authority Environmental Health / Trading Standards
Nutrient Profiling Model It has been announced that the new 2018 NPM will be applied to the food advertising	Advertising Standards Authority (with Ofcom oversight for broadcast advertising)

restrictions. This will bring more food into scope of the restrictions, impacting reformulation efforts.	
Calorie labelling Introduced in 2022, calorie labelling requires all businesses with over 250 employees in the hospitality sector to provide mandatory calorie information at the point of choice.	Local Authority Environmental Health / Trading Standards

Home Office	
Regulation	**Regulator**
Martyn's Law Legislation due to be introduced to scale up preparedness for, and protection from, terrorist attacks. The law will require publicly accessible venues to assess risk preparedness and mitigations, banded by capacity (standard tier 200-799, enhanced tier 800+). Particular cost challenges for those in the enhanced tier.	Security Industry Authority

Within this wider regulatory landscape, UK Hospitality has identified the following regulatory burdens as having a particularly significant impact on business costs and competitiveness.

1. Employment Rights Act

Challenge: Hospitality businesses have raised concerns about the cumulative impact of the Employment Rights Act, particularly given the sector's reliance on flexible, part-time and seasonal employment models. Businesses report that measures relating to guaranteed hours, day-one rights and wider employment protections will increase administrative requirements, reduce workforce flexibility and make it more difficult to match staffing levels to fluctuating consumer demand.

Businesses are concerned that the additional costs and complexity associated with the reforms could reduce employment opportunities for younger workers and those seeking flexible work. One publican reported that recent increases in employer costs had already resulted in the loss of 20 staff hours per week simply to maintain existing operating levels, forcing longer working hours for operators and shorter shifts for employees. Businesses are concerned that further employment regulation could intensify these pressures and reduce flexibility across the sector.

UK Hospitality recommendation: Government should review the implementation of the Employment Rights Act and ensure reforms are introduced in a way that reflects the operational realities of hospitality businesses. In particular, businesses are seeking a phased and proportionate approach that minimises unintended impacts on flexible employment models and reduces compliance burdens for SMEs.

Expected impact: A more proportionate implementation approach would help preserve labour market flexibility, support recruitment and workforce participation, and reduce compliance costs for hospitality businesses. This would help operators continue creating employment opportunities, particularly for young people and those seeking flexible work, while maintaining investment in venues and customer experience.

2. Extended Producer Responsibility (EPR)

Challenge: Hospitality businesses support efforts to improve recycling rates and reduce waste, but have raised concerns about the design and implementation of the EPR scheme. Businesses report that the scheme is increasing costs at a time when operators are already facing significant pressure from labour, energy and taxation costs.

A particular concern is the treatment of packaging consumed within hospitality venues. Under the current framework, businesses can be charged for packaging that never enters the household waste stream despite already paying separately for commercial waste collection and disposal services. For pubs alone, it is estimated that this double counting creates an additional cost of approximately £50m per year[11]. Businesses also argue that the scheme places costs on operators without providing sufficient influence over how waste is subsequently managed by local authorities, limiting their ability to reduce costs through operational changes.

More broadly, operators are concerned about the cumulative impact of packaging regulation, particularly where EPR requirements sit alongside existing packaging and waste-related obligations. Businesses argue that this risks increasing costs without delivering a proportionate improvement in recycling outcomes.

UK Hospitality recommendation: Government should review the operation of EPR to ensure hospitality businesses are not charged for packaging that remains within commercial waste streams and remove instances of double counting. The sector is also seeking a more transparent approach that better links producer costs to recycling performance and outcomes.

Expected impact: Reducing unnecessary EPR costs would improve fairness within the system, lower operating costs for hospitality businesses and support investment in venues, staff and customer experience. A more proportionate framework would also help ensure environmental objectives are achieved without imposing avoidable costs on businesses.

3. Nutrient Profiling Model (NPM)

Challenge: Hospitality businesses remain committed to supporting healthy eating, and the sector has invested significantly to reformulate dishes and create healthier options on menus. However, the introduction of the 2018 NPM, including how it applies to the advertising and promotions legislation, risks negatively impacting business investment in this area. This is because significant investment has been spent on complying with the current NPM, and menu cycles, conversations with suppliers etc have happened in this regard. Introducing a new NPM, with changes to the way that products are defined as healthy (and a move to free sugars), will mean businesses and suppliers have to learn a new system – creating bureaucracy and ultimately reducing the amount of money available for investment.

UK Hospitality recommendation: Government should undertake a full impact assessment on the costs of the 2018 NPM for hospitality businesses. Until these costs are clarified, and an understanding of the impact this will have on business investment, there should be a return to the 2004/5 NPM – particularly in relation to the advertising and promotions restrictions.

Expected impact: Continuing with the 2004/5 NPM will provide much needed continuity to businesses when it comes to investing in heathy eating, which has significantly increased in recent years. Failing to do so will mean hospitality businesses and their suppliers will have to spend significant resource updating systems to a model that is not well understood across the sector – reducing the resource available for investment.

Endnotes

[1] ONS (2025), *JOBS03: Employee jobs by industry,* available at: JOBS03: Employee jobs by industry - Office for National Statistics
[2] UKHospitality analysis of Annual Population Survey data
[3] CBI (2026)
[4] The CBI used its business tax contribution analysis in which we break down taxes by industry on a 2-digit SIC level. For employers' NICS we used the latest ASHE and BRES datasets to distribute ER NICs by industry. To estimate the contribution as a share of GVA, we used the latest ONS GVA estimates by industry to estimate the sectoral business tax contribution. Where it was not possible to assign the sector firmly to one or multiple 2-digit SICs, we asked TAs to provide data which we used and scaled accordingly. It should be noted that for some sectors there is a larger margin of error in the contribution statistics given 2-digit SICs do not necessarily fully align with the specific activities progressed in certain sectors. For the hospitality sector, we used SIC I.
[5] Economic contribution of the hospitality sector, https://www.ukhospitality.org.uk/insight/economic-contribution-of-hospitality/
[6] UKHospitality analysis of Annual Population Survey data
[7] UKHospitality analysis of Annual Population Survey data
[8] Economic contribution of the hospitality sector, https://www.ukhospitality.org.uk/insight/economic-contribution-of-hospitality/
[9] UKHospitality of ONS average weekly earnings data
[10] https://www.gov.uk/government/statistical-data-sets/gas-and-electricity-prices-in-the-non-domestic-sector
[11] BBPA estimates based on volume of in scope containers within the pub on-trade, EPR material fees, and average weight per container

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