# Hospitality

Sector Update 2026

Updates from our team for hospitality operators.

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# Hospitality 2026
## Navigating a challenging landscape

As we move into 2026, the operating environment for hospitality businesses has become increasingly challenging. The recent Budget introduced a raft of measures that will place additional pressure on operators, at a time when costs remain elevated and consumer confidence remains mixed.

Yet, despite these headwinds, I believe that hospitality will continue to be a cornerstone of the UK economy. As the third largest employer, the sector plays a vital role in providing employment opportunities and sustaining livelihoods across the UK.

In response, UKHospitality and other industry bodies have been actively campaigning for the introduction of targeted government support. Indeed, I was pleased to attend the UK hospitality reception in Parliament last year, representing our clients and helping to highlight the key challenges directly to policymakers.

At the time of writing, the Chancellor is expected to reverse the business rates hike affecting pubs, and there is hope that this will be extended to an industry-wide solution given the significant impact it will have.

We remain firmly committed to supporting our clients, as we have done for many years. Our team continues to work alongside operators, providing practical expertise, timely insight and tailored support to help them continue to trade successfully.

Should you require any further guidance or assistance, please do not hesitate to contact our team.

Kind regards

Sue

**Sue Drummond**
Partner, For and on behalf of Rouse Partners LLP

# What's inside


# What the Budget means for hospitality operators

**The recent Budget has introduced a series of measures that will have significant implications for hospitality businesses across the UK. While some limited relief has been announced, rising costs, tax changes and policy decisions are combining to place further strain on operators at an already challenging time.**

Here, we highlight the key areas of the Budget that hospitality businesses should be aware of and consider as part of their planning for 2026 and beyond.

# Rateable values - a shock for many hospitality businesses

At the time of writing, the Chancellor is expected to reverse the business rates hike affecting pubs, and there is hope that this relief will be extended to other hospitality businesses that are also likely to be significantly impacted. However, even with this potential reversal, changes to rateable values remain a major concern for the sector.

Without a reversal, from April 2026, smaller hospitality, retail and leisure (RHL) properties below a set rateable-value threshold will benefit from a permanently lower business rates multiplier — approximately 5p below the standard national rate. However, this relief is being overshadowed by sharp increases in rateable values, which are effectively wiping out the benefit of the reduced multiplier for many operators.

> Analysis from UKHospitality highlights the scale of the impact. An average hotel is expected to pay an extra £28,900 in rates next year, rising to £65,000 more in 2027/28 and £111,300 more in 2028/29. Over three years, this represents an increase of £205,200.

The 5p cut to the business rate multiplier is only around a quarter of the 20p discount previously under consideration. For businesses experiencing substantial increases in rateable values — particularly hotels, city-centre restaurant chains — the lower multiplier is likely to have minimal impact on overall liabilities.

### Check your rateable value

Your business's new rateable value is available to check online [here via the GOV.UK website](). If you believe the details are wrong, you can raise a "check case" before 31 March 2026. The GOV.UK website also allows you to get an estimate of your future business rates bill.

## Wage rises, cost and tax pressures add to the burden

Hospitality employers are Facing continued pressure from labour and tax costs. Following previously implemented increases to employer National Insurance Contributions, businesses must now absorb higher labour costs driven by increases to the National Minimum and Living Wages, significantly raising overall wage bills.

Further pressure comes from new local authority powers in England to introduce a charge on overnight visitors – commonly referred to as a Tourist Tax – affecting hotels, bed and breakfasts, guest houses and holiday lets. While intended to support local infrastructure, this measure risks increasing costs for guests and dampening demand.

In addition, all alcohol duty rates will rise in line with Retail Price Index (RPI) inflation at 3.66% from 1 February 2026, adding further cost pressures for pubs, bars and restaurants.

Taken together, these measures have led many operators to warn that they may be forced to raise prices, reduce staff numbers, cut operating hours or, in some cases, consider closure if costs cannot be absorbed.

## New ride-hailing tax could push up customer costs

The Budget also confirmed a significant VAT change for private-hire operators such as Uber and Bolt. From January 2026, these companies will no longer fall under the Tour Operators' Margin Scheme, meaning VAT at 20% will apply to the full fare rather than just the operator's margin.

The industry expects this change to result in higher ride-hailing prices, particularly in urban areas and during late-night periods. For hospitality businesses, this could have knock-on effects, increasing the total cost for customers travelling to pubs, bars, restaurants and hotels – especially during evenings and weekends, when customers are most reliant on taxis and private-hire services.

# Capital allowances - a new first-year allowance introduced

From April 2026 the main rate of writing down allowance for plant and machinery will decrease from 18% to 14%, although a new 40% first-year allowance for certain main pool additions will be introduced. The new FYA will be available for expenditure incurred from 1 January 2026.

Unlike full expensing, the new allowance will be available for unincorporated businesses and assets used for leasing.

This means if you invest in new assets such kitchen equipment, furniture, brewing/coffee machines, refrigeration, ovens, that are used to carry on the trade of your business and qualify for the FYA criteria you can deduct the full cost from taxable profits immediately, boosting cash flow.

**We can help with calculating capital allowance claims and advising on which assets qualify. Contact us to discuss our service.**

# Free apprentices for small businesses in England

Small businesses will be able to take on young apprentices for free, under new plans for the government to fully fund apprenticeships for eligible people under 25 (under 21 apprenticeships were already free). More details, including a start date, are expected to be announced soon.

## See our full Budget summary guide

You can view our full Autumn Budget summary guide with our commentary and analysis here:

Autumn Budget 2025 Guide

# U-turn on day one worker rights: What you need to know

**The Employment Rights Bill – which was nearing Royal Assent has hit a significant pause.**

The Employment Rights Bill, which introduces a raft of new employer obligations – including day-one rights, strengthened duties to prevent workplace harassment, expanded bereavement protections and sick pay rules – has been rejected in full by the House of Lords. As a result, the Bill will now enter a period of parliamentary back-and-forth until lawmakers agree a final version.

For employers, this prolongs a period of uncertainty and makes advance planning difficult. Here, we summarise the key amendments proposed.

## Key amendments proposed

A number of notable changes have been announced:

- **Day-One unfair dismissal rights:** The government has confirmed that the controversial day-one unfair dismissal rights will not go ahead. Instead, the existing two-year qualifying period will be reduced to six months, instead of from day one, as proposed. This still represents a major shift from current law and, if enacted, will require employers to rethink probation periods, onboarding, performance management, and dismissal procedures. Further details, including the implementation date, are still awaited.
- **Zero-hours contracts and guaranteed hours:** The government has proposed requiring employers to offer guaranteed hours from day one. The Lords rejected this, suggesting instead that employers must write to workers at the end of each reference period, offering guaranteed hours which workers can accept or decline.
- **Industrial action and union rules:** Peers also proposed amendments relating to industrial action ballot thresholds.
- **Possible removal of the compensation cap:** The government is also considering whether to remove the current compensation cap for unfair dismissal, which is presently one year's salary, or £118,223 (whichever is lower). However, no concrete proposals or timelines have yet been published.

These amendments collectively signal a push to moderate some of the bolder reforms originally planned.

## Attend our Employment Law webinar

In early February we will be hosting a webinar with an Employment Law Specialist to cover these changes and what they mean for employers.

**When:** Tuesday 03 February 2026 / **Time:** 12:00 – 12:45

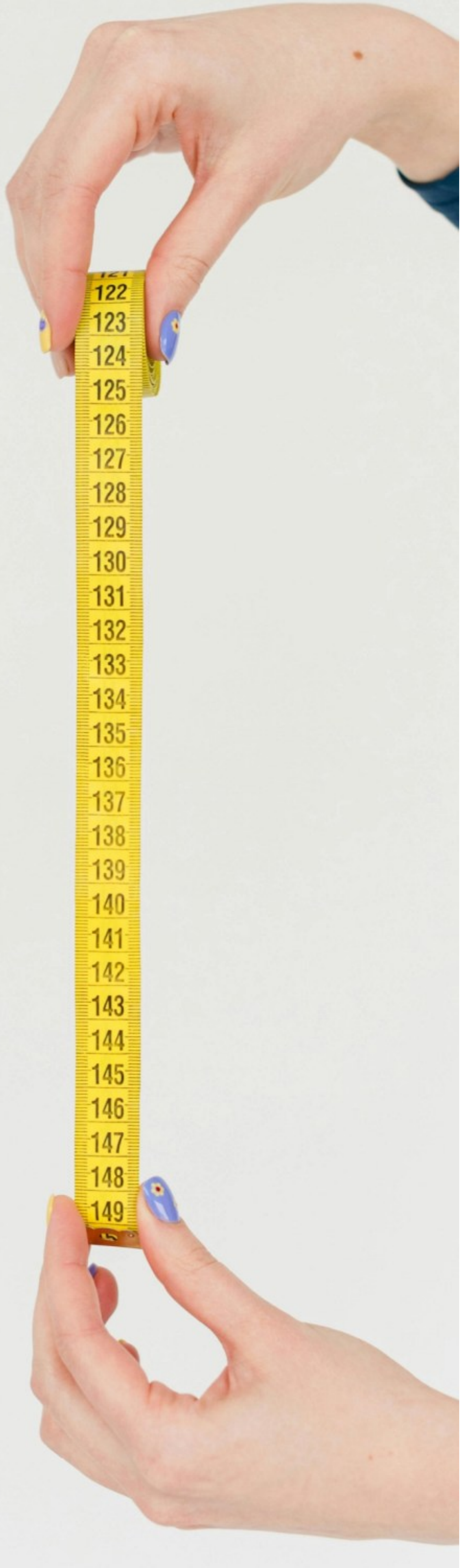
You can book your place or watch a recording of the webinar after it has been presented here.

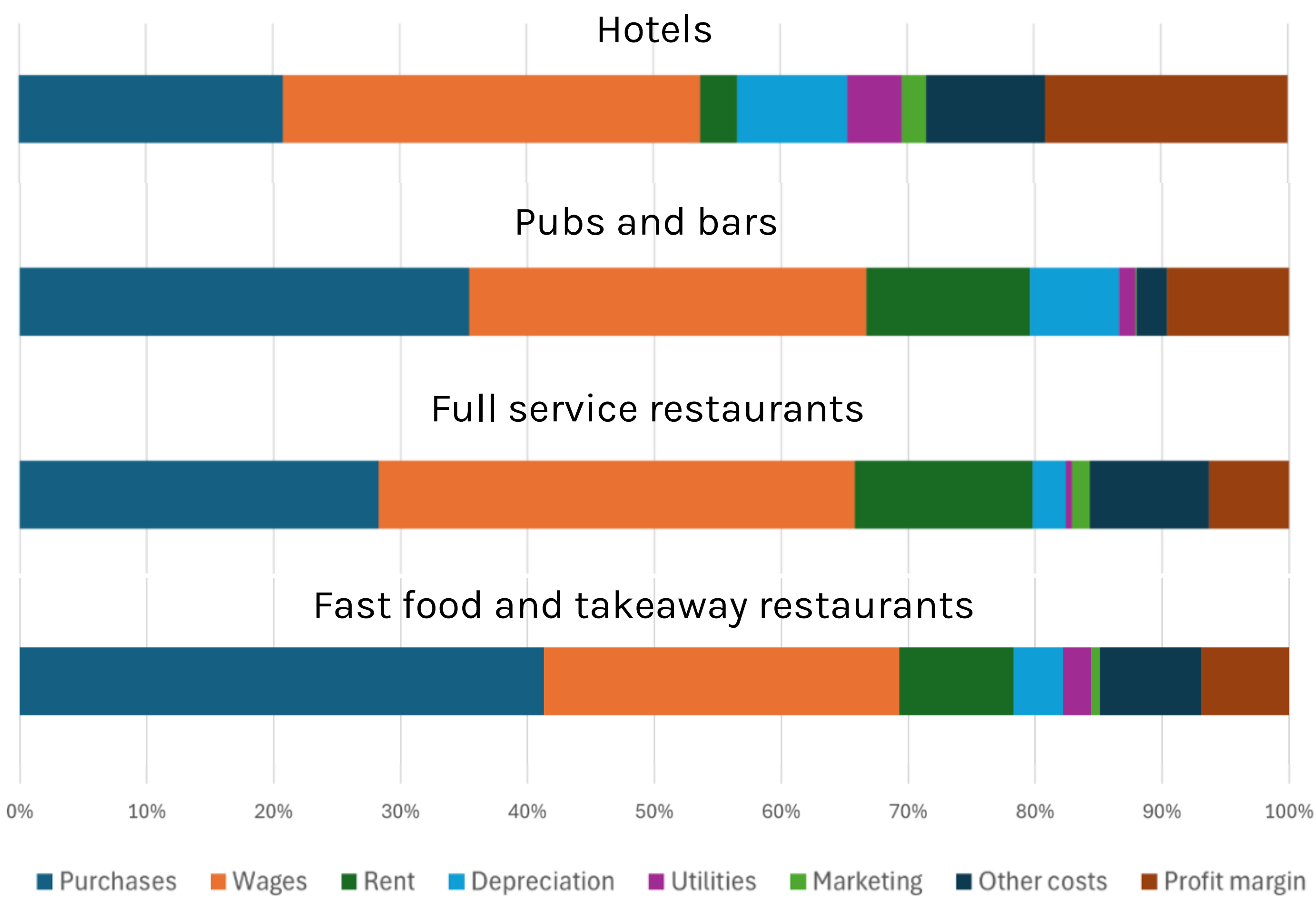
# Industry costs benchmarks: How do your business costs compare?

**Here we have identified the latest industry costs and profit margins to help you compare your business with others in your industry.**

The data covers a range of business sizes and geographic locations, but the industry averages may help you assess your cost structure and identify areas that may warrant closer attention.

Figures shown are average operating costs as a share (%) of revenue for financial years ending in 2025-26.






## Costs benchmarking 2026 - Data table

| Sector | Purchases | Wages | Rent | Depreciation | Utilities | Marketing | Other costs | Profit margin |
|---|---|---|---|---|---|---|---|---|
| Hotels | 20.80% | 32.90% | 2.90% | 8.70% | 4.30% | 1.90% | 9.40% | 19.10% |
| Pubs and bars | 35.40% | 31.30% | 12.90% | 7% | 1.30% | 0.10% | 2.40% | 9.60% |
| Full service restaurants | 28.30% | 37.50% | 14% | 2.60% | 0.50% | 1.40% | 9.40% | 6.30% |
| Takeaway and fast food restaurants | 41.30% | 28% | 9% | 3.90% | 2.20% | 0.70% | 8% | 6.90% |

## Glossary

- Purchase costs = The cost for food ingredients and beverages.
- Utility costs = Include electricity, gas, water and waste disposal.
- Depreciation costs = Depreciation costs apply to the reduction in value of assets such as kitchen equipment like oven, grills, refrigerators and dishwashers, all subject to heavy daily use. Other depreciable assets include furniture and fittings like tables and chairs and costs associated with fit outs.
- Other costs = Include tax, insurance, IT, telecoms etc

# Key benchmarking takeaways

- **Profit margins** have been eroded over past five years following the sectors recovery post-COVID pandemic, due mainly to rising energy and labour costs.
- **Purchase costs** have tracked upwards over the past five years due to supply chain pressures, food inflation and higher NI contributions and wages filtering through the supply chain. Food and drink prices soared by 21.6% between January 2022 and October 2023 ONS data shows, due to Brexit import costs, high energy bills and global supply issues. Prices have eased a little since their 2023 peak, but they're still high, with domestic food input prices rising 1.7% in the year to January 2025, while imported food fell by 3.1%, as shown by the Office for National Statistics' (ONS) Producer Price Index.
- **Wage expenses** have increased sharply in the past 12 months, driven by a 6.7% hike in the NLW to £12.21 an hour for over-21s and a 53.9% jump in employers' NI since April 2025. UKHospitality reports a full-time staff member now costs at least £2,500 more per year to employ, with the median salary in hospitality rising to £27,100, with London at £30,100. These inflationary pressures have pushed many restaurants to reduce staff hours, cut hiring and focus on operational efficiency.

See page 14 - 15 to find out how we can optimise your accounting systems to effectively track your cashflow.

- **Depreciation** expenses have risen over the past three years, driven by a wave of post-pandemic refurbishments, energy-efficiency upgrades, and digital infrastructure investments to enhance venue appeal and operational efficiency. For example, a 2024 RICS survey found larger pub groups report capital expenditure on upgrades of between £9,500 and £25,000 per location, with straight-line annual depreciation typically spread over five to 15 years depending on asset category.
- **Insurance costs** have increased thanks to a combination of inflationary, regulatory and risk-related pressures that have raised premiums across multiple types of cover.

# Automating your finance function: Staying lean in a challenging climate

**Hospitality businesses are under more pressure than ever to do more with less. Rising costs, tighter margins, and increased uncertainty mean that staying lean and efficient is no longer optional - it's essential. One of the most effective ways to achieve this is by automating your finance function.**

Hospitality businesses often spend too much time on manual, repetitive tasks that add little value. Automation frees up this time, reduces errors, and provides more timely, reliable data to support better decision-making.

Our team works with hospitality businesses to streamline and modernise their finance operations, ensuring systems and processes support growth rather than slow it down.

# How we can help

### 1. Reviewing your accounting system

We assess whether your accounting software is set up optimally for your business. This includes reviewing chart of accounts, reporting structures, integrations and user workflows to ensure you are getting the most out of your system - not just using it as a digital filing cabinet.

### 2. Reviewing your finance processes

Inefficient processes often evolve over time without anyone stopping to question them. We review your end-to-end finance workflows, identifying bottlenecks, duplication, and unnecessary manual steps. From invoicing and expense management to month-end close, we help redesign processes to be faster, cleaner, and more scalable.

### 3. Setting up smart automations

Automation doesn't have to be complex to deliver real value. We help implement practical automations such as:

- Automated bank feeds and reconciliations
- Real-time dashboards and management reporting
- Integration between accounting, payroll, EPOS and inventory systems
- Invoice capture and approval workflows
- Recurring journals and accruals

These automations reduce manual data entry, improve accuracy, and ensure your finance data is always up to date.

# Expertise you can rely on

Our systems specialist, Ryan Finn, has extensive experience helping businesses use their finance systems to simplify everyday tasks, save time, and unlock better-quality data. Ryan focuses on making systems that are practical, intuitive, and tailored to how your business operates.

We've helped many clients to transform their finance functions. For example, we supported Rosa's Thai Cafe in moving from manual record-keeping to fully digital systems and automated processes. This shift significantly reduced administrative time, improved visibility over financial performance. You can read more about this project here.

# Tourist tax set to apply for overnight stays

The UK is set to implement significant changes to its tourism tax policies in 2026 that will apply to hotels, B&Bs, holiday lets and other paid accommodation.

Under the current plans, mayors across the UK would be able to set a local visitor levy and reinvest the money directly into their areas.

Nearby countries have already adopted similar measures in a bid to boost funds for local needs. In Scotland, Edinburgh is introducing a tourist tax of 5% on the cost of a room per night starting 24 July 2026. In Wales, local governments will be able to charge £1.30 (€1.50) per person per night starting April 2027.

UKHospitality has warned that the combination of 20% VAT, a 5% holiday tax, plus the VAT charged on the tax itself, would create an effective 27% VAT rate for consumers on their holidays, making it one of the highest in Europe. While many cities in Europe charge a tourist tax, these cities also charge a significantly lower rate of VAT for hospitality. That would not be the case in England.

A consultation is now open and will close on 18 February 2026. The process will consider how the UK's tourist levies should be designed, whether a cap on them is necessary and which exemptions should apply.

## How do other cities in Europe apply tourist taxes?

| City | Tourist Tax 2026 | Basis / Notes |
|---|---|---|
| **Amsterdam (Netherlands)** | ~12.5 % of accommodation cost | One of the highest %-based city taxes in Europe; day tax for cruise passengers ~€15 in 2026. |
| **Barcelona (Spain, Catalonia)** | ~€4 – €5 per person per night *(municipal + regional)* | Combined surcharge on stays; plans for higher rates (up to €15) under consideration. |
| **Berlin (Germany)** | 7.5 % of net accommodation cost | Applies to all overnight stays (incl. business). |
| **Paris (France)** | ~€2.60 – €15.93 per person per night | Tiered by accommodation type (luxury hotels at top end). |
| **Rome (Italy)** | ~€3 – €7 per person per night | Based on star rating. |
| **Milan (Italy)** | ~€5-€10 per person per night | Higher rates for Olympics period; tiered by hotel type. |
| **Lisbon (Portugal)** | ~€4 per person per night *(max 7 nights)* | Municipal levy applied at many accommodations. |
| **Bucharest (Romania)** | ~€2 per night per room | Fixed nightly tax introduced / expanded by 2026. |
| **Prague (Czech Republic)** | ~CZK 50 (~€1.70) per person per night | Typical Prague tourist tax collected separately. |
| **Dubrovnik (Croatia)** | ~€2.65 per person per night | City tax collected at check-out; varies by season. |

# Proposed drink-driving reforms and what they mean for your business

The government is pushing ahead with one of the most significant overhauls of drink-driving laws in decades as part of its new Road Safety Strategy. The consultation suggests reducing the limit to align more closely with Scotland's stricter standard — meaning just one drink could put a driver over the legal threshold.

Government ministers emphasise that new measures are designed to save lives, and argue that evidence from jurisdictions with lower limits — such as Scotland — supports safer roads without a significant long-term detriment to hospitality - when paired with broader transport and social planning.

However, hospitality groups counter that without better public transport and targeted sector support, reduced limits could act like a demand shock for evening and weekend trading — particularly outside major urban centres.

# Impact on the hospitality sector

The hospitality industry — especially pubs, bars, and restaurants — has reacted strongly to the proposals, highlighting several potential impacts:

- **Reduced on-trade alcohol sales:** Lower drink-driving limits may discourage customers from drinking when they need to drive, particularly in areas with poor public transport.
- **Pressure on rural and small venues:** Rural pubs could see fewer evening and weekend customers, adding to existing cost and staffing pressures.
- **Changing consumer habits:** The proposals may speed up a shift toward low- and no-alcohol drinks, benefiting adaptable venues but challenging others.
- **Wider economic strain:** The sector is already under pressure from rising costs, reduced disposable incomes, job losses, and shorter opening hours.

## What hospitality businesses can do

Examples of how you might address and prepare for these changes, could include:

- Expanding no-/low-alcohol drink ranges to appeal to customers avoiding alcohol yet still socialising;
- Promoting safe transport partnerships (e.g., designated driver offers, ride-share incentives);
- Adapting marketing to focus on food, brunch, and daytime trade where drink-driving concerns have less influence;
- Engaging with industry bodies to communicate operational challenges during consultations.

# Specialists in hospitality

**We support a wide range of hospitality businesses: Independent operators through to multi-location chains, including restaurants, cafés, bars, pubs, hotels & accommodation, leisure, events, franchisees/ franchisors and fast-food chains.**

This gives us a deep understanding of the key sector challenges, such as cashflow volatility, VAT, tax, employment issues, operations and cost management.

## Why choose us

- **Award-winning team:** Delivering proven expertise in hospitality and food service.
- **Strong sector knowledge:** Members of UKHospitality, which means we are up to date with best practice, compliance requirements and sector-wide developments.
- **A partner approach:** Your work is led by a partner experienced in hospitality, supported by a hand-picked specialist team.
- **Excellent location and accessibility:** Located in Central London and west of London with good transport links, mix of in-person and remote support.

## What we offer

- **Core accounting services:** Year end accounts, company tax returns, payroll, bookkeeping, company secretarial.
- **Bespoke management reporting :** Our custom reporting, tailored to your needs, helps you track key metrics such as wet vs dry margins, multi-location performance, sales promotion effectiveness, food cost management, and revenue per table, giving you actionable insights to optimise performance.
- **Specialist advisory services:** Including VAT and tax advice, EPOS / accounting systems integration, corporate finance and Tronc scheme payroll.
- **Strategic support:** Cashflow management & budgeting, raising finance and management reporting.

Contact us on 01494 675321 or email info@rousepartners.co.uk to arrange a no obligation consultation to find out how we can support your business.

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Positive difference.