

U.K. Restaurateurs could go hungry as tips ruling raises costs

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Bars and restaurants will pay a high price now service charge no longer counts towards an employees' pay packet. In fact, costs for the average restaurant chain could be driven up by up to 10%, PricewaterhouseCoopers LLP reveals.

The announcement that restaurants will no longer be able to pay staff below minimum wage and top up their base pay with tips, means that restaurants will have to pay staff a base salary in line with the minimum wage.

Andrew Garbutt, director, PricewaterhouseCoopers LLP, explained:

'Currently the average base pay for waiting and bar staff is around £3.50 - 3.75 an hour plus tips. In fact, base pay can be as little as £2 an hour. However, by the time this change is introduced the minimum wage will be set at £5.73 an hour, with tips on top.'

Ruling leaves bad taste in the mouths of management after credit crunch diet

This increased wage bill will impact waiting staff on an hourly wage, who typically make up around half of the employees in a restaurant chain. Wages are usually the biggest element of a restaurant's outgoings, making up around 35% of costs. The impact therefore of this change will be to raise costs for the average chain by up to 10%.

Andrew Garbutt, director, PricewaterhouseCoopers LLP, commented:

'However, due to the consumer squeeze, chains are unlikely to be able to pass this cost increase on in increased prices. This is another thorn in the side of the hospitality industry, which is already facing a considerable headwind from the squeeze on consumer incomes.'

A way out for chains would be to keep a greater proportion of the service charge as an administration fee (which many chains already bank a small part of to cover administration costs) to try and compensate for having to pay the increased wages.

David Trunkfield, director, PricewaterhouseCoopers LLP, concluded:

'This in itself may mean the whole ruling is seen as a red herring and could lead to no visible change at all, instead of being used to make up wages, tips could now be used to make up restaurant profits. However this may invite a consumer backlash.'

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