

<b>Title:</b> <b>Fair and Transparent Allocation of Tips, Gratuities and Service Charges to Workers.</b>	<b>Regulatory Impact Assessment (RIA)</b>			
	<b>Date:</b> June 2024			
	<b>Type of measure:</b> Primary Legislation			
<b>Lead department or agency:</b> <b>Department for the Economy</b>	<b>Stage:</b> Initial			
	<b>Source of intervention:</b> Domestic NI			
<b>Other departments or agencies:</b>	<b>Contact details:</b> <a href="mailto:goodjobsconsultation@economy-ni.gov.uk">goodjobsconsultation@economy-ni.gov.uk</a>			

## Summary Intervention and Options

<b>What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)</b> There is evidence, both from media reporting and from UK Government consultations, that some employers retain a proportion, or even all, of the tips being left to staff. This is considered to be unfair to workers, many of whom work in low pay sectors. It is also unfair to consumers, who have an expectation that tips are allocated to workers who have provided them with a service. Consequently, the Department wishes to consult on proposals to ensure that tips are provided in full to workers without deduction, and that the allocation and distribution of tips is fair and transparent. Until now there has been a process of self-regulation, with a voluntary Code of Best Practice <sup>1</sup> issued in 2009 by the UK Government as ancillary to National Minimum Wage legislation. Representatives of the NI hospitality sector have also been proactive in advocating fair distribution of tips to staff.	
<b>What are the policy objectives and the intended effects? (7 lines maximum)</b> The policy objective is that tips and related payments (gratuities and service charges) go to workers in full, ending deductions levied by some employers that are seen as unfair. This would have the effect of increasing the incomes of affected workers, providing a level playing field between those employers that already treat their staff fairly and those that do not. It may also aid in the professionalisation of affected sectors, boosting recruitment and retention and making career paths more attractive. It is also an objective of the Department that customers can have confidence that rewards for good service would go to workers that provide the service.	
<b>What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)</b> Option 1 – Do nothing. This would entail maintaining the status quo, relying on voluntary observance by employers of the need to fairly allocate tips to workers.  Option 2 – Legislate to make it obligatory for employers to pass on payments for service in full (aside from any deductions required by law) and requiring that the distribution is fair and transparent.  Option 2 is the preferred option as this would address the problems identified. However, this position will be reviewed in the context of responses to public consultation.	
<b>Will the policy be reviewed?</b> It will be reviewed	<b>If applicable, set review date</b>

Cost of Preferred (or more likely) Option		
Total outlay cost for business £m	Total net cost to business per year £m	Annual cost for implementation by Regulator £m
0.205	5.958	N/A

Does Implementation go beyond minimum EU requirements?	YES <input checked="" type="checkbox"/>	NO <input type="checkbox"/>
Is this measure likely to impact on trade and investment?	YES <input type="checkbox"/>	NO <input checked="" type="checkbox"/>
Are any of these organisations	Micro	Small
	Medium	Large

<sup>1</sup> [National minimum wage: code of best practice on service charges, tips, gratuities and cover charges - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

in scope?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
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**The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.**

Approved by:

Date:

## Summary: Analysis and Evidence

## Policy Option 2

Description: Legislate to make it obligatory for employers to pass on payments for service in full (aside from any deductions required by law) and requiring that the distribution is fair and transparent.

### ECONOMIC ASSESSMENT (Option 2)

Costs (£m)	Total Transitional (Policy) Years		Average Annual (recurring)	Total Cost
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
<b>Best Estimate</b>	<b>205,314</b>		<b>5,957,528</b>	<b>6,162,842</b>

#### Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

The transitional (one-off) costs are estimated to include familiarisation costs (£86,210), admin costs which relate to making necessary changes to workers' contracts (£48,378) and admin costs relating to updating of payroll systems (£70,726). This provides a total of £205,314. Recurring costs are estimated at £4,379,267 in respect of lost deductions now distributed to workers; £324,002 in respect of record keeping; and £1,254,259 in respect of dealing with requests for information – providing a total of £5,957,528.

#### Other key non-monetised costs by 'main affected groups' Maximum 5 lines

The outworking of the policy would specify that certain arrangements for handling tips, such as 'troncs'<sup>2</sup>, are presumed to be fair and transparent. This could potentially encourage more businesses to use troncs, which could in turn reduce the national insurance contributions paid to the Exchequer. There is also a risk that businesses adjust to the policy by reducing workers' basic pay or increasing prices for consumers, but we consider that these potential effects are unlikely as this may reduce competitiveness or affect business reputation.

Benefits (£m)	Total Transitional (Policy) Years		Average Annual (recurring)	Total Benefit
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
<b>Best Estimate</b>	<b>0</b>		<b>4,379,267</b>	<b>4,379,267</b>

#### Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines

The main affected group is workers. Those who currently experience deductions being made from their tips (i.e. in restaurants, pubs and bars, that are making deductions from tips left to workers) would benefit from the policy in that they would receive the sums previously deducted by employers and see their overall remuneration increase. This represents a transfer of income from businesses. Since this transfer would mainly benefit low-paid workers, there would be significant positive distributional effects beyond our best estimate of benefits.

#### Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

The main affected groups are businesses, workers and consumers. Workers may become more productive and more motivated to provide a good service. This would in turn reduce staff turnover and disputes over the allocation of tips and improve the business' reputation and customer loyalty. Consumers who wish to reward good service would have the assurance that all their tips will reach the workers who provide the service.

#### Key Assumptions, Sensitivities, Risks Maximum 5 lines

In line with the GB Regulatory Impact Assessment (the "GB RIA")<sup>3</sup> the main risk of our analysis relates to our evidence regarding deductions from tips – in terms of both magnitude (how high these deductions are) and scope (in which industries they are prevalent). We base our main assumptions on evidence from the GB RIA which in turn relied on evidence from media reports and the responses to the GB Call for Evidence<sup>4</sup> published in 2015. The risk is that we overestimate or underestimate costs to businesses as a result.

### BUSINESS ASSESSMENT (Option 2)

Direct Impact on business (Equivalent Annual) £			
Costs: 5,957,528	Benefits:	Net: 5,957,528	

### Cross Border Issues (Option 2)

#### How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines

Both GB and Rol have legislated to provide that tips are passed on to workers.

<sup>2</sup> [HMRC guidance: Troncs](#)

<sup>3</sup> [GB Regulatory Impact Assessment \(parliament.uk\)](#)

<sup>4</sup> [Tips, gratuities, cover and service charges: call for evidence - GOV.UK \(www.gov.uk\)](#)

## Evidence Base

There is discretion for departments and organisations as to how to set out the evidence base. It is however desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing), with reference to the evidence base to support the option selection;
- Monetised and non-monetised costs and benefits of each option (including administrative burden);
- Rationale and evidence that justify the level of analysis used in the RIA (proportionality approach);
- Risks and assumptions;
- Direct costs and benefits to business;
- Wider impacts (in the context of other Impact Assessments in Policy Toolkit Workbook 4, economic assessment and NIGEAE)

### **Inserting text for this section:**

**Text can be pasted from other documents as appropriate.**

### **Policy context**

There are an estimated 5,655 businesses in Northern Ireland where tips, gratuities and service charges are prevalent. These businesses exist primarily in the hospitality and service sectors and include hotels, bars, restaurants, hairdressers and beauty salons.

In 2009 the British Government amended the National Minimum Wage Regulations 1999<sup>5</sup> to provide that service charges, tips, gratuities and cover charges paid to a worker through the employer's payroll must not count towards payment of the national minimum wage. That legislative change was supplemented by a voluntary Code of Best Practice with the aim of encouraging businesses to be transparent to consumers and workers in relation to service charges, tips, gratuities and cover charges.

In 2015 the British Government, in response to public concern that some tipping practices were not in line with the voluntary Code of Best Practice and that some employers were deducting excessive amounts from tip, gratuities, cover and service charges left by customers, issued a Call for Evidence on the practice. The Call for Evidence revealed a broad agreement that intervention was required to improve the treatment and transparency of these payments. Consumers and workers advocated that all discretionary payments for service should go to the worker or shared amongst the workers without employer involvement. The British Government subsequently launched a public consultation in 2016<sup>6</sup> seeking views on a range of options to meet the following objectives:

- Ensure transparency to consumers that discretionary payment for service is just that – discretionary.
- Ensure workers receive a fair share from discretionary payments for service.
- Increase transparency for consumers and workers regarding the treatment of discretionary payments for service.

The British Government subsequently announced, in 2018, its intention to legislate to ensure tips left for workers would go to them in full.

The British Government's formal response to the 2016 consultation was published in 2021<sup>7</sup>, wherein it expanded its legislative plans and announced the following measures:

- Requirements for employers in all sectors to not make any deductions from tips received by their staff, including admin charges, other than those required by tax law.
- Requirements for employers to distribute tips in a way that is fair and transparent, with a written policy on tips, and a record of how tips have been dealt with. Employers will be able to distribute tips via a

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<sup>5</sup> [EXPLANATORY MEMORANDUM TO THE NATIONAL MINIMUM WAGE REGULATIONS 1999 \(AMENDMENT\) REGULATIONS 2009 No.1902 \(legislation.gov.uk\)](#)

<sup>6</sup> [Government consultation on tipping, gratuities, cover and service charges \(publishing.service.gov.uk\)](#)

<sup>7</sup> [Tipping, gratuities, cover and service charges consultation: government response \(publishing.service.gov.uk\)](#)

tronic, and a tip must be dealt with no later than the end of the month following the month in which it was paid by the customer.

- Provisions to allow workers to make a request for information relating to an employer's tipping record. Employers will have flexibility how to design and communicate a tipping record but should respond within four weeks.
- Requirements for employers to have regard to a statutory Code of Practice on Tipping.
- Where employers fail to comply with these measures, this will be enabled through Employment Tribunal.

These legislative measures will be given effect by the Employment (Allocation of Tips) Act 2023<sup>8</sup>. The requirements laid out in the 2023 Act are not expected to come into full effect until the Autumn of 2024. The Statutory Code of Practice<sup>9</sup> has already been published in advance to assist employers in coming to terms with the future legal obligations.

In the south of Ireland, the Government brought in legislation in 2022 that provides very similar rights for workers in Ireland. The Payment of Wages (Amendment) (Tips and Gratuities) Act 2022<sup>10</sup> and associated subordinate legislation seeks to give clarity to workers and consumers on what constitutes tips, gratuities and service charges. The legislation also requires employers to make and display their policies on the distribution of tips and aims to ensure that tips are distributed fairly and transparently, and that tips are not used to make up contractual rates of pay.

Presently there are no equivalent legal provisions in NI, though there has been significant media and political interest. Anecdotal evidence suggests that most employers in the hospitality sector are likely to be treating their workers fairly, and that business representatives in that sector clearly advocate for that. However, there is no firm evidence to support that assertion across all relevant sectors; nor is there regional data to quantify the number of businesses that do not pass on tips to workers in full.

## **Regulatory Impact context**

The completion of this regulatory impact assessment draws heavily on the methodology deployed by the Department for Business, Energy and Industrial Strategy (now the Department for Business and Trade) in GB in respect of its impact assessment published on 15 June 2022<sup>11</sup>. It is important to stress that the GB RIA and, by extension this RIA, are based on cumulative assumptions and data from UK based surveys. It is also important to understand that the tipping industry sectors in NI may differ structurally from those in GB. This RIA therefore provides a best estimate of possible costs, based on the data available to the Department at this time. This may be of some relevance as the media reports of instances of unfair deductions from tips in GB concerned larger restaurant chains that have little presence in NI.

## **Industry background**

The proposed new obligation shall apply across all business sectors in NI, however those that would be most affected are those in the hospitality sector; consisting of restaurants and mobile food service activities and beverage serving activities. Tipping is also likely to be prevalent in hotels and similar accommodation, taxi operation, gambling and betting activities, hairdressing and other beauty treatment. Collectively we will refer to these as "tipping industries"<sup>12</sup>. We consider that all of these businesses are in the private sector.

Over 55,000 people are employed by tipping businesses, making up almost 7% of total employment, as shown in Table 1 below.

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<sup>8</sup> [Employment \(Allocation of Tips\) Act 2023 \(legislation.gov.uk\)](https://legislation.gov.uk)

<sup>9</sup> [Code of Practice on Fair and Transparent Distribution of Tips \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

<sup>10</sup> [Payment of Wages \(Amendment\) \(Tips and Gratuities\) Act 2022 - DETE \(enterprise.gov.ie\)](https://enterprise.gov.ie)

<sup>11</sup> [GB Regulatory Impact Assessment \(parliament.uk\)](https://parliament.uk)

<sup>12</sup> Tipping industries have the following codes in the UK Standard Industrial Classification of Economic Activities 2007 (SIC 2007): Restaurants and mobile food service activities (5610), Beverage serving activities (5630), Hotels and similar accommodation (5510), Taxi operation (4932), Gambling and betting activities (9200) and Hairdressing and other beauty treatment (9602).

**Table 1: Overview of tipping industries**

Industry	Number of businesses	Number of employee jobs	As a % of total employee jobs
Restaurants and mobile food service activities (1)	2850	31909	4.02%
Beverage serving activities (2)	915	7383	0.93%
Hotels and similar accommodation	195	9877	1.24%
Taxi operation	135	625	0.08%
Gambling and betting activities	85	2240	0.28%
Hairdressing and other beauty treatment	1475	3360	0.42%
Restaurants, pubs and bars (1 + 2)	2765	39292	4.95%
<b>All tipping industries</b>	<b>5655</b>	<b>55394</b>	<b>6.97%</b>

Source: NISRA, Inter-Departmental Business Register, March 2023 / Business Register and Employment Survey, September 2023.

Tipping practices may vary across the various tipping industries, but in the hospitality sector there are usually two types of payments for service: tips and gratuities that are freely given and paid by cash or card; and service charges (discretionary or mandatory) which are often added as a percentage of the bill and can also be paid by cash or card.

Payments for cover charges fall outside the scope of these policy considerations.

### **Rationale for intervention**

The average pay of workers in tipping industries in NI was below economy-wide average pay levels in 2023 (see Table 2). Thus, payments for service can represent a significant part of workers' overall income. Consequently, ensuring that payments for service go to workers in full would provide a better deal for those workers.

**Table 2: Average (mean and median) hourly pay for tipping industries in NI, 2023**

Industry	Mean hourly pay (£)	Median hourly pay (£)
Hotels and similar accommodation	13.70	11.00
Restaurants and mobile food service activities	10.82	10.42
Beverage serving activities	11.68	10.50
<b>Whole economy</b>	<b>18.26</b>	<b>14.48</b>

Source: NISRA, Annual Survey of Hours and Earnings (ASHE), 2023. Data for other tipping industries is unavailable as the sample size is too small for a reliable estimate.

### **Policy Objective**

Subject to responses by stakeholders, the policy aims to ensure that payments for service left for workers will go to them in full. Unfair deduction practices would be prohibited by introducing a new legal obligation that all payments for service go to workers in full (aside from those required by law) and that the distribution of those payments is both fair and transparent.

It is intended that the obligation would apply to individual establishments and payments for service would not be distributed across different establishments within a chain, and that the distribution should occur within a reasonable period of time (i.e. by the end of the month following the month in which they were received). The continuation of 'troncs', whereby payments for service are pooled and distributed by an internal or external troncmaster (who should not be the business owner), as well as informal pooling arrangements where there is no input from the employer or a troncmaster, would be allowed.

Employers would have to keep records of payments for service received and distributed, which are sufficient to demonstrate compliance. This mirrors existing record-keeping requirements specified in the National Minimum Wage regulations. Workers would have a right to access some of this information, allowing them to understand the amount of payments for service collected and how they are distributed.

## **Policy Options**

This Impact Assessment considers two options which are assessed through a cost-benefit analysis and against the policy objectives set out above.

Option 1: Do nothing – which would maintain the existing policy framework in relation to payments for service.

There currently exists a voluntary Code of Best Practice, which was published in 2009. This was developed in collaboration with industry, worker and consumer groups to improve information regarding the treatment of payments for service. However, following this option would entail relying on a voluntary observance by employers of the need to fairly allocate tips to workers.

Option 2: Legislate to make it obligatory for employers to pass on payments for service in full (aside from any deductions required by law) and requiring that the distribution is fair and transparent.

Option 2 is the preferred option. This would prohibit employers from making deductions from payments for service left for workers other than those required by law (i.e. income tax and national insurance contributions). Businesses would incur transitional and recurring administrative costs to adjust to the new obligation as well as recurring policy costs due to the forgone deductions from payments for service. By contrast, workers would benefit from a transfer of income from businesses equal to the sums currently deducted from payments for service. In theory, there could be other, indirect impacts on prices and wages, but these are uncertain, and we do not monetise them as they are difficult to robustly estimate.

## **Methodology for estimating payments for service and deductions**

In common with the GB RIA, we estimate the amounts of payments for service only in respect of restaurants, pubs and bars. Following the 2015 Call for Evidence, the GB RIA assumes that other tipping sectors were already handling payments for service in a fair and transparent way. Consequently, the estimates for payments for service and deductions relies on data for restaurants, pubs and bars only.

Considering the lack of specific data on the amount of payments for service that are retained by employers in restaurants, pubs and bars, we use turnover figures from the Annual Business Inquiry as a starting point. The turnover for other tipping industries are also provided for comparison (see Table 3).

**Table 3: Turnover of tipping industries, 2022**

<b>Industry</b>	<b>Turnover (£000s)</b>
Restaurants and mobile food service activities (1)	1,237,580
Beverage serving activities (2)	379,206
Hotels and similar accommodation	655,507
Taxi operation	52,194
Gambling and betting activities	228,136
Hairdressing and other beauty treatment	102,726
<b>Restaurants, pubs and bars (1 + 2)</b>	<b>1,616,786</b>
<b>All tipping industries</b>	<b>2,655,349</b>

Source: NISRA, Annual Business Inquiry, 2022.

The estimated turnover figures of restaurants, pubs and bars published by NISRA are used to provide central estimate of the total value of service payments. Unlike the GB RIA, NISRA have not, at time of drafting, been able to provide low and high estimates (see Table 4).

**Table 4: Turnover estimates in restaurants, pubs and bars, 2022**

	Turnover (£000s)		
	Low	Mean	High

Restaurants		1,237,580	
Pubs and Bars		379,206	
<b>Total</b>		<b>1,616,786</b>	

Source: Table 3.

Utilising turnover data from Table 4 along with the methodology deployed in the GB RIA, we multiply the turnover by the proportion of customers leaving tips (93% as a central estimate, with 87% and 95% being low and high estimates respectively), and then multiplied again by the average amount tipped (assumed to be 10% in all scenarios) to provide Table 5.

**Table 5: Value of payment for service, 2022 prices**

**Relying on the methodology from the GB RIA**

	Low			Central			High		
	% Leaving Tip	Turnover (£000s)	Amount of Service Payments (£000s)	% Leaving Tip	Turnover (£000s)	Amount of Service Payments (£000s)	% Leaving Tip	Turnover (£000s)	Amount of Service Payments (£000s)
Restaurants	87			93	1,237,580	115,094.92	95		
Pubs and Bars					379,206	35,266.18			
<b>Total</b>					<b>1,616,786</b>	<b>150,361.09</b>			

Having estimated the values of payment for service charges, the next stage is to break these figures down by mode of payment.

The GB RIA utilised the 2019 UK Finance data for the value of card payments in restaurants, assuming this included service payments too. Extrapolating the 2019 UK figure referenced above to 2022 using [ONS data](#) for the average spend per UK cardholder to arrive at a 2022 estimate for UK card expenditure in restaurants, then applying the NI share (2%) from the same ONS dataset (based on the relative size of UK regions in terms of card spending), we estimate the total value of NI card expenditure in restaurants in 2022 at **£0.911 bn**. To estimate the cash expenditure in NI restaurants, we simply deduct the above figure from the 2022 NI restaurant turnover figure: £1.238bn - £0.911bn = **£0.327bn**.

For the GB RIA, the ratio of card/cash expenditure in restaurants was estimated to be 82:18. In NI, it has been estimated to be 73:27. This is supported by The Financial Conduct Authority (FCA) Financial Lives May 2022 survey<sup>13</sup>, which indicated that NI citizens are twice as reliant on cash to pay for 'everything' or 'most things' vs the UK (13% vs 6%). In Table 6 we apply the card/cash ratio of restaurant expenditure to the value of service payments (from Table 5) in each subsector.

**Table 6: Value of service payments by mode of payment, 2022 prices**

	Low (33% by card)	Central (73% by card) (£)	High (100% by card)
<b>Restaurants</b>			
Card		84,019,288	
Cash		31,075,627	
<b>Pubs &amp; Bars</b>			
Card		25,744,308	
Cash		9,521,867	

The final stage is to estimate the value of deductions from payments for service. Utilising GB RIA methodology, which relies on the 2015 Call for Evidence, 40% reported deductions from cash service payments while 65% reported deductions from card service payments. In the absence of NI specific data, we have applied the GB estimates. Based on engagement with stakeholders, the GB RIA estimated 5% is the average amount deducted (central), utilising 2% for low (this is seen by industry as

<sup>13</sup> [Financial Lives 2022 survey | FCA](#)

average amount to cover the cost of card fees and commissions) and assumes 10% for high estimate to capture those firms who deduct more.

For the central estimate (see **Table 7**), a total of **£4.379m** was estimated to be deducted in 2022, representing 0.27% of total turnover in the two subsectors. In GB, this proportion was 0.28%.

**Table 7: Total deductions on payments for service (2022 prices)**

	<b>Value of service payments (£)</b>	<b>Proportion reporting deductions (%)</b>	<b>Proportion of deduction (%)</b>	<b>Total deduction (£)</b>
<b>Restaurants</b>				
Card	84,019,288	65	5	2,730,627
Cash	31,075,627	40	5	621,513
<b>Pubs &amp; Bars</b>				
Card	25,744,308	65	5	836,690
Cash	9,521,867	40	5	190,437
<b>Total</b>				<b>4,379,267</b>

### **Costs and Benefits of preferred option (monetised)**

#### **Transitional costs to businesses**

Businesses would incur transitional and other one-off costs associated with implementing and complying with the new legal obligations. These would consist of the following:

##### *Familiarisation Costs*

We have followed similar methodology in the GB RIA to calculate familiarisation costs, where it was assumed that a central estimate for the time required for familiarisation would be 30 minutes. We also assume that this role would be undertaken by a Manager, Director or Senior Official, at a median hourly rate of £25.85<sup>14</sup>, rising to £30.49 with the inclusion of non-wage labour costs. Consequently, we estimate this would result in an average familiarisation cost of £15.25 per business. With a total of 5,655 businesses in identified tipping industries, we estimate total familiarisation costs to be approximately **£86,210** under the central scenario.

##### *Admin Costs (Contract)*

We consider that businesses would incur this other one-off administrative cost due to necessary changes to workers' contracts. However, following the GB RIA methodology, only businesses which do not currently comply with the new obligation would incur these costs, as already-compliant businesses (i.e. already-compliant businesses in hospitality as well as all businesses in other tipping industries, as these are already compliant by assumption) would not need to change their workers' contracts. This relies upon the 2015 Call for Evidence proportion of those reporting deductions by card (65%) to estimate the proportion of businesses who would find themselves non-compliant with the new obligations.

We also assume a lawyer would be required to update contracts. We assume it would take a lawyer 30 minutes to make the necessary changes; at an average hourly rate of £33.52<sup>15</sup>, rising to an hourly rate of £39.54 with the inclusion of non-wage labour costs, resulting in average cost per non-compliant business of £19.77.

With 65% of the 3,765 restaurants, pubs and bars deemed to be non-compliant, we calculate that the overall administrative costs associated with changes to workers contracts would be **£48,378**.

##### *Admin Costs (Payroll)*

<sup>14</sup> [Employee earnings in NI 2023 | Northern Ireland Statistics and Research Agency \(nisra.gov.uk\)](https://www.nisra.gov.uk/employee-earnings-in-ni-2023) – Occupation SOC20 (4) Table 15.6a Full Time

<sup>15</sup> [Employee earnings in NI 2023 | Northern Ireland Statistics and Research Agency \(nisra.gov.uk\)](https://www.nisra.gov.uk/employee-earnings-in-ni-2023) – Occupation SOC20 (4) Table 15.6a Full Time

The GB RIA assumed that medium/large businesses would simply need to amend a function in their system to align with the policy, thus would incur no cost. However, small & micro businesses would likely incur costs to make structural changes to their software and thus need to contract an IT service provider to make the necessary changes. This is anticipated at 60 minutes at an hourly rate of £25.00<sup>16</sup>, rising to £29.49 per affected business when non-wage labour costs are included. For all affected businesses (i.e. 65% of the 3,690 restaurants, pubs and bars that fall into the small and micro categories, this equates to **£70,726**.

## Recurring

The preferred option would make it obligatory for employers to pass on payments for service to workers in full (aside from any deductions required by law) and requiring that the distribution is fair and transparent. That would result in the following recurring costs:

### *Transfers of income from businesses to workers*

These transfers of income from businesses back to workers would be equal to the total amount of current deductions calculated in Table 7, totalling £4,379,269 per annum. With the assumption that the figure is based on 65% non-compliance by businesses in the restaurants, pubs and bars sub-sectors, that equates to an average cost of £1,789 to each of the affected businesses.

### *Record keeping*

To make the policy enforceable, all tipping industries' employers would be required to keep records of payments for service received and distributed sufficient to demonstrate compliance. Basing our methodology on the GB RIA, we assume that the professional who would typically carry out this record-keeping task is the manager in small and micro businesses and a member of the HR department in medium and large businesses. Accounting for the proportion of employees who are employed in small/micro businesses and the proportion of employees employed in medium/large businesses, a weighted average hourly wage has been estimated based on the appropriate employee within each business who would handle the administration of record-keeping. This hourly rate (adjusted for non-wage labour costs) is subsequently multiplied by the number of employee jobs and the time taken to administer. Table 8 outlines these estimated costs, which are based on a central estimate of 20 minutes per worker per annum and provide for an overall cost of **£324,002**.

**Table 8: Record-keeping costs (annual)**

Industry	Number of businesses	Number of employee jobs	Weighted average wages (£)	Time required to keep records	Record keeping costs (£)
Restaurants and mobile food service activities (1)	2850	31909	13.87	5849.98	174006.796
Beverage serving activities (2)	915	7383	14.54	1353.55	42205.9777
Hotels and similar accommodation	195	9877	17.85	1810.78	69316.9627
Taxi operation	135	625	20.21	114.58	4966.107
Gambling and betting activities	85	2240	16.28	410.67	14337.7515
Hairdressing and other beauty treatment	1475	3360	14.51	616	19168.2904
Restaurants, pubs and bars (1 + 2)	2765	39292		7203.53	<b>216212.773</b>
<b>All tipping industries</b>	<b>5655</b>	<b>55394</b>		<b>10155.56</b>	<b>324001.885</b>

<sup>16</sup> [Employee earnings in NI 2023](https://www.nisra.gov.uk/publications/employee-earnings-in-ni-2023) | Northern Ireland Statistics and Research Agency ([nisra.gov.uk](https://www.nisra.gov.uk)) – Occupation SOC20 (4) Table 15.6a Full Time

## Information requests

Workers would also have a right to access some of the information recorded by their employers, allowing them to understand the amount of payments for service collected and how they are distributed and, if needs be, present a claim for breach in an industrial tribunal.

The GB RIA assumes that workers currently working in a non-compliant situation (i.e. **65% of workers in restaurants, pubs and bars**) would want to check records of payments for service twice a year, whereas others (including in other tipping industries) would want to do so once a year. We assume that the professional who would typically put together the information requested by a worker is the manager in small and micro businesses and a member of the HR department in medium and large businesses. In common with the GB RIA we have assumed 54 minutes as a central estimate to deal with each request.

As shown in Table 9 below, multiplying the hourly pay of the relevant professionals by our assumption about the time required to respond to workers' requests for information every year and then by the corresponding number of workers in each tipping industry gives **£1.254 million** for total annual costs of responding to workers' requests for information – that is, about £22.64 per worker on average.

**Table 9: Costs of responding to workers requests for information (annual)**

Industry	Number of employee jobs	Weighted average wages (£)	Total time required to respond across all workers (hours)	Costs of responding to workers' requests for information (£)
Restaurants and mobile food service activities (1)	31909	13.87	47384.865	775200.5175
Beverage serving activities (2)	7383	14.54	10963.755	188027.6308
Hotels and similar accommodation	9877	17.85	8889.3	187155.9889
Taxi operation	625	20.21	562.5	13408.70344
Gambling and betting activities	2240	16.28	2016	38711.75616
Hairdressing and other beauty treatment	3360	14.51	3024	51754.38408
Restaurants, pubs and bars (1 + 2)	39292		58348.62	<b>963,228.15</b>
<b>All tipping industries</b>	<b>55394</b>		<b>72840.42</b>	<b>1,254,258.98</b>

## Benefits to Workers

Where businesses make deductions for payments for service, under the proposed policy it would be obligatory for those deductions to be passed in full to relevant workers. As the estimated annual value of deductions calculated in Table 7 is £4,379,267, that amount would become a recurring benefit to workers.

## Small and Micro Business Impact Test

Throughout this impact assessment we have referred to set of business sectors where tipping is commonplace and thus would be affected by the proposed policy. Table 10 provides a breakdown of those sectors by business size. From that table it is evident that 97% of the businesses concerned are small or micro businesses.

**Table 10: Enterprises in tipping industries, by business size, March 2023.**

Industry	Employee Size Band				Total
	0-9 (Micro)	10-49 (Small)	50-249 (Medium)	250+ (Large)	
Restaurants and mobile food service activities	2095	700	45	15	2,850
Beverage serving activities	735	160	20	0	915
Hotels and similar accommodation	70	65	55	5	195
Taxi operation	120	15	*	0	135
Gambling and betting activities	50	30	5	*	85
Hairdressing and other beauty treatment	1,435	40	*	0	1,475
<b>All tipping industries</b>	<b>4,500</b>	<b>1,010</b>	<b>130</b>	<b>20</b>	<b>5,660</b>

Source: NISRA, Inter-Departmental Business Register, March 2023. Disclosure controls have been applied and counts have been rounded to the nearest 5 and, thus, may not sum to totals.

The GB RIA provides data on annual costs of no longer making deductions along with details of other costs, broken down by business size. We encounter data limitations when we try to the value of various costs to businesses in NI when broken down by business size.<sup>17</sup> Nevertheless, given that the scale of enterprises in tipping industries is so heavily weighted towards small and micro businesses, it is perhaps safe to assume that the cost data already discussed throughout this Impact Assessment is already broadly representative of the impacts to those smaller businesses.

Within the scope of all of the businesses affected by the proposed policy, it is clear that certain costs would be incurred only by smaller businesses. (i.e. to facilitate amendment of payroll accounting systems).

This has been reflected in the calculations in *Admin Costs (Payroll)*, with a cost approaching only £30 per business.

We do not believe it is appropriate to exempt small and micro businesses from the obligations that would flow from the proposed policy. This is because it would be of continuing detrimental effect to workers in what are generally considered low-paying sectors. Exemptions would encourage more productive workers to seek employment with rival businesses that pass on tips in full. Conversely it may also result in businesses that are free from the obligations having a competitive advantage over businesses that are required to, or voluntarily, observe the obligations. It is also important to realise that consumers who leave tips should have confidence that rewards for good service go to workers providing that service.]

<sup>17</sup> Whilst at the UK level, the Business Population Estimates will provide breakdowns of turnover by business size beyond 2 digit SIC, for NI this is restricted to 2 digit SIC and thus covers beyond the definition of the hospitality utilised by GB.