



Supporting the hair, beauty
and barbering industries

NHBF submission to the Economy and Fair Work Committee inquiry into Town Centres and the new realities of Retail and E-Commerce March 2022

Background

The National Hair & Beauty Federation (NHBF) has around 6,400 Members with 520 members in Scotland and is the UK's largest trade body for the hair, beauty and barbering industries. The NHBF focuses on helping members to run successful and profitable hair and beauty businesses by providing advice, specialist support and tailored services to meet the unique challenges of running a salon or barbershop.

Overall approach

Our overall approach to this inquiry is to highlight the importance of supporting hair and beauty businesses across Scotland. Pre-Covid, barbers, beauty salons and nail bars showed the highest growth in the [top three retailer categories](#)¹. These businesses are key to underpinning communities from town centres to city centres, out of town retail parks and villages across Scotland. They help drive footfall to keep communities vibrant, develop a sense of place and contribute strongly to a sense of wellbeing in the community.

Current business context

The hair, beauty and barbering sector is made up of nearly 45,000 businesses, mostly small and micro businesses operating in communities across the UK. It employs 288,000 people and 7,000 apprentices (in England alone) with a high proportion of women and young people, and generates £8 billion of value to the UK economy each year.

After our State of the Industry survey in September showed growing evidence of sector resilience and businesses getting back on their feet (with albeit slower growth in Scotland compared with the rest of the UK), the emergence of the omicron variant and renewed restrictions across the UK over the winter had a chilling effect. The latest January edition of the [State of the Industry](#) survey showed that:

- **Business climate:** 42% were breaking even. However, nearly 40% were either making a small or substantial loss with (this is higher in Scotland at 43%) and only 19% making a small or good profit.
- **Prices:** Around 32% of respondents raised their prices over the previous three months. A further 58% planned to do so over the next three months.
- **Government support:** A significant 81% of businesses were either partially or completely reliant on Government support (this was higher in Scotland at 84%) to continue trading (up from 66%).
- **Debt levels:** More than half of businesses (54%) had debt; the level of debt had increased for 52% over the last 12 months and 68% had used personal savings.

¹ NHBF Industry Statistics (2020)

- Business confidence in the sector has weakened, with only 40% confident of their survival (down from 63% in September) and a significant 52% not sure.
- Growth intentions: these were similar to the green shoots shown in September. Over 40% say that they intended to grow their business, 41% remain the same size and 17% downsize or handover the business

The tightening of Covid restrictions created problems for businesses in December, with an average of 30% of appointments cancelled across the pre-Christmas weekend and walk-in trade falling to 19% of what was expected. This reduced business revenue at what should normally be the busiest time of year and was reflected in the [most recent](#) of three snap polls during December. Many businesses have run through their reserves have tapped into personal savings and are struggling to survive.

Recommendations

Our summary of recommendations to the Scottish Government in order to secure the short, medium- and long-term survival of the sector are as follows:

1. **A clear timetable** for the opening up of Covid restrictions and encouraging public confidence to return to town centres and high streets. We welcome the Scottish Government's timetable setting out the likely removal of the remaining legal measures by 21 March. Northern Ireland and Wales have already taken action towards this. It is important to encourage full confidence to return to town centres and the high street.
2. **Further short-term business support**: We very much welcome the £19m Close Contact Fund being made available to the sector. This was delivered late but was a lifeline to many businesses. We also welcome the announcement to offer a 50% discount to business rates in 2022. We ask the Scottish Government to keep the situation under review and consider further support to the sector in the short term, e.g. increasing the business rates discount above 50% or providing a three-month rates holiday, as has been introduced in Northern Ireland.
3. **Strategic planning for future Covid risks**: We welcome the latest strategic review and framework of the Covid response. We welcome planning around potential future variants, including for next winter, to give businesses plenty of time to plan and adapt. We would like to see even more simple communications to the public in order that they are clear on current measures. There was a tendency for customers and clients in the autumn to revert to old lockdown measures and not go out because of confusion about what the rules were, having a negative impact on businesses.

Keeping town centres alive

1. *How are Scottish high streets and town centres changing? What are the strengths and weaknesses of Scotland's town centres?*
2. *How do we encourage people to live in town centres? What types of policies are needed?*
3. *How can equality and diversity issues be addressed in policies that create and sustain resilient town centres?*

4. *Independent and small businesses, and community and co-operative operations enhance local resilience and wellbeing but can often be marginalised in town centres. How can this be changed?*
5. *What is the role of culture and leisure in town centres? How can these be leveraged to increase wellbeing?*
6. *Who or what can drive change in Scottish town centres?*
7. *Can you provide examples of best practice and success stories, in the UK and/or internationally, of creating living and resilient town centres?*
8. *If not covered elsewhere, what other policy interventions would you like to see to create living and resilient town centres?*

Hair and beauty businesses in Scotland are based in a range of locations across the country from city and town centres to out of town retail parks, edge of towns and villages. There is a tendency for Scotland based businesses to be more likely to be based in town and city centres compared with other parts of the UK.

Role of salons in contributing to town centres, the local economy and community

The NHBF consistently makes the case that hair salons, barbershops and beauty salons are the backbone of the high street with a highly visible presence across Scotland.

In addition to providing hair and beauty services to clients, many are also community hubs. For some isolated or elderly clients, their regular visits to the salon provide a rare chance to talk to someone face-to-face. Many salons provide community services such as free haircuts to the homeless or are trained to help the community, for example by spotting signs of domestic abuse or helping to combat suicidal tendencies. Indeed, the winner of the NHBF Community Awards 2019 pre-Covid was a salon in Inverness, The Head Gardener.

Salons tend to form strong links within the local community, for example working with schools and training providers to support careers events and provide opportunities for employment as apprentices. Many are actively involved in town centre management.

For a population that has suffered mental health strain due to lockdowns and restrictions, the sector will continue to make an important contribution to population wellbeing post Covid.

In terms of equality and diversity, it is a female-led sector, strong on female entrepreneurship, and also giving employment to a significant proportion of the population who are dyslexic or neuro-diverse.

Challenges facing high streets and town centres

While pre-Covid, the [rising numbers²](#) of salons and barbershops is positive news at one level, the sheer number of competing businesses in a local area also presents challenges. Competitive pressures can lead to discounting and price wars, which means that many salons and barbershops are barely profitable.

² NHBF Industry Statistics (2020)

Business costs continue to rise. In the coming months, the sector faces increases in energy prices, products and supplies, National Minimum/Living Wage, National Insurance Contributions, pension contributions and business rates, all against a backdrop of uncertainty post pandemic.

Margins are very tight, as shown by the January State of the Industry survey referred to previously, which shows that only a small percentage (19%) of businesses are actually making any kind of profit at all. Any increase in costs, including business rates, could result in many salons and barbershops disappearing from Scotland's high streets, leaving a void in terms of their contributions to these communities. It is important that the Scottish Government supports the resilience of these businesses into the future.

The new realities of Scottish retail

9. *How has the structure and nature of Scottish retail changed over the last decade (topics of interest include: proportion of spend with Scottish headquartered retailers, growth of independent retail, urban and rural trends, etc)?*
10. *How has the role of physical retail stores changed and what are the consequences of this for Scottish high streets and town centres?*
11. *How can the retail sector deliver fair, secure and quality employment? What's the gender impact of the move away from traditional retail?*
12. *What's the role of fiscal policy levers in supporting the retail sector?*

The majority of businesses in the sector are micro-businesses, owners with a single salon employing fewer than five staff. However, there are also a smaller number of salon owners with multiple salon franchises across Scotland that employ more than 20 people and are important local employers.

Fair, secure and quality employment

The NHBF will be publishing a report in early April outlining the current skills and recruitment challenges and staff shortages in the sector and will share the findings with the Committee including our recommendations for future action. Our January state of the industry survey shows that only 15% of businesses were planning to take on staff over the next three months and only 7% planned to take on an apprentice. These figures have dipped since the previous survey in September. Anecdotally, businesses in Scotland have even more concerns than those in England about the lack of support in taking on apprenticeships.

There are reported issues with low pay in the sector but challenges too around salons increasing prices. It is a sign of the level of financial stress that 60% are in fact thinking of putting up their prices over the next three months in response to recent challenges and increased business and energy costs. Businesses also have to meet the challenge of increased National Minimum Wage rates and National Insurance Contributions (NICs) from April 2022. There will potentially be a knock-on effect in terms of consumer demand, but at this stage, we are not able to quantify the impact.

The role of fiscal policy levers - A fairer tax system

The NHBF is calling for a tax system which creates more of a level playing field and does not unfairly discriminate between businesses with employees and businesses using self-employed individuals.

There is also a trend towards self-employment in the industry, [outlined here in a report³](#) which is growing year on year. The vast majority of self-employed hairdressers, barbers and beauty therapists are individuals that do not earn enough to reach the VAT threshold. Businesses who employ their staff are far more likely to pay VAT as their turnover is for one business, whereas those having self-employed individuals working in their salons are less likely to pay VAT because there are several micro-businesses operating within their salon, and so each will remain below the threshold.

There are also some businesses within the sector operating within the hidden economy by failing to declare earnings and avoiding paying tax or VAT. The least scrupulous openly advertise themselves as 'cash only' businesses. With HMRC estimating a tax gap of £35bn in 2017/18 caused by the hidden economy, we are concerned that by purposely attempting to avoid paying the tax they owe, these businesses and individuals are denying money to the public purse to fund our vital public services.

By seeking to operate under the radar of enforcement, they undercut the market by charging unrealistically low prices, threaten the survival of responsible, established businesses, put the livelihoods of the people working in them at risk and bring disrepute to the sector.

The NHBF would like to see a change in the way that VAT is applied:

- Ideally, we would want to see the VAT threshold significantly increased so all small businesses, including those run by the self-employed, enjoy relief from VAT, allowing them to recover and grow.
- Alternatively, we would like to see reductions in the VAT rate for labour-intensive service industries to 5%, such as those enjoyed by hair salons in other European countries. Many pay less than 10%, recognising that there are few costs on which salons can claim VAT back.
- Another favourable option would be to introduce tiered rates for the smallest businesses once they have crossed the VAT threshold, giving them more time to increase their turnover to pay additional VAT bills. This would be of particular benefit to high street businesses needing to recoup lost earnings during the pandemic. The current system whereby a salon immediately becomes liable to a £17,000 VAT bill as soon as they cross the threshold is a powerful incentive to remain below the threshold.

In January 2021, as part of our campaign for support during the pandemic we made an [evidenced case](#) to HM Treasury for a reduction in the VAT rate to 5% to match that given to the hospitality sector, but their response was that the bulk of the sector would not be covered, as only 30% of hair and beauty businesses were VAT-registered. The sector was given the higher level of restart grants instead, which HM Treasury argued would benefit more businesses in the sector.

³ Self-employment in the personal care sector, by sector organisations including NHBF (2021)

Ecommerce activity in Scotland

13. *What are the implications for businesses of increased online shopping and digital activity in the customer journey?*
14. *Have Scottish small and medium sized enterprises (SMEs) realised the full potential of online retail? What are the opportunities and barriers?*
15. *How are Scottish SMEs supported to develop and grow ecommerce activity? Is this support satisfactory? What other policy interventions, if any, are needed?*

As a result of lockdowns and Covid restrictions, salons and barbershops have developed some aspects of their business online in order to counteract business closures, for example increased sale of hair and beauty products online and the sale of online gift vouchers. Covid has also accelerated the take up of technology in business in a number of other ways including contactless payments, online tutorials and consultations and the further use of social media for communications.

However, hairdressing, barbering, and beauty therapy services themselves cannot be carried out online and therefore rely on a physical 'bricks and mortar' presence. Business rates are seen as an unfair additional imposition on 'bricks and mortar' businesses compared to online businesses. High streets and town centres, particularly in deprived areas, are no longer prime locations, but the concept of business rates does not reflect this.

The NHBF considers that business rates are an outdated tax on physical property, in an era where many businesses no longer need premises and are therefore mostly exempt and has long called for fundamental reform of business rates. However, after the most recent Spending Review in the autumn the UK Government has decided not to go down the route of fundamental reform.

The case for an online sales tax (OST)

According to recent ONS figures, high street retailers pay 25% of the total rates bill despite representing less than 10% of the UK's GDP. If the high street is to survive, it is important that high street service industries such as hair and beauty (which cannot be provided online) are supported by government policies.

A [Treasury Select Committee report](#) in 2019 determined that Business Rates are outpacing inflation, growing as a proportion of the tax paid by business and found it to be an unfair system that places a greater cost on high street shops than online businesses. The current system is an outdated tax on physical property, in an era where many businesses no longer need premises and are therefore mostly exempt.

The NHBF is looking at closely the UK Government's recently published consultation looking in more detail at the scope and potential delivery of a future online sales tax and will respond in more detail to the questions raised by the deadline on 20 May. The NHBF is happy to share this response with the Committee.

The introduction of a Digital Services Tax of 2% on the revenues of online marketplaces and social media platforms from April 2020 is a positive move. However, further action is needed in terms of levelling the playing field between online and high street retailers in light of

analysis that Amazon contributes less than 1% of its turnover in business rates, compared to between 2% and 7% for 'bricks and mortar' premises. Covid has further widened the gap between bricks and mortar and online businesses, and the current system is no longer fair or sustainable to high street retailers.