

The mia Service Charge Best Practice Guide

Background

Recent MIA research found that over a third of member venues are considering or have already introduced a Service Charge or similar, such as a Team Welfare levy, over the last few months. This best practice guide is designed to help venues who are considering introducing this by providing a framework to use.

There are various factors as to why so many are considering this now, including:

- The perception of the industry being low paid
- The pandemic and the furlough scheme causing many team members to leave the industry for industries that feel more secure
- The compressed labour market which is pushing other industries to pay significantly higher base salaries
- The ability for team members to earn more in standalone restaurants and bars where a service charge and/or tips is the norm
- To encourage guest to reward good service by opting them in, as given the nature of events, bills are not often presented at the time the service is given, hence the low tips received versus restaurants
- The move to a more cashless society, reducing cash tips
- The high inflation rate impacting all goods and in particular food, utilities, materials and labour putting pressure on employers and raising costs for team members

Considerations

Before considering introducing any such scheme we advocate that all venues:

- Pay their team at least the minimum wage, before any tips, service charges, bonuses or other disbursements
- Where possible they pay the higher 'Living Wage/London Living wage' as opposed to the lower Minimum Wage
- Ensure 100% of all tips are distributed to the operational team, without deductions for breakages, mis-pours, wrong orders, till shortages, walkouts, administration, credit card/banking charges, uniforms or any other deduction from what is left by the guests
- Set out their tips policy by displaying a Fair Tips Charter or similar

Options

From our research we have found venues to be approaching this in one of two ways, by a Service Charge or by a Team Welfare Levy. Below we outline both options and the Best Practice Guidelines if you are looking to introduce either.

The main differences of the two options are that a voluntary service charge will hopefully encourage the team to give good service (so the guest chooses to leave the charge on the bill) and to encourage the team to sell more, as they are receiving a percentage of the total sold.

With the Welfare levy option the team earn a higher fixed salary which assists with obtaining credit (i.e. mortgage/affordability of rent), it smooths out peaks and troughs in earnings, given the seasonal nature of events versus the service charge option that rewards the team more in busy periods and less so in quieter ones. It can also aid attracting talent to the sector from other industries, given the higher guaranteed income.

Service Charge option

In F&B areas where charges are raised at the point of service i.e. restaurants, bars, room service;

A discretionary service charge of 12.5% would be added to the whole bill for all table served food and drinks, where a bill to sign/pay is presented.

Where the guests visit a bar or similar and pay at the time of ordering then no service charge is added.

If using table ordering apps or in room ordering apps then at the end of the transaction the guest is given the option to choose to add one of three amounts: 5% / 10% / 12.5% discretionary service.

For Meetings and Events bookings where charges are contracted in advance such as conferences, weddings, private dinners or Christmas Parties;

A discretionary service charge of 10% is added to the quotation for any F&B items added (over and above the standard DDR & 24hr packages).

This would include items such as Gala dinners, private bar tabs, street food festivals, BBQs, theme breaks, drinks carts etc. The service charge is made clear on the contract with the option to opt out if they choose.

i.e. a client books a 24hour Delegate booking at £179 net 24h rate for 100 people and pre books an upgrade to a gala dinner at £20 a head and a further £20 a head for a drinks reception (100x £40 a head = £4k upgrades). A discretionary £4 per head, £400 in total is added to the quote.

For those that wish to add this to the F&B elements of DDR and 24hr packages as well, or the full booking value, then this must be clearly laid out and explained so the booker can see the charges transparently.

Notes:

Discretionary charges are exempt from VAT so 100% of the service charge collected can be distributed to the team.

Quotes must state on them that 'a discretionary 10% service charge is added to your upgraded food and beverage items when contracted' or an appropriate statement to cover your policy.

Menus must state on them that 'a discretionary 12.5% service charge will be added to your bill'.

The discretionary service charge can be removed from quotes where clients request this or alternatively it can be removed from the invoice at any stage up until payment has been made by the client.

Any agent commission due on the booking will not be applicable on the service charge element, as 100% of this is for the team members. This is the same as ancillary spend on-site where agents are not commissioned on this small uplift.

There will be costs to the business; credit card and banking charges on the service charge elements of the revenue collected and administration time/costs. As 100% of the service charge is to be distributed, there will also be the employer's national insurance contributions to be paid by the employer.

The link below to HMRC offers further guidance and the mia accepts no liability for any individual companies tax arrangements. This Best Practice Guide is designed to assist those looking to introduce a scheme by providing frameworks and an understanding of how others have approached this but does not give guidance on how to manage the legalities of such schemes.

<https://www.gov.uk/government/publications/e24-tips-gratuities-service-charges-and-troncs>

Splitting the service charge:

The venue must keep accurate records of service charges received and agree with the team a distribution plan.

This plan should include:

- Who is included/not included in the distribution. Including what grades i.e. Manager, Senior Manager that are exempt
- Directors and owners of the business should not be included in the distribution
- What percentage share goes to each group i.e. are chefs getting an equal share or are F&B team and KP's getting £1 per share and Chefs say receiving 70p per share
- The frequency of the shares being distributed
- A method for calculating the shares – ideally based on hours worked so the more hours you work the more shares you receive
- The plan should be shared with team representatives in advance of the scheme starting
- All distributions must be paid through the employees pay with PAYE deductions taken

Staff Welfare Levy Option

For some venues, contract caterers or other providers an optional service charge may not achieve the desired uplift to the team members overall earnings that is desired and the inherent issue with service charges not being guaranteed income therefore the staffing levy option may suit better.

A compulsory 10% staffing levy is charged on the food and beverage charges on every event. The charge is shown as the final line item on all quotes, contracts and the final invoice, and calculated on the final catering spend on any event.

You will need to work out the F&B element of packages such as 24hr and DDR packages.

i.e. DDR £79 of which £30 is allocated to F&B; the levy of £3 per delegate will be shown on the quote and final invoice.

Notes:

Team members should be trained and an aid memoir provided to explain to those that ask as to why this has been introduced and the key benefits to the team as a result. See below an example of this;

With hospitality being a historically a low-paid industry, it is important to us that, as well as on and off site benefits, we are able to pay our staff an hourly rate that is above the Real Living Wage/London Real Living wage. A fair reward for the hard work and long hours that they put in to ensure our hospitality service exceeds our customers' expectations.

Rather than simply increase our rates across all elements of your package, we have introduced a 10% welfare levy to be added to any food and drink elements of your event. The revenue generated will allow us to continue our commitment to supporting our brilliant team of staff by paying above the Real Living Wage/Real London Living Wage and providing increased wellbeing initiatives.

Team members should be paid no less than the Real Living Wage/Real London Living Wage – as the levy is being used by the Company to pay for higher salaries to the team and no less than 5% more basic pay than before the levy was introduced.

As this is compulsory the levy is subject to VAT.



Any agent commission due on the booking will not be applicable on the staff welfare levy, as this is to provide enhancements for team members. This is the same as ancillary spend on-site where agents are not commissioned on this small uplift.

A schedule of new, additional team benefits is to be produced and shared with the team, at the point of introduction, showing the other enhancements over and above pay, that they will now receive.