Economy and Fair Work Committee
Oral Evidence Roundtable Discussion (5 Oct 2022) – Pre-Budget Scrutiny 2023-24

Witnesses:
- Marc Crothall, Chief Executive, Scottish Tourism Alliance
- Bryan Simpson, Industrial Organiser, Unite Hospitality
- Leon Thompson, Executive Director, UKHospitality Scotland

Committee:
- Claire Baker (Convenor, LAB)
- Colin Beattie (Deputy Convener, SNP)
- Fiona Hyslop (SNP)
- Maggie Chapman (GRN)
- Jamie Halcro Johnson (CON)
- Gordon MacDonald (SNP)
- Graham Simpson (CON)
- Colin Smyth (LAB)
- Michelle Thomson (SNP)

<u>Current business situation</u>

Marc Crothall, Chief Executive, Scottish Tourism Alliance:

- From a business point of view, in a worse place than last year without question.
- Uncertainty of how to navigate through the challenges in front causing real concern for businesses – not least to protect the business and to invest to be competitive in the future and recover strongly, but also to maintain the workforce that is in short supply anyway.
- Many businesses close traditionally during the winter period anyway, but how do they bridge the gap and repay not just the direct costs that will still come through energy, but also some of the borrowing or the sizeable debt that many will have taken on.
- Consumer base is equally challenged with discretionary spend and how they choose to prioritise that. The uncertainty of the leisure spend over the coming period will be very much a risk.
- Already seen businesses take the decision to repurpose, change their viability from being a hotel to becoming a residential property. It was reported by the BBC that a number of properties around the Loch Lomond area, the smaller, lifestyle businesses have decided that to counter the costs it's better to choose to come out of the sector.
- Other key sector that has seen a shift is the self-catering sector, with the Short-Term Let Licensing Scheme implementation. Many of those operators have decided to come out of the marketplace.
- There are other operators that have benefitted from some of the international footfall, which is has been hugely welcomed. If you speak to the in-bound sector, their challenge has been the number of breaks in the supply chain.

Leon Thompson, Executive Director, UKHospitality Scotland:

- Coming out of COVID, nobody imagined a challenge of this scale. The challenges that face businesses now are much more significant than as a result of the pandemic.

- Businesses have been trying to move towards recovery and profitability, but surveys show that even over summer about a third of businesses said they were trading at profitable level. Suspect that figure has declined within the last month or two.
- Businesses are still carrying debt from COVID and now the rising cost of doing business, along with the rising cost of living. It's a completely unsustainable situation for many businesses.
- Inflation remains a massive problem, particularly around food and drink.
- The support that's come from the UK Government, which is incredibly welcome, still sees many businesses paying 200-300% more on their bills. It's a temporary fix for six months and talks must continue with UK Government about what targeted support for hospitality looks like beyond that.
- Businesses are really struggling – costs to manage, consumer confidence plummeting, members saying bookings are incredibly low for autumn and winter.
- Christmas massively important period for hospitality, where some businesses look to make a third of their money over the festive period normally, but just now there's not much demand for Christmas parties and breaks. A lot of businesses are scaling back their offer and considering if they'll stay open during autumn/winter because it's going to be too expensive.
- If businesses do close temporarily that's detrimental to the experience of visitors who are around. These businesses will still have costs to bear – paying business rates, paying back loans, but they won't have any revenue at all.
- Beyond energy rate support, nothing has been announced for business. Welcome the reversal of the National Insurance increase, which will give the average hospitality business about another £10,000 back.
- UKHospitality making the ask of the UK Government to revisit VAT – needs to be lowered to 10% to help businesses in the short and medium term. Business rate relief as well and if that comes through a UK Government Budget then hopefully there would be Barnett consequentials that would benefit Scottish hospitality sector.
- Businesses need that support now. Impossible for viable businesses to make any sensible business decisions.

Bryan Simpson, Industrial Organiser, Unite Hospitality:

- Since March, seeing a huge reduction in footfall and a survey of members has seen a huge reduction in hours for them, with particularly pubs and bars closing.
- BigHospitality survey found 7 out of 10 pubs were on the brink and would not survive Christmas. Pubs, bars and some restaurants are most impacted. Hotels less so because of international footfall.
- Double-wammy impact on workers as consumers, with many workers not earning enough to pay energy bills and in energy poverty. Hit by the cost of living crisis and then hit when their businesses can't afford to retain them.
- Concerned multinationals are taking advantage of the crisis and cutting hours and staff anyway.
- Campaign against hours being cut, especially if contractual obligation. 20% of sector are still on zero-hour contracts – as little as 0 or 4hrs a week.

Cost of doing business

Marc Crothall, Chief Executive, Scottish Tourism Alliance:

- There has been demand – the international demand has been very welcome – but it's certainly not on the scale needed. The domestic market has come, but it's been last minute and difficult to plan around.
- The problem is the balance of workforce in shorter supply, costs going up and the limiting in capacity of property to drive the yield needed to pay the bills.
- The demand is now falling off a cliff as we go into winter.
- Recent survey by Scottish Licensed Trade Association across 600 pubs had 1 in 10 say they will shut for the winter. 4 out of 10 will reduce hours significantly over that period.
- STA has snapshot survey out at the moment about the impact of energy following the UK Government announcement to get a sense of business closure in the short-term.
- Not every business has had any benefit from the energy bill relief scheme. Anyone pre-April signed up to a contract is not going to see that. STA Chair Stephen Leckie across his entire estate is someone who won't qualify. It's not a broad-brush approach.
- Looking long-term and at NSET, it's how do we stay competitive. We have to invest in the assets we've got to be really competitive on a global stage.
- Businesses not able to invest in basic maintenance and repair of a property, but also to be appealing and attractive to that international audience that has got the pound/dollar to spend.
- Business rates relief of £27,000 cap during first quarter of the year was very welcomed, but for someone like Crieff Hydro their costs base is something like £25,000 a day at the lowest level. It doesn't really touch the sides when it comes to impact at a broader base.
- It's about investment for the future, in infrastructure, in property, and the people.

Leon Thompson, Executive Director, UKHospitality Scotland:

- Food and drink have seen inflation of up to 40% on some items, as well as wage inflation and businesses paying more to secure workers and retain them. ONS stats show hospitality paying 15% more on wages than before.
- Interest rates going up as well. Businesses carrying debt from COVID or who have been investing in their businesses are now having to pay more on borrowing. Insurance is up too and some struggling to secure insurance deals.
- VAT rate coming down would give immediate support. Increased support around business rates relief. Businesses in England are enjoying around 15% rate relief, albeit with caps, and we would like to see that replicated in Scotland as a minimum.
- Understand financial SG financial challenges faces, but it is a financial lever there. If more business support can be secured from the UK Government, then would hope to see that used to support businesses in Scotland.

Regulatory burden

Marc Crothall, Chief Executive, Scottish Tourism Alliance:

- Invited collectively by SG to give proposals for pause of existing, pending and new regulation. One of those was implementation of the Short-Term Licensing fee structure and collection of fees. Fiona Campbell (Association of Scotland's Self-Caterers) has said herself that it's not about taking the policy off the table but pausing.
- Another one was the Deposit Return Scheme (DRS), which for many is still a bit of an unknown, but also upfront there's a sizeable investment required by operators length and breadth of the country, all of different shapes and sizes. That could be paused as well.
- Other suggestions around implementation of the 20p supplement on disposable cups to deflect a pause in consumer purchasing.
- Transient Visitor Levy (TVL) committed to in the Programme for Government (PfG). The sentiment around that is going to cause some unnecessary damage to the current environment when we're trying to recover.
- The concerns around the TVL are staying competitive in a taxing environment, but also we've seen some of the variables that have emerged as a result of the Short-Term Let Licensing Scheme.
- On Short-Term Lets Licensing Scheme, there are concerns about the ability of the local authority to deliver on the administration of the scheme and the disparity in prices. Orkney is about £208 and Edinburgh it's about £5,100 for a larger property. On Saturday, there were only 19 local authorities already in the collection process. The publication of the guidance was only issued at 11.57pm on 30th of September for a start on 1st October.
- Already evidence from the Association of Scotland's Self-Caterers of businesses choosing to not trade.
- The Edinburgh Fringe highlighted a shortfall in accommodation at key times of the year, while Scottish Rugby Union has a view on that too.
- The neutrality of the cost piece is the questionable one and goes back to comments on the TVL process.

Leon Thompson, Executive Director, UKHospitality Scotland:

- Working on getting members prepared for DRS going live next year. Very ambitious scheme that will completely change the way we recycle in Scotland. A lot of concern about length of time remaining to make scheme operable – sense of hoping for the best.
- Big risk is lack of awareness among businesses and cost implications. Larger members say it will take six months end to end for their project teams to get everything right across their sites. At a smaller scale, there are businesses concerned where they will keep valuable empty stock until collected.
- Because of everything else businesses are facing at the moment, many owners don't have the headspace to think through what they need.
- Dismay that TVL was in PfG. Officials are clear it won't appear until 2026 at the earliest, but as Marc highlighted, we've got a sentiment issue. Once this starts going out into the public domain and people will be looking at their newspapers and may decide not to come to Scotland because there's a tourism tax.
- We could have some significant challenges in terms of sentiment and perception at a time people are looking for value for money.
- Also touched on how single-use cups, calorie labelling, nutrition and promotion foods with high salt and sugar content, etc are all things business may need to deal with implementing.

- It's the weight of all of this which is causing the big burden. There are some real costs to businesses as well.
- Speaking to Edinburgh hotels about the visitor levy and what that would mean – they will have set-up costs to manage, IT costs to change systems, some one-off and some reoccurring costs, and potentially credit card charges and transactions too.

Workforce

Bryan Simpson, Industrial Organiser, Unite Hospitality:

- Based on how they were treated during the pandemic, there will be enormous job losses.
- According to Fourth, the most used HR platform in the industry, the workforce shrank by 26% between 2020 to 2021. Equates to 58,000 job losses in Scotland's hospitality industry, which could be eclipsed by cost of living crisis.
- Already seeing over the last six months impact on reduction in hours because of shortfall in customers and less tips.
- Employee level has come up again but suggested a lot was through fire and rehire by multinational hotels, despite the job retention scheme.

Marc Crothall, Chief Executive, Scottish Tourism Alliance:

- Of the 58,000 mentioned by Bryan, likely a lot of those were European workers who returned back to Europe.
- There are some examples of employers who are doing their upmost and trying to be creative to retain staff. On the west coast of Scotland there's a hotel company who is contributing to employee's own home domestic fuel bills as part of benefits package. Not everyone can afford to do this, and risk is balance of closure and having to let employees go, but would ultimately they'd rather stay open and keep employees in situ because they've invested in employee skills.
- Had great funding from SG to run the Tourism and Hospitality Talent programme, which around 3,000 have gone through.
- Hearing from well-known businesses in the central belt where employees can't afford to get to work and had to give up their contract.
- Need to invest in future workforce and grow it so we can service the demand to deliver the expectation of the future customer.
- For city centres, still got a huge amount working from home and there's a culture now of not going out onto the high street. Small hospitality operators that have seen a massive downturn in trading and needing to cut staff hours.
- Lots of good activity at local level through the local hotel associations. Working Inverness a great example where there's not a lot of people on the ground to come into the industry and they've come into schools, working as a collective to bring raw, young talent into the business to train them and give on-job learning experience, creating a community among workforce.
- A lot being done by Springboard and broader tourism skills group. Also apprentices through Hospitality Scotland, which is a great initiative where large and small operators have come in supporting apprentices into their businesses and using those generations as advocates.

- With cost of living crisis, also seeing older worker looking for a secondary income and it's about positioning employment opportunities to that workforce too.
- Hotelier's Charter launched two years ago to present industry in better light around highlighting the opportunities and value of fair work.
- On 17th October, UK-wide campaign Hospitality Rising being launched, which has raised nearly £850,000 worth of private sector money from operators to change perception of the industry and to market to under-30 age bracket.
- One of most successful interventions from SG during COVID was the money to support the Tourism and Hospitality Talent programme, which came at a time many were out of work and in poor mental health. Need to continue to upskill and invest a workforce that has shrunken.
- If a temporary displacement of an employee, there needs to be a place they can continue to go to develop their skills sets.
- Lost language skillset from departure of European workers. Fully multinational workforce is needed to match the needs of customers, as well as the supply chain. Need to shift immigration position.
- Lost a lot of middle management, so difficult not having supervisory level to support new work recruits. Investment right the way through is key.
- Accommodation challenges still in parts of country that limit ability to retain staff.
- Fair Work Inquiry in hospitality sector, also vastly increasing number of businesses are real Living Wage employers now, e.g. new Virgin Hotel in Edinburgh, Mercat Tours, Rabbie's Tours.

Leon Thompson, Executive Director, UKHospitality Scotland:

- Experience that businesses are trying to ensure the workforce is getting the hours, or close to the hours that they need. However, businesses are in a precarious situation.
- Good examples of businesses providing extra time off for staff so they can benefit from wellness days and people looking at how to be more imaginative with shift patterns.
- Beginning to see workers moving into other types of employment due to costs, particularly rural areas.
- Workforce is critical to the ambitions of the sector. Came out the pandemic having lost a lot of the workforce. A few weeks ago looking at very high levels of vacancy rates across the sector.
- UKHospitality trying to encourage businesses to pay more to attract staff and offer more flexibility around working. In the long-term, will need access to skilled workforce for businesses to develop and grow to play full part in economy of the country again.
- Real challenge just now for SMEs to keep all staff when not seeing demand coming through from consumers.
- When came out of pandemic, estimated about 30,000 vacancies across sector. That has continued. Difficulty is some rural parts of the country there isn't the working age population to draw from, and not helped by Brexit.
- In cities, not yet seen business visitor market recovery.

- Now in situation where demand is very light, particularly hotels in rural and coastal areas, while cities are still struggling to come back. Winter festivals will hopefully attract some, but just now not the demand businesses need to maintain staffing levels.

Bryan Simpson, Industrial Organiser, Unite Hospitality:

- Retaining and attracting staff about simple reforms – real Living Wage; ensuring reduction and removal zero-hour contracts; proactive sexual harassment policies to protect women workers; and transport home after 11pm at night. That reduces turnover and keeps workers, including the most highly skilled.
- Need similar furlough scheme in Scotland again.
- Gave example of Unite Hospitality teaming up with a small hotel in Dunkeld that had been struggling to retain and attract staff. Implemented Fair Hospitality Charter and started paying real Living Wage. Within six weeks they'd filled their labour shortage.

<u>Leisure spend</u>

Leon Thompson, Executive Director, UKHospitality Scotland:

- Hospitality at the frontline of where people are pulling back on discretionary spend. Seeing with hotels, people are scaling back on mini breaks. It might be that people ringfence spending for two-week holidays, so vital to attract people to holiday in Scotland, including residents, across the UK and lucrative international markets.
- Businesses are absorbing additional costs themselves just now to keep customers coming.
- Domestic market likely to trail off, but greater international market because of the weakness of the pound. Vital to chase those key markets.

Marc Crothall, Chief Executive, Scottish Tourism Alliance:

- Evidence of people driving, taking picnics and visiting outdoors more. Tourism also competing against other activities, e.g. football season, live music.
- Knew outbound tourism spike would happen – this summer Scotland has captured people avoiding chaos at airport, and the golf tourism season was phenomenal. As a result, not had a true picture of real numbers this year. Association of Scotland's Self-Caterers survey published today shows significant slowdown in bookings. Many are last-minute bookings, and couples more than families. One market that has come back well is the coach market.
- As a sector before COVID, Scotland was about 65% domestic dependent and 35% international. Critical to have upweighted international footfall and capture the opportunity while it's here.
- Need to increase routes and connectivity, e.g. restore Middle Eastern connections, and capitalise on US market. Need to shore up the quality, make sure the assets are here, and the infrastructure and transport routes are rock sold. Tourism Ireland investing in their international marketing campaigns and they're our competition. We must invest in growing our international footfall. Average international spend is about £650 of an international tourist, in comparison to about £150 from a domestic market.

<u>Priority spending</u>

Leon Thompson, Executive Director, UKHospitality Scotland:

- Need to keep promoting Scotland as a leading destination and keep budget there and high for VisitScotland.
- Keep investing in infrastructure. Challenges with transportation, particularly islands, and the need for investment in ferries is key. Need to continue to look to spread benefits of tourism and hospitality around the country, rail and bus services are critical.
- When we come through crisis, need to have right people to come into sector and deliver the right experience. Need to continue to support tourism and hospitality for greater awareness of jobs and careers in sector, and upweight skills activity.

Marc Crothall, Chief Executive, Scottish Tourism Alliance:

- Need to maintain position in being a competitive destination and attractive to visit.
- Need enablers for people to get there- infrastructure is critical.
- New Hospitality and Leadership Group, being co-chaired with Ivan McKee, will re-form with new membership and start end of the year, and priorities will come out of that.
- Need to ensure VisitScotland budget isn't compromised and it can continue to do what they do very well, but also about business net zero transition and how businesses transition through the green agenda. Right support networks needed for industry to do that, especially smaller operators.
- Investment in skilled workforce needs to continue. Complementing NSET agenda and community wealth building , Scotland Outlook 2030 strategy is all about spreading that tourism wealth.
- Know budget is very tight, but would ask SG see the sector as force for good that drives multitude of benefits through local economies.
- When tourism stopped during COVID, there was a recognition how important the sector is to local communities and how many livelihoods it impacted on.
- Fortunate and grateful for the fact SG views this sector with such importance and likely envy of colleagues over the border and elsewhere. However, needs to be investment in the asset. The sector can recover quickly with the right ammunition.
- Lot of entrepreneurship in the sector, who want to grow and we need to encourage.
- Business rates lever is the biggest gift available from the SG, with no state aid cap.

Bryan Simpson, Industrial Organiser, Unite Hospitality:

- One thing needed is to put more resources into focus on fair work and encouraging employers to sign up to fair work principles and the business pledge.