DELIVERING UK ECONOMIC GROWTH THROUGH TOURISM SUPPORT

SCOTTISH TOURISM ALLIANCE RECOMMENDATIONS FOR THE UK GOVERNMENT AUTUMN BUDGET

CONTENTS

ABOUT THE SCOTTISH TOURISM ALLIANCE

The Scottish Tourism Alliance (STA) is the leadership and representative body for Scotland's tourism industry.

Our organisation comprises of over 250 trade associations, businesses, destination groups and other organisations with an interest in tourism.

We are able to offer the best possible representation of the issues and challenges we face as an industry through continuous engagement with more than 70% of tourism businesses in Scotland.

Our membership is spread across all regions and destinations in Scotland. We are governed by a Board with representation from across Scotland's tourism industry and supply sectors.

We are committed to representing issues of national importance which affect Scotland's tourism industry; we are focused on removing barriers to growth and working with governments and the public and private sectors to improve the global competitiveness of Scotland's tourism industry.

Tourism matters. It is the lifeblood of many of Scotland's communities. It is one of the largest employers in the country; one of our greatest exports and our industry has the capability and potential to enrich the lives of Scotland's people, our visitors and those who work within our industry.

The STA led and co-ordinated the development and launch of Scotland's tourism strategy, Scotland Outlook 2030, in collaboration with the Scottish Government and its agencies.

INTRODUCTION

Autumn 2022

Dear Chancellor,

I would firstly like to congratulate you on your recent appointment as Chancellor of the Exchequer. As the representative body of tourism in Scotland, we welcome your ambition to restore financial stability in the UK and to drive long-term economic growth.

After weathering the storm of the COVID-19 pandemic, the tourism sector continues to heal. Many businesses have had their wounds reopened, as we face a new set of challenges due to an unprecedented rise in the cost of doing business.

Our recent survey activity has found that half of tourism businesses are still not in recovery, with a significant number of them still in survival mode and financially fragile.

With soaring energy prices, increasing costs of goods and materials, and a record 40-year high in inflation – coupled with a cost-of-living crisis which is resulting in a significant impact on consumer spend – we are gravely concerned that some businesses might never reopen again, impacting on employees and wider communities, and resulting in the loss of valuable tax revenues for government.

Rising interest rates are further impacting on the sector's ability to invest in their businesses, particularly among small operators, which risks damaging the future quality of tourism offer and having other knock-on effects, for example on suppliers who help to maintain and improve properties.

The announcement of the UK Government's Energy Bill Relief Scheme has been a very welcome temporary lifeline for many tourism businesses, who faced closing during the off-peak winter period or even permanent closure.

Before the pandemic, the tourism sector contributed £4.5 billion in gross value added (GVA) to Scotland's economy, employing 229,000 people, around 9% of all employment in Scotland.[1] Pre-COVID, Scotland attracted around 17.5 million overnight visitors annually, generating £5.9 billion in visitor expenditure.[2]

Tourism is of particular importance and value to Scotland's rural communities, especially in the Highlands and Islands area. As set out in the Conservative Party's 2019 manifesto, levelling up is an opportunity to ensure that rural and island communities are supported by investment, with tourism a key economic driver in many of these areas.

---

[1] https://www.parliament.scot/chamber-and-committees/official-report/what-was-said-in-parliament/meeting-of-parliament-22-03-2022?meeting=13658&iob=123961

[2] VisitScotland (Nov, 2020) – Key Facts on Tourism in Scotland 2019 https://www.visitscotland.org/binaries/content/assets/dot-org/pdf/research-papers-2/keyfacts-on-tourism-in-scotland-2019.pdf

VisitScotland states that: "Tourism is crucial to sustaining economic and community growth in the Highlands and Islands providing up to 15% of employment, well above the national average of 8%."[3]

To support the UK Government's road to economic recovery and long-term growth, now is the time to grow the UK as a world-beating tourism destination. We already have in place a clear vision and set of ambitions to deliver on this.

In March 2020, the national tourism strategy, Scotland Outlook 2030, was launched with a bold new vision to be 'the world leader in 21st century tourism'. Alongside the economic contribution of tourism, the strategy looks to enrich the lives of those who live here and visit, to protect and preserve our places, and for industry to be pioneers in delivering responsible tourism.

A new Tourism & Hospitality Industry Leadership Group has recently been formed, co-chaired by myself and the Scottish Minister for Business, Trade, Tourism and Enterprise, which will act as the 'champion' of Scotland Outlook 2030 and its role in achieving economic growth and being a wider force for good.

In working to achieve this vision, with the right support and conditions for success, we can be at the forefront of generating economic growth for Scotland and the wider UK.

Although tourism is devolved to Scotland, it benefits the whole of the UK and there continues to be a number of significant reserved areas that impact on our ability to succeed. As a result, we have worked closely with the STA Member Council, which has representatives from across the tourism sector, the STA Destination Member Forum, and our Board to inform representations made to both the Scottish and UK governments on how to best support the sector at this time.

Despite increasing instability caused by economic, political, and environmental factors, tourism is still rightly expected to remain a significant driver of future economic growth. The sector is an economic growth opportunity for the UK and we believe now is the time to launch a big and bold marketing campaign to attract international visitors back to the UK.

It is vital that the tourism sector is developed to ensure that the economy becomes more resilient against future disruptive events and achieves long-term stability. This includes considering how the UK positions itself with other countries competing for tourism – both in short-term demand post-COVID, and in the longer-term among developing and emerging international visitor markets.

---

[3] The VisitScotland quote is based on Scottish Government Growth Sector Statistics (Oct 2018) and is cited in Highlands and Islands Enterprise's 2019-2022 Strategy https://www.hie.co.uk/media/5006/strategyplusplanplus2019-2022-1.pdf

Alongside the Energy Bill Relief Scheme, when we recently surveyed the tourism sector about the policies that would make the biggest difference to their businesses, respondents said:

- **A VAT reduction on sales relating to hospitality, accommodation, and attractions (50%).**
- **Support for businesses struggling to secure new energy contracts (34%).**
- **An immediate review of immigration rules to address the labour workforce shortages within the sector (21%).**

We urge the UK Government to adopt these priorities as a matter of urgency – along with continuing to provide vital support with energy bills for tourism, hospitality and visitor attractions beyond next spring – to ensure the sector can be competitive and be at the forefront of delivering a more prosperous UK economy.

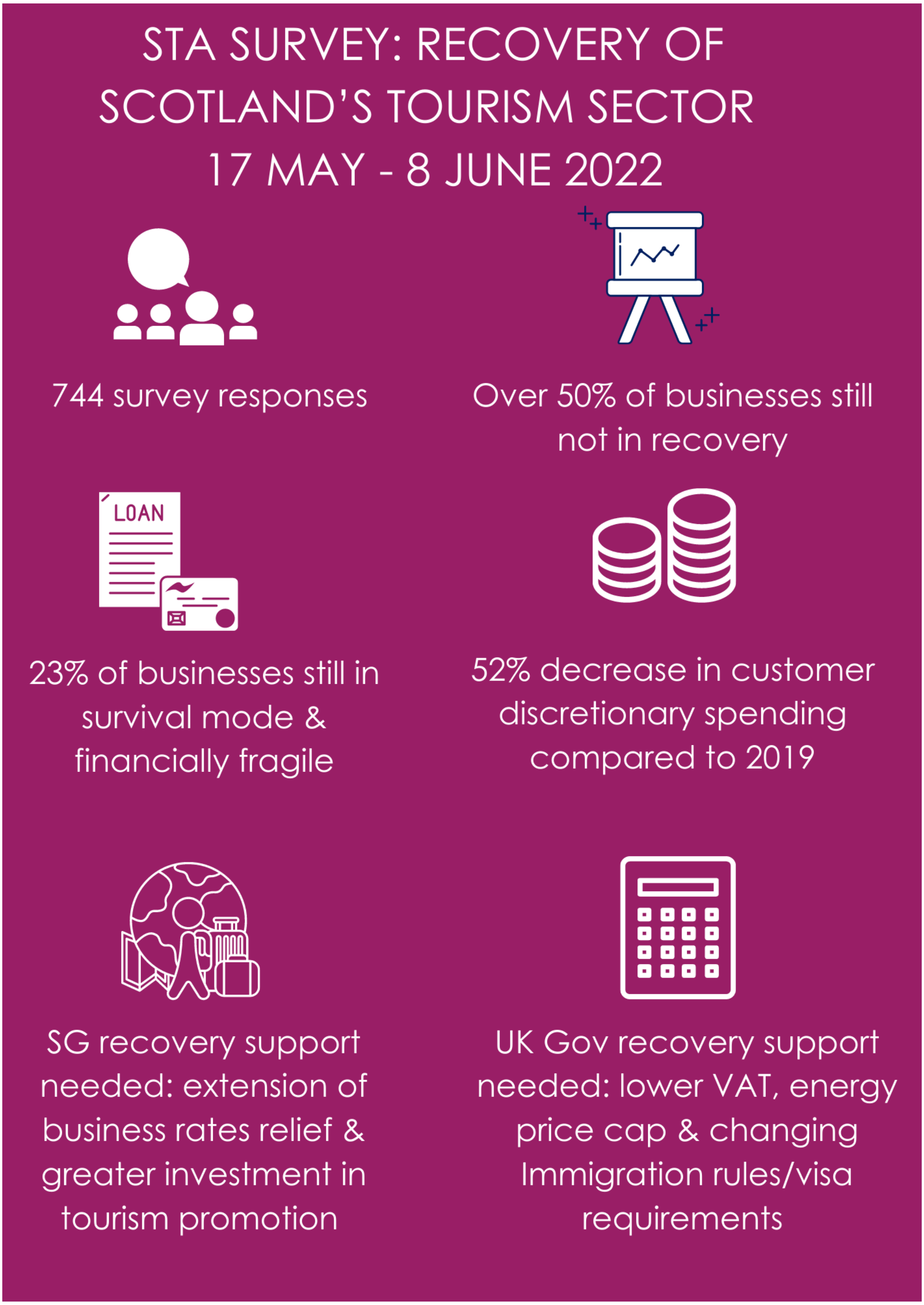
We look forward to continued engagement with UK Government officials going forward.

Yours sincerely,

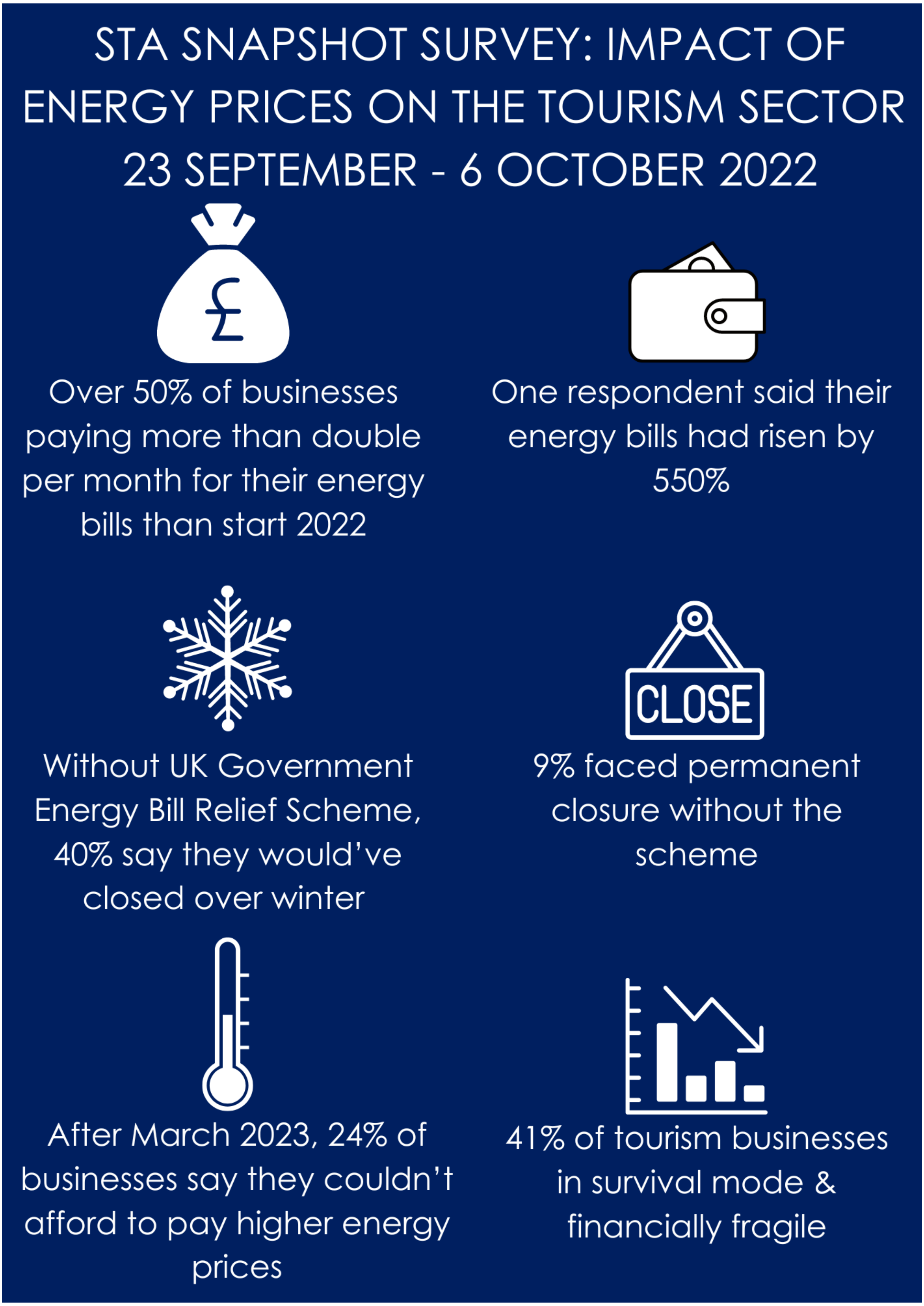
Marc Crothall MBE
Chief Executive of the Scottish Tourism Alliance

KEY RECOMMENDATIONS

1. **Tourism, hospitality and visitor attractions be deemed a 'vulnerable' sector and continue to receive ongoing support with energy bills beyond March 2023 through the Energy Bill Relief Scheme**. This should include businesses of all sizes and in all geographic areas.
2. **Business rates relief and a VAT reduction to <u>at least</u> 12.5%** on supplies relating to hospitality, accommodation, or admission to certain attractions, as was afforded during the COVID-19 pandemic. This should include the re-introduction of plans for tax-free shopping for overseas visitors.
3. **Additional tourism and hospitality roles be added to Shortage Occupation List** to help address the critical shortage of labour in the sector and ensure future economic growth. This should be implemented alongside reviewing other immigration measures to permanently address the labour workforce shortages experienced within the tourism sector, particularly among rural and island areas.
4. **Immediate action to ensure safeguarding for all businesses**, with the UK Government working with the energy, banking and financial sectors to ensure there are product solutions in place, particularly for businesses trying to secure new energy contracts.
5. **Extend the deferral of repayments for the Coronavirus Business Interruption Loan Scheme and Bounce Back Loan Scheme** over the off-season, with interest only being paid during this period.
6. **Investment in marketing the UK as an international tourist destination**. We support the asks of our colleagues who sit with us on the Tourism Industry Council, including greater investment in the important work of VisitBritain in promoting the UK as a destination for international visitors.



To view the full survey visit: https://scottishtourismalliance.co.uk/scottish-tourism-bookings-down-as-cost-of-living-crisis-bites/



Note: 163 survey responses were received from across almost 70% of Scottish local authorities.

RECOMMENDATIONS IN DETAIL

Cost of doing business crisis

1. Energy Bill Relief Scheme

The tourism, hospitality and visitor attraction sector was already hit hard during the COVID-19 pandemic by lockdowns and government restrictions. At the beginning of the pandemic, monthly air passenger arrivals to the UK dropped by 98.3% – falling from 6,804,900 in February 2020 to just 112,300 in April 2020.[4]

In May 2022, overseas visitor trips to the UK remained significantly lower than before COVID-19, down 21% from 3.4 million in May 2019.[5]

As businesses continue to recover, we now face a new set of challenges as the sector contends with unprecedented rising costs in doing business, which include escalating energy prices, increasing costs of goods and materials, and a 40-year high in inflation. This is coupled with a cost-of-living crisis that is having a significant impact on consumer spend, particularly within the tourism and hospitality sector.

STA's Industry Survey at the beginning of the summer period (17 May to 8 June 2022) found that more than half of tourism businesses were still not in recovery following the COVID-19 pandemic and that this could take at least another year or more, with 23% describing their business as in survival mode and financially fragile.

At the same time, we reported that a considerable number of tourism businesses had already begun to experience a decrease in customer discretionary spending compared to the same periods in 2019 (52% of respondents) and 2021 (38% of respondents).

We recently carried out a Snapshot Survey to gain an insight into the impact of energy prices on the tourism sector in Scotland, which found that nearly half of tourism businesses that responded (41%) now described themselves in survival mode and as financially fragile, while a further 28% were in consolidation and trying to stabilise their business.

The sample survey of tourism businesses found that over half of respondents are now paying more than double for their energy bills than at the start of the year.

One respondent shared that their energy bills had risen by 550%, while a significant number of businesses reported rises of between 300% and 500%.

---

[4] ONS: Coronavirus and the impact on the UK travel and tourism industry (15 Feb 2021) – https://www.ons.gov.uk/businessindustryandtrade/tourismindustry/articles/coronavirusandtheimpactontheuktravelandtourismindustry/2021-02-15 - :~:text=1.-,Main points,the same month in 2019.
[5] ONS: Overseas travel and tourism: May 2022 provisional results (20 Sep 2022) – https://www.ons.gov.uk/peoplepopulationandcommunity/leisureandtourism/bulletins/overseastravelandtourism/may2022provisionalresults

Without the UK Government's Energy Bill Relief Scheme, 40% of respondents said they would have had to close for the winter period, while concerningly 9% answered that they faced permanent closure without the introduction of the scheme.

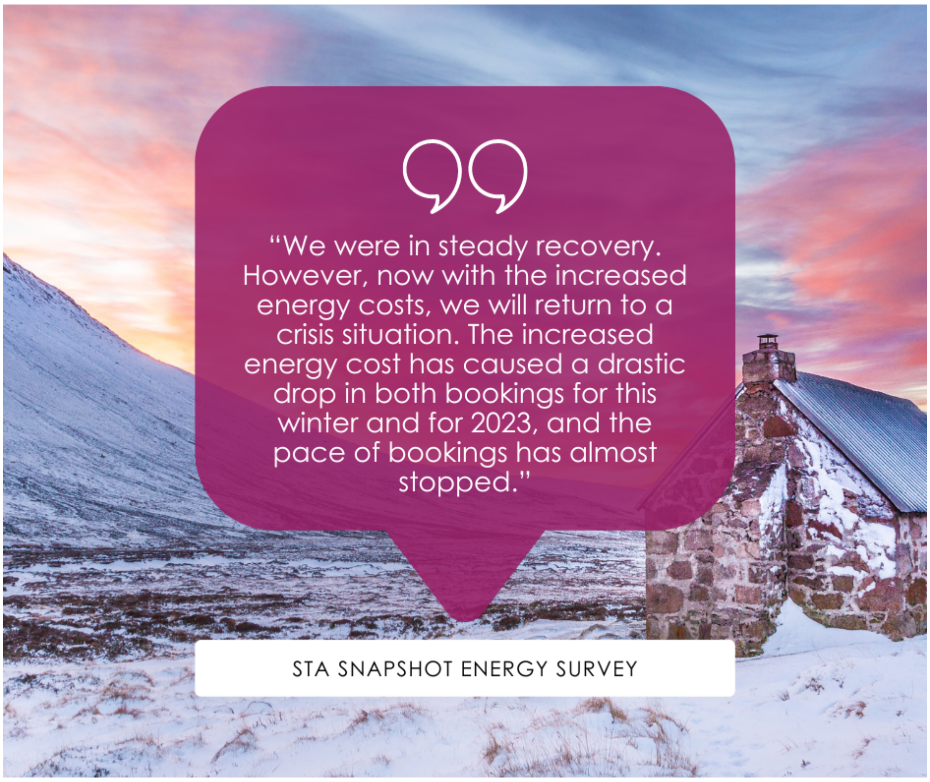
Asked what how long their business would be able to sustain any further increases in energy costs after the Energy Bill Relief Scheme is due to end in March 2023, 24% said that their business couldn't afford to pay higher energy prices.

The Scottish Licensed Trade Association's (SLTA) recent snapshot survey of the challenges facing Scotland's pubs and bars reported that one in four venues are facing an increase in energy cost of over 500%, while 45% of outlets expect to reduce their opening hours, negatively impacting on tourism and employment.[6]

Worryingly, more than a third of the UK's hospitality sector is at risk of business failure in early 2023 due to the cost of doing business crisis, a new survey by UKHospitality, the British Beer and Pub Association (BBPA), the British Institute of Innkeeping (BII) and Hospitality Ulster has warned.[7]

Due to the continued vulnerable state of the sector, we urge the UK Government to continue to support tourism businesses with their energy bills beyond March 2023 or risk permanently damaging one of the UK's most valuable economic assets.

[6] STLA press release (28 Sept 2022) –https://www.theslta.co.uk/news/scotlands-pubs-and-bars-face-unprecedented-challenges/
[7] UKHospitality press release (31 Oct 2022) – https://www.ukhospitality.org.uk/news/621638/THIRD-OF-HOSPITALITY-BUSINESSES-AT-RISK-OF-GOING-BUST-DUE-TO-SOARING-COSTS-NEW-SURVEY-REVEALS.htm



2. Business rates relief and a VAT reduction

As implemented by Prime Minister Rishi Sunak during his time as Chancellor during the COVID-19 pandemic, business rates relief for the hardest hit sectors and a reduced rate of VAT for the hospitality and tourism sector should be re-introduced as we now face an equivalent, if not worse, level of crisis.

Our recent survey activities have demonstrated a strong consensus among the sector that business rates relief and lowering VAT would make the most significant difference to the survival and success of their businesses.[8]

We would again call for the lowering of VAT for hotel and holiday accommodation, including camping and pitches; hospitality, including cafés, restaurants, takeaways and bars (excluding alcohol); and admissions to certain attractions, such as tours, gardens, and shows.

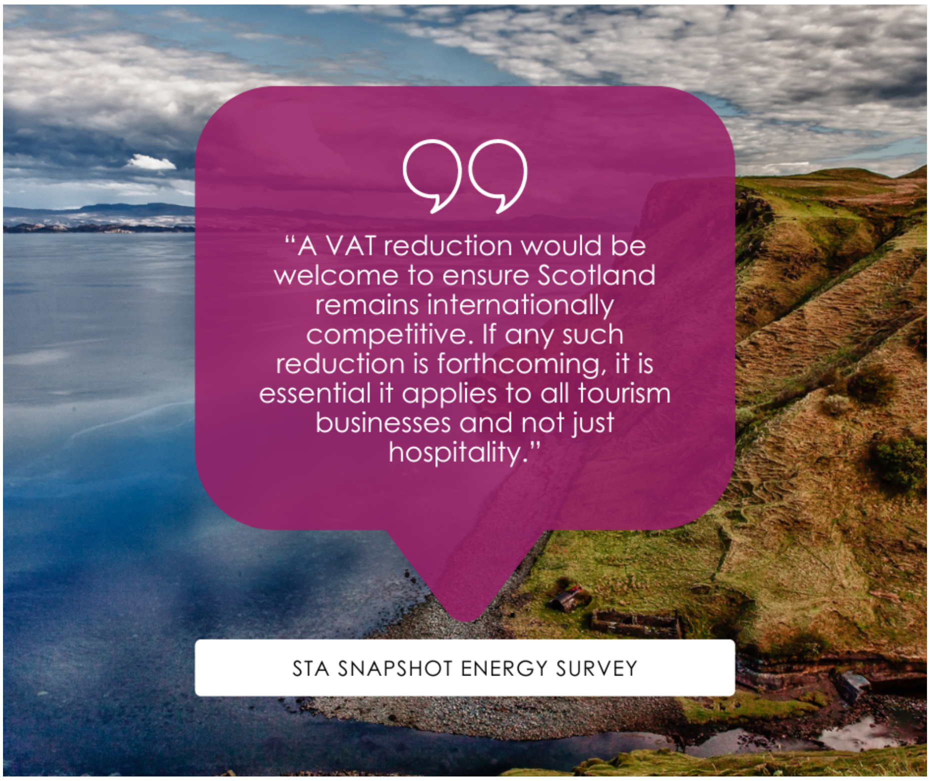
We recommend a reduced rate to at least 12.5% be applied, as was the case between 1 October 2021 and 31 March 2022, which would provide immediate benefit to businesses struggling within the sector, as we face a very challenging winter ahead. As called for by UKHospitality, a rate of 10% would be even more preferable.

[8] In STA's Industry Survey (17 May – 8 June 2022), the lowering of VAT, having the energy price cap extended in October, and a change to UK Immigration rules/visa requirements were listed as the most effective policy levers that could be pulled by the UK Government to support business recovery and growth. 50% of respondents to our recent Snapshot Survey said a VAT reduction on sales relating to hospitality, accommodation, and attractions would make the biggest difference to their businesses.

This should also take into consideration raising the VAT threshold of £85,000, particularly for tourism businesses in rural and island communities.

The STA would further urge the UK Government to consider reintroducing its plans for tax-free shopping for overseas visitors. As the UK competes on the international stage to attract people to visit our country, this measure would give a competitive edge in appealing to the lucrative international visitor market – at a time when a disposable income of the local population has been curtailed by the rising cost of living.

Tax-free shopping and international visitors would generate more jobs and revenue at a key time of recovery in the tourism, hospitality and retail sectors.



Growing the workforce

The tourism and hospitality sector has experienced a significant shortage in workforce labour since Brexit, while further staff have moved on from the sector during the COVID-19 pandemic.

There is a real risk that some tourism and hospitality businesses will need to close for the winter period and staff will move on. As a result, there is a danger that essential capacity within the sector is permanently lost. We have already heard from members that some tourism businesses are already having to offer a limited service due to staffing shortages, such as reduced hours and closing kitchen services.

The Sector Skills Assessment 2022 (Skills Development Scotland) reports that 183,400 people were working in tourism in Scotland in 2021[9]. Between 1 January 2021 and 31 December 2021, the number of job postings in tourism was 22,820, and there are forecasts that in 2021-2024 there will be 44,200 job openings in the sector (32,700 replacement demand and 11,500 expansion demand), accounting for over 12% of Scotland's job openings[10].

We welcome that the Migration Advisory Committee is reviewing the Shortage Occupation List (SOL) and would strongly urge the UK Government to include a range of tourism and hospitality job positions on the list, as there is a critical shortage of labour in the sector.

STA's Industry Survey at the start of the summer season found that the top three barriers to recruitment are: the lack of available staff wanting and able to work, UK immigration policy/Brexit, and a negative perception of the industry. Seasonality was also identified as one of the main barriers to retaining staff.[11]

Due to the seasonality of the sector, many of these businesses are struggling to recruit staff during their busiest trade periods, having previously recruited temporary migrant workers to meet high demand.

The geographic make-up of Scotland further means that many of these tourism and hospitality businesses are in rural and island locations, which have always found it exceptionally difficult to attract workers due to their remoteness and lack of affordable housing.

We would recommend the introduction of a seasonal visa for the tourism and hospitality sector to ensure that workforce shortages can be filled by migrant workers, and extending the student working visa to three years after graduation across all European nations.

---

[9] SDS Sectoral Skills Assessment: Tourism (Feb 2022) – https://www.skillsdevelopmentscotland.co.uk/media/48817/tourism-ssa.pdf

[10] SDS Sectoral Skills Assessment: Tourism (Feb 2022) – https://www.skillsdevelopmentscotland.co.uk/media/48817/tourism-ssa.pdf

[11] https://scottishtourismalliance.co.uk/scottish-tourism-bookings-down-as-cost-of-living-crisis-bites/

We would further recommend that the UK Government consider other immigration measures to permanently address the labour workforce shortages within the tourism sector, particularly impacting on remote rural and island communities. Many tourism businesses are also facing ongoing disruption due to shortages within the supply chain, which is making it unpredictable and difficult to deliver for their customers.

In the last few years, the sector has also experienced a drain in skills at all levels, and it would be of great value if skilled migrants were once again part of the tourism workforce, offering important experience and skills, and helping to train and supervise workers. It is our sector's strength to sustain and grow the workforce, along with providing skills development.

We are committed to developing our workforce, which includes a [Scottish Tourism Leadership Programme] and the recent launch of the UK-wide [Hospitality Rising] campaign to attract more young people to work in the sector, but we still need the valuable experience of a migrant workforce to continue to meet seasonal demand and as we work to attract and train the next generation of our tourism workforce.

Alongside developing a better visa system that encourages more freedom of movement and bringing valuable talent to the tourism sector, there should be the creation of additional routes to come and work in Scotland and the UK. This includes ensuring that there are no barriers in place that prevent refugees from Ukraine from working in the UK, such as access to a driving licence.

Addressing the critical workforce shortages facing tourism and hospitality, and the supply chains they use, is integral to removing barriers to future economic growth within tourism and to delivering the best possible visitor experience. We believe that to succeed on the international stage, tourism needs an international workforce to do this.

Safeguarding businesses

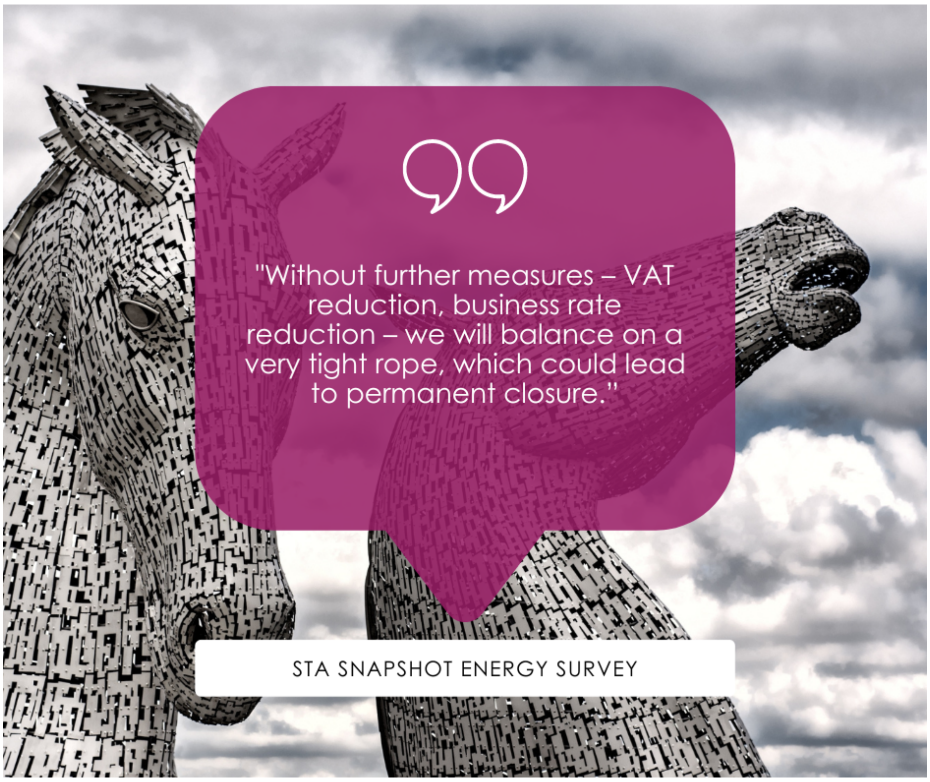
Immediate support is needed from the UK Government to help ensure that businesses struggling to secure new energy contracts are not left vulnerable to the volatility of the wholesale gas market. Some energy suppliers have refused to offer quotes to business customers due to market volatility.

There is also the need to address the sizeable bond payments being requested of some businesses to secure new contracts, including existing customers. Our recent Snapshot Survey found that three respondents had been asked to provide a deposit or upfront bond to their energy supplier to secure new contracts, while anecdotally we have heard this number is much greater.

Tourism and hospitality businesses are being particularly penalised because they often do not have trade credit insurance available or now have poor credit scores because of the COVID-19 pandemic. Businesses in the sector are also sometimes viewed as a greater closure risk due to their fragility over the last few years.

At the same time, businesses looking to renew other contracts, such as insurance, and potentially re-finance their businesses must also be supported to do so.

We would welcome the UK Government working closely with the energy, banking and financial sectors to ensure there are suitable product solutions in place for tourism businesses during this time of great financial instability.



In addition, many businesses would welcome an extended deferral of Coronavirus Business Interruption Loan Scheme (CBILS) repayments and Bounce Back

Loan Scheme (BBLS) repayments over the off-season, with interest only being paid during this period.

The conflict in Ukraine and its impact on energy prices were unforeseen when the loans were made available during the pandemic. As a result, tourism businesses would welcome a breathing period in repayments, as they face a new set of challenges.

International tourism destination

Every destination across the world is currently competing to attract visitors as they aim towards recovery of tourism and their wider economy following the COVID-19 pandemic.

This year, Ireland has invested more than €80 million alone in supporting Tourism Ireland to step up its campaigns in key international markets, as part of an extensive programme of promotional activity aimed at recovery of the sector[12].

Our Industry Survey at the start of the summer season reported that over half of respondents said that their international bookings remained lower for June and August in comparison to May 2019.

To ensure that the UK tourism industry can thrive among intense international competition, investment is needed in a new, major marketing campaign to attract international visitors back to Scotland and the UK.

This should include appealing to developing markets, such as China and India, who have the potential to make a significant contribution to international visitor spend. In 2019, the expenditure generated by overseas visitors came to more than £2.5 billion, or 43% of the total overnight spend in Scotland.[13]

A new report by ABTA and UKinbound on the economic value of international travel to the UK economy reports that it contributes £80 billion to the UK economy in GVA – the equivalent of 4% of the UK's total GVA – alongside supporting 1.5 million jobs, generating £84 billion in travel-related spending, and providing £13.2 billion to HM Treasury.[14]

The trade associations have suggested that: "With the right government support and policy framework, international travel is expected to drive the UK's post-pandemic recovery in the years ahead, outperforming most other parts of the economy."

ABTA and UKinbound are also calling for an extension of energy support beyond March 2023, support from the banking industry and longer to repay debts, and the reintroduction of VAT-free shopping plans.

We further support the asks of our colleagues who sit alongside us on the Tourism Industry Council, along with the need for greater investment in the important work of VisitBritain in marketing the UK and showcasing all its regions as a destination for international visitors.

---

[12] Speech by Minister Catherine Martin on Tourism in Seanad Éireann (5 Apr 2022) – https://www.gov.ie/en/speech/e6163-speech-by-minister-catherine-martin-on-tourism-in-seanad-eireann/

[13] Key Facts on Tourism in Scotland 2019 (VisitScotland) – https://www.visitscotland.org/binaries/content/assets/dot-org/pdf/research-papers-2/key-facts-on-tourism-in-scotland-2019.pdf

[14] International Travel: Powering the UK economy (ABTA and UKinbound, Nov 2022) http://www.abta.com/internationaltravel

As the Digital, Culture, Media, and Sport (DCMS) Committee set out in The de Bois Review: an independent review of Destination Management Organisations in England[15], the nature of VisitBritain's work in promoting the UK as a tourism destination means it needs a higher threshold for its campaign spend to ensure it can compete on the international stage, along with ringfencing to promote regional destinations and expanding VisitBritain's Business Events Growth Programme.

Now is a crucial time to invest in attracting international visitors to Scotland and the UK, or risk disastrously falling behind in the global tourism market.

[15] The de Bois Review: an independent review of Destination Management Organisations in England (DCMS Committee, Aug 2021) – https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1011664/2585-C_The_de_Bois_Review_ACCESSIBLE__for_publication_.pdf