SCOTTISH TOURISM ALLIANCE

Your voice in tourism matters

CREATING THE RIGHT CONDITIONS FOR TOURISM BUSINESS STABILITY AND GROWTH

SCOTTISH TOURISM ALLIANCE RECOMMENDATIONS FOR THE UK SPRING BUDGET 2023

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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.

KEY RECOMMENDATIONS

1. **A VAT reduction to at least 12.5%** on supplies relating to hospitality, accommodation, or admission to certain attractions, as was afforded during the COVID-19 pandemic.
2. **All tourism and hospitality businesses be made eligible for the same level of support as received by energy and trade intensive industries.**
3. **Immediate intervention by the UK Government to safeguard businesses from unfair treatment by energy suppliers and the financial sector**, to ensure the best possible conditions for business success and UK economic growth. This includes giving businesses that have committed to fixed deals within the peak wholesale period the ability to renegotiate their energy contracts.
4. **Additional tourism and hospitality roles be added to Shortage Occupation List** to help address the critical shortage of labour in both sectors and ensure future economic growth, along with reviewing other immigration measures to permanently address the labour workforce shortages experienced within the tourism sector, particularly among rural and island areas.
5. **Levelling Up Funding must be prioritised in post-industrial parts of Scotland** to ensure there is investment in areas where the greatest benefit will be delivered. This should include revisiting proposals rejected during the current funding round.

RECOMMENDATIONS IN DETAIL

Policy Recommendation 1: **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.

Policy rationale: We recommend a reduction in the rate of VAT to at least 12.5% be applied, as was the case between 1 October 2021 and 31 March 2022. This would provide immediate benefit to businesses struggling within these sectors. We also propose increasing the VAT threshold of £85,000, particularly for tourism businesses in rural and island communities.

Restoring the rate of VAT to at least 12.5% for tourism, hospitality and attractions is integral to the survival, long-term viability and ongoing recovery of these sectors. Restoring the VAT rate to COVID-19 levels will ensure that businesses can weather the economic storm they are facing – supporting their recovery, protecting and generating jobs, and helping them cope with the impact of rising inflation and other substantial costs of doing business, which includes the increasing cost of energy, transport, and food and drink.

As set out by the UK Government as the economic impact of reducing the VAT rate during the pandemic period, restoring the rate to at least 12.5% will "boost cash flow and viability of businesses in the hotel, hospitality and tourism sectors. Where businesses opt to pass some or all of the saving on to customers this may result in increased spending in these sectors."[1]

For tourism in particular, the measure would be integral in ensuring that Scotland and the UK remain competitive in attracting international visitors, at a time when every destination across the world is competing to attract visitors as they aim towards recovery of tourism and their wider economy following the COVID-19 pandemic. Reducing the level of VAT to 12.5% would bring the country in line with the European average, supporting our goal of becoming the world leader in 21st century tourism, and driving economic recovery for the UK. The UK's current VAT rate of 20% is nearly double its European competitors.

Reducing VAT will further support businesses to keep down prices, passing on benefits to customers and encouraging domestic spend, alongside attracting people in Britain to continue holidaying in the UK rather than seeking cheaper holiday deals abroad.

Costs: The Campaign for Cutting Hospitality and Tourism VAT's economic modelling – based on the Treasury's own forecasting model, international comparators and industry survey data – suggests that the policy would impact

[1] https://www.gov.uk/government/publications/introduction-of-a-new-reduced-rate-of-vat-for-hospitality-holiday-accommodation-and-attractions/introduction-of-a-new-reduced-rate-of-vat-for-hospitality-holiday-accommodation-and-attractions

positively on consumer spending and how much businesses would reinvest. This would come at a minimal cost to the Treasury in the short-term before becoming revenue generating and recouping a net loss of £194m through other taxation due to improved business performance (e.g. corporation tax), increased employment, lower prices, greater consumer spending, and as a result more income tax contributions.[2]

A joint study, previously published by UKHospitality, the Tourism Alliance in England, the British Beer & Pub Association, and the Association of Leading Visitor Attractions, reported that a permanent rate of 12.5% could create 286,850 jobs over 10 years, generating potentially £7.7bn of additional turnover and £4.6bn in net present value of fiscal gains to HM Treasury over the same period.[3]

Benefits: As set out by the All Party Parliamentary Group for Hospitality and Tourism's Inquiry into the Retention of the 12.5% Rate of VAT, this would deliver the following benefits:

- Support the viability of businesses – helping businesses financially recover after being the hardest hit sector by the pandemic and allow them to operate on a more secure footing.
- Improve the rate of employment – enabling businesses to employ more people and make vacancies more attractive (e.g. by being able to pay higher wages).
- Positive impact on Treasury revenue – stimulating further economic activity.
- Support regional growth – leading to regional investment across and within the UK's home nations.
- Improve international competitiveness – making the UK a more attractive visitor destination for both domestic and international visitors through reduced prices and reinvestment in business offerings.
- Ease the pressure on the cost of living – reducing the cost of living and limiting inflation through lower prices and avoiding price increases.
- Improve social wellbeing – businesses will be able to contribute more to their communities by reinvesting in their offerings and engaging in social responsibility action, including the net zero agenda.

Deliverability: We recommend implementing the same financial and legal mechanisms as used to previously reduce the VAT rate during the pandemic period.

[2] https://cdn.ymaws.com/www.ukhospitality.org.uk/resource/resmgr/2022/documents/appg/reports/VAT_Inquiry_Report_v5.pdf

[3] https://www.ukhospitality.org.uk/news/594838/more-than-250-hospitality-business-leaders-urge-chancellor-to-hold-vat-at-12.5-to-protect-jobs-fir.htm

Policy Recommendation 2: **All tourism and hospitality businesses be made eligible for the same level of support as received by energy and trade intensive industries.**

Policy rationale: The STA welcomes the UK Government's commitment to providing ongoing support to businesses, charities and the public sector in paying their energy bills until 31st March 2024.

We further welcome the additional energy bill support being given to Scotland's visitor attractions, museums, and crucial food and drinks manufacturing businesses, who come under the current criteria for energy and trade intensive industries.

However, we believe that given the ongoing fragility of the tourism and hospitality sectors – and the energy-intensive nature of these businesses – means they should also be eligible for the same level of support that is being received by energy and trade intensive industries.

The additional support being given to energy and trade intensive industries should be extended to include hotels and other accommodation providers, pubs, bars, restaurants, cafes and the amusement industry. This will provide an important lifeline to tourism and hospitality businesses, as they continue the road to recovery after being one of the hardest hit sectors during the COVID-19 pandemic.

Tourism and hospitality have already had to let staff go, reduce trading, cut back on capital investment, and pass on increased energy costs to customers. They are being impacted by rising inflation and increased cost of doing business, reduced consumer demand due to the rising cost of living, and the severe disruption caused by ongoing rail strikes. Unfortunately, many of these businesses have had to permanently shut their doors, while more plan to over the coming months.

Hospitality businesses were the most likely sector to cut trading by two or more additional days a week in the month to save on energy costs in November, according to the Office for National Statistics (ONS), with many having already done this in the previous three months.[4]

ONS's Business Insights and Conditions Survey (BICS) further reported that the hospitality industry – which employs 1 in 14 UK workers – was particularly affected by rising energy prices, including pubs, restaurants, cafes and accommodation, such as hotels.

58% of food and drink businesses and 49% of accommodation providers surveyed said energy prices were their main concern. ONS reported this was "well over double the figure for all industries combined." The survey also found that 7 in 10 accommodation businesses expected turnover to decrease in November – the second-highest response of any business group, and more than triple the average of 21%.

[4] https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/articles/foodanddrinkservicefirmsaremostlikelytocuttradingtotackleenergycosts/2022-11-14

To stay competitive, there will be a point that the tourism and hospitality sector will not be able to pass on costs to customers, while they are in an impossible situation where they must keep the lighting and the heating on for their customers. We know from our members that these businesses want to invest and grow but need the right support and economic conditions to do so.

This is particularly the case for many of the tourism and hospitality businesses based in rural and island areas, as they are more likely to pay higher transport and weekly food costs.

Costs: The STA acknowledges that this will increase costs for the UK Government at a time it is trying to balance supporting businesses and limiting taxpayers' exposure to volatile energy markets. However, the lifeline it will give to the tourism and hospitality sectors will save numerous businesses from closing, prevent staff losing their jobs with the associated wider economic knock-on impacts, and be pivotal in giving businesses the much-needed security they need for recovery and growth.

UKHospitality has suggested that the new, lower level of energy bill support will result in a £4.5bn increase in bills for the sector, compared to the previous scheme.

Benefits: Extending the scheme to the tourism and hospitality sectors will deliver the following benefits:

- Forward planning – giving businesses the certainty they need to plan ahead, as they continue to recover following the COVID-19 pandemic and look to grow their businesses.
- Regional impact – benefitting Scottish tourism and hospitality businesses that are based in rural and island communities, who face greater cost pressures due to their remoteness.
- Support the viability of businesses – helping businesses financially recover after being the hardest hit sector by the pandemic and allowing them to operate on a more secure footing.
- Improve the rate of employment – enabling businesses to employ more people and make vacancies more attractive (e.g. by being able to pay higher wages).
- Positive impact on Treasury revenue – stimulating further economic activity and providing economic stability.
- Support regional growth – leading to regional investment across and within the UK's home nations.
- Ease the pressure on the cost of living – reducing the cost of living and limiting inflation through lower prices and avoiding price increases.
- Improve social wellbeing – businesses will be able to contribute more to their communities by reinvesting in their offerings and engaging in socially responsible actions, including the push towards net zero.

Deliverability: This would be delivered by expanding the current criteria used for energy and trade intensive industries to include the tourism and hospitality sectors.

Policy recommendation 3: **Immediate intervention by the UK Government to safeguard businesses from unfair treatment by energy suppliers and the financial sector**, to ensure the best possible conditions for business success and UK economic growth. This includes giving businesses that have committed to fixed deals within the peak wholesale period the ability to renegotiate their energy contracts.

Policy rationale: The STA welcomes that the Chancellor has written to Ofgem to request an update on its review into the non-domestic market, alongside asking for advice on whether government action is needed "to secure a well-functioning market for non-domestic customers."

We once again urge the UK Government to urgently act to work 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. Ongoing energy bill support for non-domestic customers should not be used as an excuse by energy suppliers to keep passing on costs to business.

Tourism and hospitality businesses have been particularly penalised by the unreasonable requests being made by energy companies, banks and the financial sector to secure contracts and financial products, 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 ongoing fragility over the last few turbulent years.

There remains significant uncertainty around the pricing and availability of energy tariffs, standing charges and renewal terms, and the ability of businesses – particularly among the tourism and hospitality sectors – to secure contracts. This has included some businesses being asked for a sizeable deposit or pre-payment to secure a new contract, even from existing suppliers.

The UK Government's commitment to provide energy support up to the end of March 2024 must be accompanied by action from energy suppliers to ensure businesses are provided with reasonable quotes and don't face unfair requirements to secure their energy provision.

As well as offering fairer energy deal quotes that are not reliant on making unreasonable asks of business to secure a new deal, the STA is asking that all businesses that agreed to fixed deals during the peak wholesale price period, between July and December 2022, be given the opportunity to renegotiate the terms of their contract, as many tourism and hospitality businesses could now access much better deals, in line with the current and forecast energy situation.

Simultaneously, businesses looking to renew other contracts, such as insurance, or potentially re-finance their businesses, are also facing difficulties in the current financial climate.

Costs: There is no direct cost of delivering this policy recommendation. This is about the UK Government stepping in to actively work with the energy, banking and financial sectors to safeguard the tourism and hospitality sectors during this period of financial uncertainty and ongoing recovery post-pandemic, ensuring steady economic recovery and facilitating the potential for economy growth.

Benefits: Intervention by the UK Government to safeguard businesses from unfair demands by energy suppliers and the financial sector, including the ability to renegotiate inflated fixed deals, will deliver the following benefits:

- Ensures fair treatment – tourism and hospitality businesses have been particularly penalised because they often do not have trade credit insurance available, now have poor credit scores because of the COVID-19 pandemic, and are often viewed as a greater closure risk.
- Support the viability of businesses – ensuring that the right financial conditions are in place so businesses can recover and generate economic growth, including that businesses do not face unfair disadvantage for agreeing to previous fixed price energy deals over the past year.
- Support investment and innovation – giving businesses the opportunity to invest, grow and diversify their businesses through access to financial and banking products, such as mortgages and bank loans.
- Positive impact on Treasury revenue – stimulating further economic activity and providing economic stability.
- Ease the pressure on the cost of living – reducing the cost of living and limiting inflation through lower prices and avoiding price increases.

Deliverability: This policy recommendation is reliant on the Chancellor directly intervening to ensure that the energy, banking and financial sectors are not unfairly penalising and passing on costs to businesses during this time of heightened financial uncertainty.

Policy recommendation 4: Additional tourism and hospitality roles be added to Shortage Occupation List to help address the critical shortage of labour in both sectors and ensure future economic growth, along with reviewing other immigration measures to permanently address the labour workforce shortages experienced within the tourism sector, particularly among rural and island areas.

Policy rationale: The tourism and hospitality sectors have experienced a significant shortage in workforce labour since Brexit, while staff have moved on from the sector during the COVID-19 pandemic and more recently because of temporary closures and reduced trading during the current low-season while businesses struggle to keep themselves solvent.

The Sector Skills Assessment 2022 (Skills Development Scotland) reports that 183,400 people were working in tourism in Scotland in 2021[5]. 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[6].

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.[7]

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 the periods of highest 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 further 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.

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[5] SDS Sectoral Skills Assessment: Tourism (Feb 2022) – https://www.skillsdevelopmentscotland.co.uk/media/48817/tourism-ssa.pdf
[6] SDS Sectoral Skills Assessment: Tourism (Feb 2022) – https://www.skillsdevelopmentscotland.co.uk/media/48817/tourism-ssa.pdf
[7] 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, which particularly impacts on remote rural and island communities. Many tourism businesses are also facing ongoing disruption due to shortages within their supply chains, which is making it unpredictable and difficult to deliver for their customers.

Costs: This measure would have no direct costs, as it only requires an amendment to an existing scheme.

Benefits: Taking action to address the critical shortage of labour in the tourism and hospitality sectors through reviewing immigration measures will deliver the following benefits:

- Addresses the critical workforce shortages facing tourism and hospitality, and the supply chains they use – this is particularly the case for rural and remote areas of Scotland who struggle to attract and retain staff.
- Delivers the best possible visitor experience – for tourism to succeed on the international stage, this requires an international workforce to do this.
- Removes barriers to future economic growth within the tourism and hospitality sectors – supporting recovery and economic growth.
- Bringing valuable, international talent to the tourism and hospitality sectors will help to tackle the drain in skills at all levels.
- Skilled migrants will provide important experience and skills – helping to train and supervise domestic workers. It is our sector's strength to sustain and grow the workforce, along with providing skills development and growing our domestic talent pool.
- Addresses seasonal demand for staff.
- Support the viability of businesses – ensuring that the right financial conditions are in place so businesses can recover and generate economic growth.
- Benefit to local communities – contributing to the local visitor economy, while in rural and island areas this provides the added benefit of addressing out-migration and mitigating the impact of an ageing population.

Deliverability: To add a range of tourism and hospitality job positions to the Shortage Occupation List, as part of the Migration Advisory Committee's review. This should coincide with the introduction of a seasonal visa for the tourism and hospitality sector, and an extention of the student working visa to three years after graduation across all European nations.

Policy recommendation 5: **Levelling Up Funding must be prioritised in post-industrial parts of Scotland** to ensure there is investment in areas where the greatest benefit will be delivered. This should include revisiting proposals rejected during the current funding round.

Policy rationale: The STA welcomes the UK Government's announcement in the Autumn Budget that 10 projects across Scotland will be allocated £177m between them through the Levelling Up Fund.

Funding for a new Fair Isle ferry, the transformation of Arbuthnot House in Aberdeenshire into a museum and library, modernisation of Macduff Aquarium, and a new park and the refurbishment of the Palace Theatre and Grand Hall in Kilmarnock, alongside the confirmation of the Inverness and Cromarty Firth and Firth of Forth Green Freeports, will make a substantial difference to local communities and the wider economy.

Through greater investment in local communities across Scotland through the Levelling Up Fund, this will support economic growth, generate new jobs, and overall improve local visitor offer and make these areas more attractive to tourists.

We now urge the UK Government to now deliver further investment in developing Scotland's future assets, particularly for parts of Scotland with the greatest need, as a matter of priority.

We recommend prioritising investment in post-industrial parts of Scotland, where the greatest benefit will be felt. Boosting the ability of these areas to generate new jobs, local income, and overall improve their local assets for local communities and attract visitors to their area is essential for economic recovery and in generating economic growth at this much needed time.

As well as upping the ambition of some of the country's most deprived areas, levelling up funding in turn creates the right conditions to attract potential match-funding to improve these areas and deliver even more economic benefits to the wider UK economy.

This should include supporting recent proposals from a number of post-industrial cities, such as bids from Airdrie, Coatbridge and Ravenscraig, and Glasgow, which did not receive level-up money during the latest funding round.

Costs: We recommend reprioritising existing resources in the Levelling Up Fund to the areas of greatest need.

Benefits:

- Improve the ambitions and regeneration opportunities for local communities – levelling up funding triggers potential match-funding grants.
- Improve the rate of employment – enabling businesses to employ more people and create new employment opportunities through new developments.

- A more attractive place to live, work, study, visit and do business – levelling up funding acts as a mechanism for improving Scotland’s visitor offer, improving the area for local communities, and generating new business opportunities.
- Help to address poverty and inequalities in deprived communities.
- Support the viability of businesses – help current businesses to financially recover by creating new economic opportunities in local areas.
- Positive impact on Treasury revenue – stimulating further economic activity.
- Support regional growth – leading to regional investment across and within the UK's home nations.

Deliverability: Through the current Levelling Up Fund.