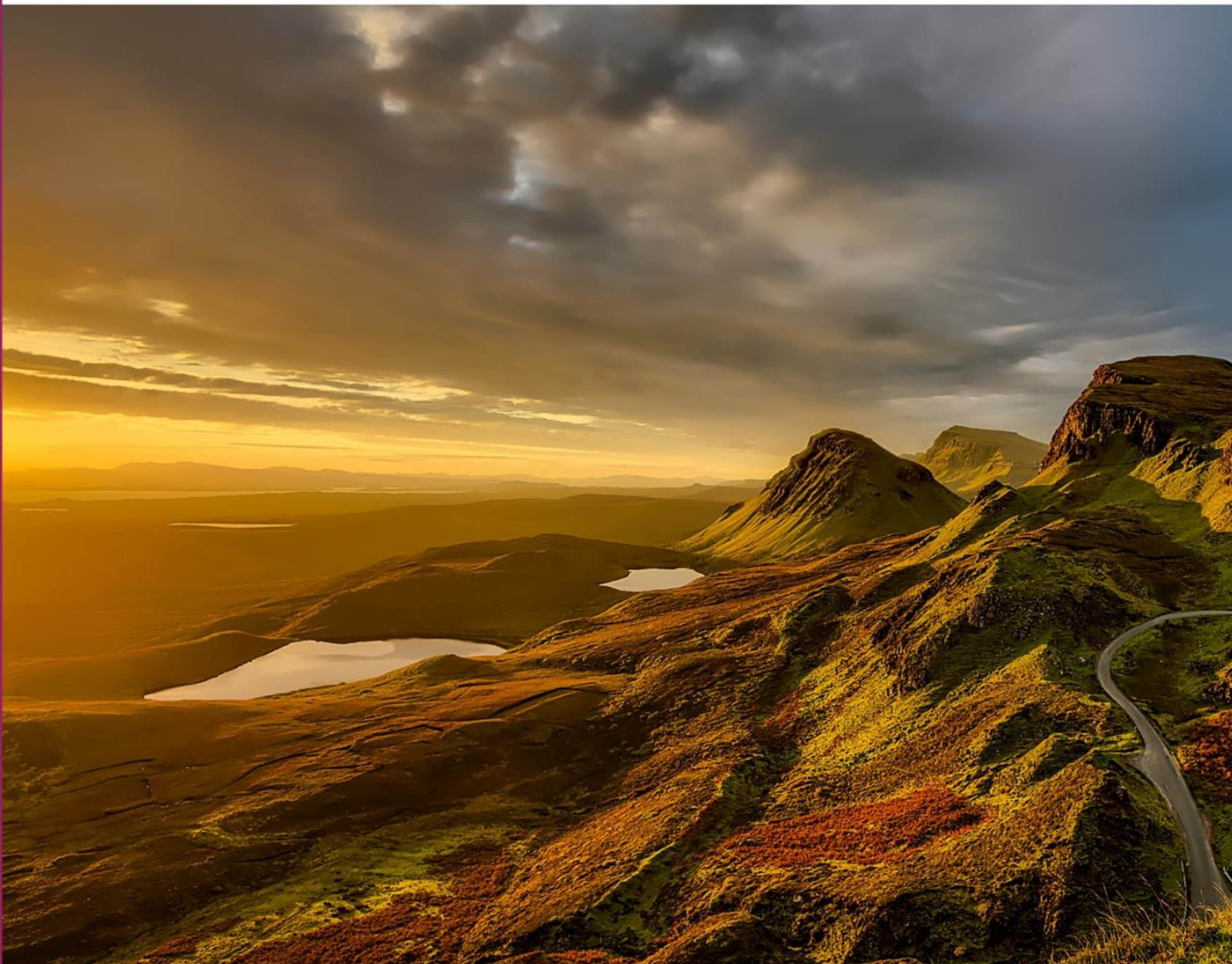
SCOTTISH TOURISM ALLIANCE

Your voice in tourism matters

ACHIEVING A NEW DEAL FOR SCOTTISH TOURISM

TOURISM INDUSTRY PRIORITY ASKS FOR THE 2024-25 SCOTTISH BUDGET



INTRODUCTION

23rd November 2023

Dear Deputy First Minister,

The Scottish Tourism Alliance recognises that over the past year the Scottish Government has faced tough decisions to manage the Scottish public finances on a sustainable trajectory and balance budgets.

Despite facing these financial challenges, we welcome that during this period the Scottish Government has established the New Deal for Business (NDFB) to work closely with business, including the tourism and hospitality industry, to deliver a growing economy that increases wellbeing.

We also appreciate calls made by both you and the Minister for Small Business, Innovation, Tourism & Trade that the UK Government reduce VAT to support Scotland's tourism and hospitality sector.

Now that the Office for Budget Responsibility (OBR) has forecast that the UK economy is expected to grow more slowly in the medium-term than originally forecast and inflation is not expected to meet the Bank of England's 2% target until 2025, we urge the Scottish Government to demonstrate its commitment to the NDFB and supporting economic growth in Scotland, and in turn the funding of vital public services.

This means passing on the measures for growth announced in the latest UK Government Autumn Budget Statement to our own business community in Scotland.

The tourism and hospitality sector and the wider business community have not experienced the same advantages that neighbouring businesses over the border were gifted in previous UK Budgets – including rates relief for retail, hospitality and leisure, and a continuing unlevel playing field concerning the higher proper rate.

We strongly urge the Scottish Government to this time pass on the extension of the 75% rates relief for retail, hospitality and leisure, protecting fragile businesses in these sectors.

Our recent industry survey in October, conducted with leading research company 56 Degree Insight, demonstrates that tourism and hospitality businesses continue to face elevated costs to do business, while consumers have drastically cut their discretionary spending.

While we have seen the welcome return of international visitors this summer season and increased turnover compared to last year, there has been a significant decline in profitability.

In our national tourism strategy, Scotland Outlook 2030, there is a commitment "to ensure the value of tourism to Scotland's economy continues to increase, and delivers shared prosperity for all, by encouraging the right growth in the right areas."

In order to achieve our shared ambition to become the world leader in 21st century tourism by 2030, we urge you to adopt our asks in latest Scottish Government Budget, including protecting and pledging to enhance the level of funding for tourism, and ringfencing funding to secure the future of our valuable Destination Management Organisations.

By adopting these asks, not only does this signify a commitment to a New Deal for Business, but also achieving a New Deal for Scottish Tourism.

Yours sincerely,

Marc Crothall MBE
Chief Executive of the Scottish Tourism Alliance

STA PRIORITY ASKS

01

Business Rates

Pass on 75% Retail, Hospitality and Leisure (RHL) rates relief – with no conditionality in place to receive relief

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Higher Property Rate

Accelerate pledge to restore the level playing field with England on the Higher Property Rate

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Income Tax

Commit not to further increase income tax to encourage the domestic visitor market and discretionary spending, and support sector recruitment

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Tourism funding

Protect funding for Scottish tourism and pledge to enhance investment in the sector, with immediate ringfenced funding to secure the future of key Destination Management Organisations

STA PRIORITY ASKS IN DETAIL

01

Business Rates

Pass on 75% Retail, Hospitality and Leisure (RHL) rates relief – with no conditionality in place to receive relief

The STA's recent industry survey in October 2023 highlights that the sector continues to be in a fragile state and that the business community urgently needs support to mitigate the effect of rising costs of doing business and reduced consumer spending.

Despite Scotland's tourism and hospitality sector showing promising signs of recovery concerning key overseas markets, rising cost pressures and a significant drop in domestic visitors means that businesses are struggling to make a profit.

Almost half of our survey respondents (48%) reported decreased profits – in most cases experiencing a year-on-year decline of 10% or more. A similar picture was also found in research recently conducted by the Scottish Licensed Trade Association, which reported in September that 57% of outlets have been experiencing a year-on-year decline in bottom line performance.

The burden on household finances means discretionary consumer spend continues to be markedly reduced and our businesses cannot pass on the costs of hugely increased overheads to their customers. Many businesses continue to be at risk of permanent closure, with our survey finding 4 in 10 businesses have none or only up to 3 months of cash reserves.

The leisure, hospitality and retail businesses that are an integral part of the Scottish tourism ecosystem have not benefitted from the same 75% rates relief that businesses across the border have had over the past financial year.

Passing on the 75% RHL rates relief through Barnett Consequentials will help businesses in our sector to weather the elevated costs they face, ensure prices can be kept down for consumers, and aid investment in business growth and development – continuing to build on Scotland's competitiveness as a visitor destination and supporting economic growth.

In addition, we recommend that the Scottish Government does not make the awarding of business rates relief and licensing provisions conditional on the payment of the 'real' living wage or put any other conditions in place.

The Scottish Licensed Trade Association's survey in September found that 94% of on-trade businesses are experiencing wage increase cost pressures. The UK

Government Autumn Budget announcements that there will be a 9.8% increase to the Minimum Wage/National Living Wage to £11.44 per hour and its expansion to 21- and 22-year-olds from April 2024 will both have a considerable impact on business wage bills.

As set out in Scotland Outlook 2030, the industry remains committed to working proactively to deliver the broader principles of Fair Work for the sector's workforce. However, this must be balanced with the challenging fiscal and trading environment.

On 2nd November 2023, the STA was among the 35 leading business representative groups and industry bodies that jointly wrote to the Deputy First Minister and Finance Secretary to request that she does not raise the headline poundage rate in the coming financial year.[1]

With business rates already at a 24-year high, it is estimated that increasing business rates in line with current Consumer Prices Index inflation risks ratepayers in Scotland experiencing an additional £205 million on their rate bills from next Spring. **In addition to passing on 75% RHL rates relief, we urge the Scottish Government to further consider freezing the business rate in the coming financial year.**

Building business resilience, sustainability and profitability is one of the four key priorities to realise our shared ambition to be the world leader in 21st century tourism.

[1] 35 BUSINESS BODIES UNITE TO CALL FOR RATES FREEZE, Scottish Retail Consortium, 6 November 2023

02 Higher Property Rate

Accelerate pledge to restore the level playing field with England on the Higher Property Rate

The STA welcomes that the Scottish Government has previously committed to restoring the level playing field with England on the Higher Property Rate (HPR), but we are now nearly a year on since this commitment was made.

This disparity continues to have a negative impact on many tourism, hospitality and retail businesses.

As part of its commitment to the New Deal for Business, we urge the Scottish Government to prioritise accelerating its timetable to deliver on this overdue commitment, which it is estimated will benefit 11,650 commercial premises in Scotland.

The number of properties liable for HPR in 2023-2024 includes 590 hotels, 560 leisure, entertainment, and caravan properties, and 190 public houses.[2]

As a result, this uneven playing field continues to have a disproportionate impact on the costs facing tourism, hospitality, and retail businesses in Scotland compared to their English counterparts. The estimated gross income from HPR after the revaluation of transitional relief in 2023-2024 is expected to be over £128 million.[3]

Not only does this mean Scottish businesses together face a £128 million bill and are paying higher bills than their nearest competitors in England, but there is also a potential knock-on impact on disincentivising future investment and expansion plans in Scotland if it is a more expensive place to base your business.

There is a need for the Scottish Government to urgently address this anomaly in HPR with England, supporting its own ambitions to make Scotland an attractive place to invest and do business.

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[2] https://www.parliament.scot/chamber-and-committees/questions-and-answers/question?ref=S6W-21200 – Figures are rounded to the nearest 10
[3] https://www.parliament.scot/chamber-and-committees/questions-and-answers/question?ref=S6W-21201

03

Income Tax

Commit not to further increase income tax to encourage the domestic visitor market and discretionary spending, and support sector recruitment

Our thriving places is among the key priorities of Scotland Outlook 2030, creating and developing a sustainable destination together. However, the cost-of-living crisis has been impacting all of the tourism and hospitality sectors – from B&Bs to shops in local communities, from restaurants to visitor attractions.

In Scotland, modest and middle earners are paying more income tax compared to their neighbours across the border, which in turn is impacting further on their disposable income during this challenging financial time.

As soon as someone earns over £25,689 they are paying more income tax in Scotland rather in England, with income tax set at 21% and 20% respectively for 2023-24. Also, workers in Scotland pay a higher rate of income tax of 42%, at £43,663 compared to their counterparts in England who pay 40% when they start earning £50,271.

The most recent picture shows that domestic tourism has dropped for the first time since the COVID-19 pandemic, and those that are holidaying or taking day trips in Scotland are spending less due to cost pressures.

STA's industry survey conducted in October found that despite Scotland's tourism sector showing promising signs of recovery concerning key overseas markets, particularly visitors from Europe and North America due to the favourable exchange rate, this has not fully offset the drop in domestic visitors experienced over this summer.

42% of respondents reported decreases in either the Scottish or other UK markets, with this highest amongst serviced accommodation providers and restaurants, bars and cafes (55% and 67% respectively).

Those who did book holidays in Scotland were found to be doing this last minute – with 49% of respondents reporting that booking lead-in times were shorter than pre-pandemic – leading to uncertainty for tourism businesses.

They further reported that domestic visitors were spending less, with 83% of respondents citing cost-of-living pressures as impacting on consumer behaviours.

The Scottish Tourism Index, also published in October by 56 Degree Insight, surveyed over 1,000 people based in Scotland and found almost two-thirds of people have tried to keep domestic home holiday costs as low as possible through reduced spending wherever possible.

Compared to 2022, it found that more people are choosing to stay in accommodation where they can cook for themselves, such as self-catering, with friends or relatives, and camping and caravanning.

Spending on eating out has taken a significant hit compared to 2022 (-13%), while there was also a drop in people buying takeaway food, shopping for gifts and souvenirs, visiting historic properties and purpose-built attractions, and taking part in cultural activities.

We urge the Scottish Government to make a commitment not to further increase income tax to encourage more consumer spending, increasing bookings for domestic breaks and supporting greater visitor spend during day and overnight visits.

As set out above, the domestic visitor market remains crucial to the wider Scottish visitor economy. It will also benefit tourism and hospitality staff, especially those on modest to middle incomes.

A further disparity between the rate of income tax between workers in Scotland and England would have a further detrimental impact on recruiting and retaining much-needed skilled and experienced staff in our sector, particularly concerning staffing shortages at management level.

Scottish tourism and hospitality businesses are continuing to experience critical staffing shortages due to Brexit, and this additional income tax burden is potentially a disincentive for attracting professionals in the sector to work in Scotland.

04

Tourism funding

Protect funding for Scottish tourism and pledge to enhance investment in the sector, with immediate ringfenced funding to secure the future of key Destination Management Organisations

We urge the Scottish Government to make a strong and clear commitment to at least protect funding for tourism in the short-term, and in the medium- to long-term to invest in enhancing tourism to achieve the ambitions of our national tourism strategy.

This should include **maintaining existing funding for VisitScotland and earmarking future funding for the upweighting of existing VisitScotland marketing activity** to focus on driving and developing new and existing international visitor markets to Scotland, along with funding to support the sector to access businesses innovation opportunities through potentially the **creation of a dedicated Tourism and Hospitality Future Innovation Fund.**

As Scotland's National Strategy for Economic Transformation (NSET) outlines, tourism is one of Scotland's "long-standing cultural assets" and a key area of opportunity for our economy.

We seek assurances that proposals under the Visitor Levy (Scotland) Bill to give local authorities the power to introduce their own visitor levy schemes is not used as an excuse to reduce existing funding for tourism in Scotland or to not provide central investment from the Scottish Government.

We must keep in context that any additional revenue that might be raised from a visitor levy will not be available until 2026 at the earliest and that not all local authorities will choose to introduce a visitor levy scheme.

Any net revenue raised from a visitor levy scheme must be treated as supplementary to all current local authority, public agency and Scottish Government spend on tourism.

It is vital that it does not lead to cuts to existing funding local authorities receive, particularly disadvantaging local authorities that choose not to use this power. It must also not impact on the support VisitScotland receives, such a funding for marketing activities and management of the Rural Tourism Infrastructure Fund.

The role of destination management organisations (DMOs) is further integral in the delivery of localised tourism initiatives and working together with local authorities to help to grow, sustain and manage tourism in local communities.

Not only do DMOs play an integral role in supporting and delivering on local tourism strategies, but they are also crucial for the successful delivery of our national tourism strategy, Scotland Outlook 2030.

The STA's Destination Forum routinely acts as our eyes and ears on the ground about opportunities to develop our destinations and tourism offer across the length and breadth of the country, bringing their own unique local perspectives.

Unfortunately, many DMOs are currently on a cliff edge and do not have funding security to effectively maintain the resource to promote and manage tourism in their local areas in the coming period, with some having lost valuable resourcing from enterprise agencies.

As well as collaborating across all parts of Scotland, DMOs are increasingly focused on actively engaging local residents and businesses in the management, development and promotion of their area.

With the Visitor Levy (Scotland) Bill currently in the Scottish Parliament to give local authorities the power to introduce a visitor levy charge, DMOs will have a central role to play in the effective delivery of these schemes and in informing local authorities on the best use of any net revenue raised from a levy on enhancing local tourism and benefiting local communities.

Certain DMOs must be resourced to give them the time to develop their financial model and restructure as they continue to recover from the COVID-19 pandemic and the ongoing financial crisis.

As an immediate priority, we recommend that funding for key DMOs be ringfenced, setting out clear criteria about what defines a DMO and that resourcing is in place to continue to develop strong visitor propositions that attract visitors and contribute to longer-term economic growth, alongside working with local communities and businesses to manage the impact of tourism in their local areas.

ABOUT THE SCOTTISH TOURISM ALLIANCE

The STA is the overarching trade body for the tourism and hospitality industry in Scotland.

It comprises over 250 trade associations, businesses, destination groups and other organisations with an interest in tourism. Its membership is spread across all regions and destinations in Scotland.

The organisation is governed by a Board with representation from across Scotland's tourism industry and supply sectors, who together with STA's member Council and Destination Forum shape the organisation's policy agenda for government(s) and other key stakeholders.

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. The STA remains driven by this strategy, growing the value and positively enhancing the benefits of tourism across Scotland by delivering the very best for visitors, businesses, people, communities and environment.

The STA's Chief Executive, Marc Crothall MBE, co-chairs the Tourism and Hospitality Industry Leadership Group, alongside Richard Lochhead, the Scottish Minister for Small Business, Innovation, Tourism and Trade. The group is helping drive recovery and sustainable growth across both tourism and hospitality in the long-term, building on the partnership approach of the Scottish Tourism Emergency Response Group (STERG), which led the industry's response to the COVID-19 pandemic.