SCOTTISH TOURISM ALLIANCE

Your voice in tourism matters

GROWING INTERNATIONAL TOURISM TO WEATHER THE DOMESTIC STORM

SCOTTISH TOURISM ALLIANCE RECOMMENDATIONS FOR THE UK GOVERNMENT SPRING BUDGET 2024

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ABOUT THE SCOTTISH TOURISM ALLIANCE

The Scottish Tourism Alliance (STA) is the acknowledged overarching trade body for the tourism and hospitality industry in Scotland. The organisation has the greatest number of tourism and hospitality members under its umbrella, more than any other national association or trade body in Scotland.

Its core membership comprises of over 250 trade associations, tourism and hospitality facing businesses, destination groups and other business organisations with an interest in tourism, including many from the critical supply chains that support the sector, food, drink, finance, transport, and training providers.

In total, an estimated 15,000+ businesses are connected to the STA from across all regions of Scotland.

The organisation is governed by a Board with wide-ranging representation from Scotland's tourism industry and supply sectors, who together with STA's Council and Destination Forum shape the organisation's policy agenda for the Scottish Government, UK Government and other key stakeholders.

The STA led and co-ordinated the development and launch of Scotland's national tourism strategy, Scotland Outlook 2030, in collaboration with the Scottish Government and its agencies. The trade body remains driven by this strategy, growing the value and positively enhancing the benefits of tourism in 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(ILG), alongside the Minister for Small Business, Innovation, Tourism and Trade, Richard Lochhead. The group's core purpose is to provide the recommended strategic direction that will help to drive recovery and sustainable growth across both tourism and hospitality in the long term.

The ILG builds on the partnership approach of the Scottish Tourism Emergency Response Group (STERG), which led the industry's response to the COVID-19 pandemic in partnership with the Scottish Government.

LETTER FROM STA'S CEO MARC CROTHALL

Dear Chancellor,

We thank the UK Government for listening to the recommendations of the STA and other representative bodies to deliver 75% business rates relief in 2024/25 for retail, hospitality and leisure.

Unfortunately, the Scottish Government has once again failed to mirror this much-needed support for our own tourism and hospitality businesses through the Barnett Consequentials. As a result, we're concerned that this will further exacerbate pressures on the sector, leading to a significant number of businesses having to close their doors for good.

The STA also welcomes that our ask for levelling up funding to continue being rolled out across other parts of Scotland was announced in the Autumn Budget statement, with the key tourism destinations Na h-Eileanan an Iar, Argyll and Bute, Dundee, and the Scottish Borders all receiving this important financial boost.

However, we remain deeply disappointed that the asks of the STA and other industry trade bodies, also requested by the Scottish Government, for a VAT reduction on supplies relating to hospitality, accommodation and admission to certain attractions was not delivered in last year's Autumn Statement.

Introducing this measure in the forthcoming Budget would not only make the UK a more attractive visitor destination but help to deliver the urgent bottom line boost that tourism and hospitality businesses badly need. It would deliver benefits across the UK economy and make a huge difference to businesses, as they continue to navigate the landscape of rising costs. At 20% VAT we are by far one of the most expensive visitor destinations in Europe.

Introducing a VAT reduction on energy bills for our small and medium businesses, many of which are based in remote and rural areas, would make an additional major difference to their overall costs and prevent unnecessary closures that have a knock-on impact across communities and their local visitor economy.

At the same time, we have an opportunity to lead the way in becoming the only European country where EU residents could shop tax-free, potentially worth an additional £10 billion annual spending for our retailers, hotels, restaurants and leisure businesses.

Reintroducing tax-free shopping for all international visitors and making the scheme fully digital will encourage more inbound travellers and generate greater visitor spending at a time when we are competing at a disadvantage with other destinations and are also experiencing a significant drop in our own domestic visitor activity due to the ongoing cost-of-living crisis.

As the UK Government continues to face restrained resources, we believe that announcements on VAT and tax-free shopping at the Spring Budget would make a major difference to the tourism and hospitality sector and its ability to continue to grow the UK economy.

As we enter an election year, we also urge the UK Government to prioritise reviewing how the immigration system is impacting on the tourism and hospitality sector, as we continue to face critical staff shortages, particularly in island and rural communities.

We are very disappointed that the minimum salary needed to get a skilled worker visa will rise from £26,200 to £38,700, which will have a huge impact on our ability to fill posts and means we will continue to lose out on the wealth of experience and talent international workers bring to our sector.

Urgent clarity is also needed about the future of the Apprenticeship Levy, which is having a knock-on impact on the Flexible Workforce Development Fund in Scotland and is creating uncertainty around available skills training for our sector.

Without access to valuable international workers and the skills training needed to train, attract and retain staff in our own countries then our sector will continue to struggle to fill vacancies and our visitors' experiences will suffer.

We still believe it's possible to achieve the bold vision set out in our national tourism strategy, Scotland Outlook 2030, to become the world leader in 21st century tourism, but the reality of delivering that vision is becoming increasingly challenging, despite the resilience and determination of our sector to do so.

We look forward to continued engagement with UK Government officials going forward on delivering the strongest future for tourism.

Yours sincerely,

Marc Crothall MBE
Chief Executive of the Scottish Tourism Alliance

BUDGET SUMMARY

At a time that Scotland has begun to see the welcome return of international visitors, the ongoing financial challenges facing our tourism and hospitality businesses means that operating costs are up and the disposable income of households is markedly down. As a result, our businesses have seen a significant decline in their profitability.

The sector's reliance on growing our international visitors has never been greater, as we experience a significant drop in domestic visitors and a distinct change in the way these visitors are choosing to holiday due to the ongoing cost-of-living crisis.

With the power to introduce a visitor levy set to be introduced in Scotland, we will become an even less attractive destination when it comes to price and should not be complacent that our global appeal will win over cost when it comes to visitors choosing where to holiday.

The STA's pre-Budget submission prioritises what we believe are the two most significant actions that the UK Government can deliver now in growing international tourism to weather the domestic storm we are facing:

1. **A VAT reduction to at least 10% on supplies relating to hospitality, accommodation, and admission to certain attractions**
2. **Reintroduction of tax-free shopping for all international visitors through a fully digital scheme**

By becoming the only country in Europe where EU residents could shop tax free, this would make us a lucrative destination to holiday, while reducing VAT would give businesses a much-needed boost to navigate the continued rising costs they face.

RECOMMENDATIONS IN DETAIL

POLICY RECOMMENDATION 1: A VAT reduction to at least 10% on supplies relating to hospitality, accommodation, and admission to certain attractions – to ensure that Scotland and the rest of the UK are supported to be as competitive a tourist destination as possible

Policy rationale: The STA backs sector-wide calls for the UK Government to reduce VAT on supplies relating to hospitality, accommodation and admission to certain attractions, which we believe should be cut to at least 10% to give the tourism and hospitality sector the lift it needs in a continually challenging trading climate.

It is the most effective measure that the UK Government can take to support our sector in making us a much more attractive visitor destination, driving demand from both domestic and international tourists and generating vital revenue that our businesses are reliant on.

Although we have begun to welcome back international visitors to our destinations, STA's Autumn industry survey, conducted by leading research company 56 Degree Insight, found that there has been a significant drop in domestic visitors staying in Scotland.[1]

Concerning the key domestic visitor market, respondents reported decreased volumes in visitors from Scotland (-16%) and other parts of the UK (-20%). The Scottish Tourism Index published at the same time reported that over half of its 1,000 respondents were taking fewer breaks in 2023 compared to 2022 and 45% were opting to stay for shorter durations.[2]

VisitScotland's last Domestic Sentiment Tracker (conducted between July and September 2023) reported financial concerns were leading to domestic visitors cutting back on their spending on holidays and short breaks in the UK, with people appearing more likely to cut back on accommodation and eating out than on things to do.[3]

There has been a marked change in the way these visitors are choosing to holiday and the leisure activities they are undertaking because of the cost-of-living crisis and as more people look to book cheaper holidays abroad.

[1] https://scottishtourismalliance.co.uk/wp-content/uploads/2023/10/STA-Autumn-Industry-Survey-Results-Report-FV.pdf
[2] https://www.56degreeinsight.com/s/STI-October-2023-FV.pdf
[3] https://www.visitscotland.org/research-insights/about-our-visitors/uk/sentiment-tracker

The Scottish Tourism Index reported that financial pressures meant people were choosing to stay in accommodation where they can cook for themselves, such as self-catering, with friends or relatives, and camping and caravanning. The survey found spending on eating out significantly dropped between 2023 and 2022 (-13%), while there has also been fewer people buying takeaway food, shopping for gifts and souvenirs, visiting historic properties and purpose-built attractions, and taking part in cultural activities.

Not only would lowering VAT for the tourism and hospitality sector make it more attractive to international visitors and allow it to more effectively compete with other destinations, it would also help to encourage more domestic tourists and visitor spending at a time when businesses are missing out on this crucial visitor market.

The latest publication from VisitBritain (20 December 2024) forecasts that there will be an increase in inbound visits to the UK compared to last year, but that this will still fall short of 2019 levels.[4] An estimated 39.5 million visits to the UK are forecast for 2024 – a rise of 5% on the 37.8 million expected in 2023, but still 3% less than 2019 levels.[5]

VisitBritain has predicted that inbound tourism, both the number of visits and spending by international visitors, will not recover to 2019 levels until 2025.

The UK remains an anomaly concerning the level of VAT for tourism and hospitality that is charged compared to the rest of Europe – with VAT only higher in Denmark compared to the rest of Europe. Our nearest competitor Ireland has the third highest level of VAT concerning tourism and hospitality goods and services and this is still a substantially lower rate at 13.5%.

Lowering VAT for the sector to 10% would at least bring us on par with other European destinations such as France, Spain, Italy, Austria, Finland, the Czech Republic and Slovakia. In Luxembourg, VAT is charged at just 3%.

Reducing the VAT level would importantly help the tourism and hospitality sector to keep its own costs down and encourage business growth, in turn making Scotland and the UK a more attractive and competitive visitor destination, generating jobs and boosting economic growth.

We saw the demonstrable impact of stimulating demand and generating revenue when a lower rate of VAT was introduced during the COVID-19 pandemic. Lowering VAT once again would support the sector to weather the current economic storm, invest in developing their businesses, and subsequently grow the UK economy.

[4] https://www.visitbritain.org/visitbritain-publishes-inbound-tourism-forecast-2024

We would also urge the UK Government to consider a wider VAT reduction on small and medium-sized enterprises' energy bills. Without the previous energy bill support in place from the UK Government, many of our small businesses – particularly in remote and rural areas – are under huge pressure to heat their premises and pay their energy bills.

Measures to lower the tax burden on members of the public will help to ease current cost pressures, in-turn encouraging greater consumer spending and stimulating more economic activity.

If the UK Government introduces lower income tax in the next Budget, this is unfortunately not a measure that Scotland will see any benefits, as we have instead seen higher levels of income tax and additional banding across the border. Lowering VAT for our sector is the crucial measure that would have benefits for the public and businesses across the whole of the UK.

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 – previously suggested that the policy would impact 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 £194 million through other taxation due to improved business performance (e.g. corporation tax), increased employment, lower prices, greater consumer spending, and as a result increased income tax contributions.[6]

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 £7.7 billion of additional turnover and £4.6 billion in net present value of fiscal gains to HM Treasury over the same period.[7]

Benefits: The All-Party Parliamentary Group for Hospitality and Tourism's 'Inquiry into the Retention of the 12.5% Rate of VAT' highlighted the following benefits of reducing the VAT level. These benefits would still very much apply following the ongoing financial pressures and rising costs that face tourism

[6] All Party Parliamentary Group for Hospitality and Tourism, Inquiry into the Retention of the 12.5% Rate of VAT, March 2022 https://cdn.ymaws.com/www.ukhospitality.org.uk/resource/resmgr/2022/documents/appg/reports/VAT_Inquiry_Report_v5.pdf

[7] https://www.thecaterer.com/news/vat-freeze-hospitality-tourism-jobs-level-up

and hospitality businesses across the country, as the industry is again going through a challenging winter period:

- 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 COVID-19 pandemic.

POLICY RECOMMENDATION 2: Reintroduction of tax-free shopping for all international visitors – introducing a digital version of the scheme to benefit all of the UK

Policy rationale: We have joined many others in the sector in backing the calls of the Association of International Retail (AIR) and UKinbound to bring back tax-free shopping for overseas visitors to the UK.

At a time when the world stage is competing to attract international tourists to their destinations – including the lucrative return of the Chinese visitor market – our own domestic visitor market is suffering as people must prioritise their spending at a time of rising costs.

Reintroducing tax-free shopping for overseas visitors, including EU27 visitors, is not only essential in giving the UK a competitive edge in appealing to international visitors who stay longer and spend more, but also in ensuring that our businesses can stay afloat and the economy continues to grow when domestic spending is down.

A new analysis undertaken by The Financial Times shows that the UK is not seeing the same international spending boost that is being experienced in other countries. Since the tax-free shopping scheme ended in 2021 after Brexit, spending by non-EU visitors in Britain has dropped by 17% from £1,612 per capita (on average) in 2021 to £1,346 in 2022, and the downward trend has continued in 2023.[8]

As a result, research from AIR warns that the UK is missing out on an estimated £1.5 billion worth of international visitor sales annually to France, Italy and Spain.[9]

There is an opportunity to lead the way in becoming the only European country where EU residents can shop tax-free, potentially worth an additional £10 billion annual spending across the retail, tourism and hospitality sectors.[10] With multiple flight routes between the UK and Europe, there is the capacity in place to greatly grow these visitor markets at a time when VisitScotland is unfortunately facing cuts to its marketing budget.

Tax-free shopping for international visitors is an effective tax incentive to encourage and increase retail purchases that would otherwise not have happened. Edinburgh is among the UK's top centres for international shopping, while Scotland's high-end luxury whisky, salmon, and textiles industries would all benefit from the reintroduction of the scheme.

[8] https://ft.pressreader.com/v99c/20240117/281535115844751
[9] https://www.internationalretail.co.uk/tax-free-shopping
[10] https://www.internationalretail.co.uk/tax-free-shopping

There is also a 'halo effect' that would encourage visitor spending on luxury hotels, Michelin-starred dining experiences and visitor attractions such as whisky distilleries by high-end tourists. The total spend per day of a high-end tourist is estimated to be eight times greater than an average tourist. This type of tourist is estimated to be worth up to £30 billion to the UK economy.[11]

AIR estimates that bringing back the scheme would result in £5 billion worth of spending on tax-free shopping and another £5 billion on spending on hotels, restaurants, travel, leisure and cultural activities – which could potentially raise £1 billion of additional VAT revenue.[12]

The reintroduction of a tax-free shopping should be made a fully digital version of the original scheme, as the UK Government suggested that the paper-based Retail Export Scheme (VAT RES) predominantly benefitted London and the Bicester Village areas and was difficult to administer. Any scheme that would be introduced must benefit all parts of the UK, particularly retail, tourism and hospitality in Scotland.

Costs: Costs would be associated with the initial set-up and ongoing administration of a digital version of the previous VAT RES scheme. Previous research conducted by economic consultancy Oxford Economics, on behalf of AIR, suggested that the re-introduction of the VAT RES scheme in the UK would result in a significant positive impact concerning GDP, tax yield, and job creation.[13]

According to the research carried out, the actual fiscal cost of implementing tax-free shopping in the UK would be over 70% lower than HM Treasury's estimate of £1.3 billion in 2024/25 and £2 billion in 2025/26. The report suggests the Treasury estimates did not take into account the policy's likely impact on visitor behaviour.

AIR claims that The Treasury would have received £367 million in tax revenues in 2022 if tax-free shopping had been available, which is £164 million more than the £199 million VAT it collected.

Separate research conducted by the Centre for Economics and Business Research reported additional revenues generated by restoring the scheme would far outweigh losses associated with VAT refunds by £2.3 billion in 2023.[14]

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[11] Bain & Co for the European Cultural & Creative Industries Alliance (ECCIA), High-End Tourism: A Driver For Europe, May 2022 https://www.comitecolbert.com/app/uploads/2022/05/eccia-high-end-tourism-a-strong-driver-for-europe-def.pdf

[12] https://www.internationalretail.co.uk/tax-free-shopping

[13] Oxford Economics, Assessing the impact of tax-free shopping in the UK – a report for the Association of International Retail (AIR), November 2022

[14] Cebr, August 2023 https://cebr.com/reports/removal-of-tax-free-shopping-costing-10-7bn-in-lost-gdp-and-deterring-two-million-tourists-a-year-report-concludes/

Benefits:

- It could generate an extra £10 billion in annual spending, half of which would be eligible for VAT, according to AIR.
- The UK would be the only country in Europe able to offer tax-free shopping to EU members, supporting growth in these key visitor markets that are easily and quickly reachable by flight and rail routes.
- Previous modelling undertaken by Oxford Research suggested additional international visitor spending would sustain over 78,000 jobs.[15]
- The modelling also suggests the reintroduction of tax-free shopping would attract more than 1.6 million extra visitors to the UK in 2025/26.
- More attractive visitor destination to high-end tourists.
- Stimulates economic activity that would otherwise not have happened.
- Increased revenue at a time that domestic visitors and members of the public have less money to spent on tourism, hospitality and retail.
- Regional impact – benefits for Scottish tourism and hospitality businesses that are based in rural and island communities, who face greater cost pressures due to their remoteness.
- Positive impact on Treasury revenue – stimulating further economic activity and providing economic stability.

Deliverability: As was previously the case before tax-free shopping ended in 2021, this can happen by either making the product tax-free at the point of purchase, or that the buyer has to obtain a VAT refund. This should be through digital means rather than a paper-based scheme to benefit all parts of the UK.

[15] Oxford Economics, Assessing the impact of tax-free shopping in the UK – a report for the Association of International Retail (AIR), November 2022