UKHospitality Scotland

Evidence Paper for the Economy and Fair Work Committee

18 January 2024

1.**Introduction**

Hospitality in Scotland employs 170,000 people and is present in every part of the country, delivering £9 billion of GVA to the Scottish economy each year. This makes hospitality one of the most important sectors in the economy.

Hospitality is a vital part of the everyday economy, as well as integral to a thriving visitor economy. The potential for our sector to grow and drive economic growth should also be recognised, along with hospitality's ability to showcase the very best of Scotland on the world stage.

UKHospitality is the leading trade association for the sector, with offices in London, Edinburgh and Cardiff and works closely with colleagues in Hospitality Ulster.

Our membership comprises pubs, bars, restaurants, contract caterers, hotels, caravan parks, nightclubs, cinemas, coffee shops, food to go businesses and a variety of indoor leisure venues. Members are independent owners, as well as national and global operators.

Across the UK our 750 members operate 130,000 venues, which translates to 250 members in Scotland, operating 14,000 venues.

2. Trading Conditions and Outlook for 2024

Whilst hospitality sales figures have performed reasonably well over the course of the last 12 months, this position is significantly undermined by extremely high-cost increases.

The biggest barrier the sector faces is a surge in energy costs, labour and the cost of product. There are also growing concerns about the cost of commercial property. With inflation and interest rates remaining high, costs will continue to increase this year. Labour shortages make the situation even harder.

Early January is always a tough period for the sector, but this year has seen an unprecedented surge in closures across the UK and in Scotland, among high-profile names as well as local community venues. This is the result of cost pressures finally toppling previously successful businesses.

Over the course of the first three quarters of 2023 there was an estimated net loss of 3,000 hospitality venues across the UK, 350 in Scotland, with resulting losses of jobs and community amenity. Last year, pub closures in Scotland were reported as running at twice the rate of those in England.

From what we have seen in January, this is likely to increase over the course of 2024, with independent operators closing or scaling back on service and opening times, whilst larger groups rationalise estates.

Customers remain locked in a cost-of-living crisis, reducing the ability of hospitality businesses to increase prices. Furthermore, visits to hospitality venues are likely to fall over the course of the year.

3. The UK Government Budget, 6 March 2024

As we approach the UK Budget, UKHospitality is asking for measures to help halt this decline and accelerate growth and investment. This should include reform to the employer National Insurance Contribution regime, in order to support the payment of higher wages, and a reduction in the rate of VAT for the sector.

A reduction in National Insurance Contributions for employers will help businesses pay the increase in the National Living Wage – set to rise by 10% in April. VAT reduction for our sector, down to at least 12.5%, is a long standing ask of the UK Government. Such a move has the ability to release the potential of our sector and provide growth and investment opportunities.

4. Response to The Scottish Budget

The sector was left disappointed and angry by the Scottish Budget on 17 December. Principally because, for the second year running, the Scottish Government has not passed on the business rate relief provided by the UK Government in its November 2023 Budget.

Without the 75% rate relief, worth £230 million, our businesses are at a competitive disadvantage to hospitality in England and in Wales - where relief of 40% was provided. As things stand, pubs in Scotland are £15,000 worse off and medium-sized hotels £30,000 worse off, compared to counterparts in England. Whilst our larger businesses have been denied support of anything up £110,000, the payment cap.

Whilst the Scottish Government highlights support provided through the Small Business Bonus Scheme, the reality is that higher business rates for hospitality means relatively few qualify and, according to figures from The Fraser of Allander Institute, at least 10,000 hospitality businesses are now operating without any kind of financial assistance at this critical time.

UKHospitality Scotland continues to ask the Scottish Government to reconsider its decision to deny this rate relief support to businesses across the country.

5. Basic Rate Frozen, Increases in Higher Rates

UKHospitality Scotland was one of a number of trade associations that coalesced around the ask for the poundage for Basic Rate is to be frozen at 49.8 pence. Therefore, confirmation of the freezing of the rate in the Scottish Budget was welcome.

However, the Intermediate Property Rate (IPR) and Higher Property Rate (HPR) will both rise in line with inflation, to 54.5 pence and 55.9 pence respectively.

The SNP, in its manifesto for the last Scottish Election, stated that the HPR would be lowered and brought back into line with England. Ministers were reminded of this commitment by UKHospitality Scotland in the lead up to the budget.

Figures published by the Scottish Government show the number of properties liable for HPR in 2024-2025 includes 590 hotels, 560 leisure, entertainment, and caravan properties, and 190 public houses. These businesses of size and scale are capable of increased investment and job creation. The rise in HPR and IPR, particularly in the context of other pressures, holds back our larger businesses.

6. Support for Island Businesses

The Scottish Government suggests that the 100% rate relief for island businesses will support 1,600 additional hospitality businesses that, due to the long-running ferry problems, have had their revenues hit. One UKHospitality Scotland hotel member, operating on an island, estimates that ferry cancellations last year cost the business revenue of close to £500,000. The support announced is capped at £110,000.

Whilst welcome, the ongoing problems with ferries cost our island businesses and communities dear.

7. Non-Domestic Rate Reform

It is an important point that Scotland's hospitality businesses remain saddled with, on average, higher business rate bills than those in England. The revaluation in April last year did nothing to address this inequity, with UKHospitality Scotland members reporting rises of between 15% and 25%. These rises came despite extensive conversations with the Scottish Assessors Association and Scottish Government, outlining the deficiencies of this 170-year-old tax system and the challenges faced by hospitality.

The next revaluation takes place in April 2026. Given calculations are based on turnover, this means our business could face further increases as costs rise. This despite the fact that profits are at low levels, non-existent or indeed businesses are trading at a loss.

In the budget, the Deputy First Minister reaffirmed the Scottish Government's commitment to reform business rates. UKHospitality Scotland will continue to press for this, as this the greatest lever the Scottish Government has that can transform the economic landscape, allowing our businesses to flourish.

8. Income Tax Divergence

As was expected and heavily trailed, the Scottish Government introduced a new income tax band, the Advanced Rate, for earners of between £75,000 and £125,140 at a rate of 45%.

The degree of divergence between Scotland and the rest of UK on income tax is already proving problematic for hospitality recruitment. The new rate, as a minimum, adds to the narrative of Scotland being a more expensive place to live, work and invest.

Members are reporting that they are forced to increase pay rates, offsetting income tax liability, to ensure skilled candidates from other parts of the UK will accept positions. Businesses may also find it harder to retain higher earners; those workers in the most skilled roles.

9. Tourism and Enterprise Budgets Cut

In the budget the Scottish Government also scaled back investment plans in parts of the public sector most helpful to our businesses. The enterprise budget has been slashed by £70 million and tourism cut by £5 million. At a time when our businesses could do with more, not less advice and support, this is a further blow. Whilst the reduction in tourism marketing and promotion could leave Scotland trailing rival destinations in the coming years.

Funding for the Rural Tourism Infrastructre Fund has been significantly reduced. This fund was introduced several years ago to help local authorities manage tourism in popular destinations. Funds have previously been allocated to help build car parks, public toilets, pathways and other amenities. The cut is a clear signal that the Scottish Government now expects councils to make use of visitor levy powers to raise revenue for similar projects in future. The Visitor Levy Bill is expected to pass next summer, with the first levy introduced in 2026.

10. Skills, Apprenticeship Levy and the Flexible Workforce Development Fund

The Scottish Government is still to respond to the Withers Report, examining the current skills landscape in Scotland. Meanwhile, the budget set out cuts to funding for skills delivery, and Skills Development Scotland - a key partner working with UKHospitality Scotland to better direct skills development opportunities for hospitality, maintaining and building our talent pipeline.

At a time when hospitality businesses continue to report labour shortages and the resulting impact on their ability to trade, these cuts are likely to heap further challenges on owners and operators. There remains an estimated shortfall of between 25,000 and 30,000 workers across all areas of activity. Skills Development Scotland estimate the sector may require an additional 39,300 workers between now and 2026.

It is also unclear from the budget how Apprenticeship Levy funds are to be used. Several of Scotland's major hotels pay this levy, but are report they see no results for the wider tourism and hospitality workforce. Compounding this position is confirmation that the Flexible Workforce Development Fund has been scrapped. This had been a helpful initiative for our businesses.

These cuts, coupled with the UK Government's ambivalence towards supporting hospitality recruit via an improved visa system, will further hamper our sector's ability to grow and deliver economic growth across the country.

11. New Deal for Business

Following the budget, the Scottish Government's New Deal for Business has been called into question. It remains to be seen how Ministers plan to convince hospitality businesses that their economic contribution is valued.

12. The Burden and Cost of Regulation

Despite ongoing conversation with the Scottish Government on how to improve regulation, our businesses remain on the frontline of many ongoing and emerging areas of policy and legislation. It is not only the impact of individual pieces of legislation, but the cumulative impact and timing of introduction that causes concern.

Visitor Levy Bill: The Bill passed Stage 1 on 16 January, with the Scottish Parliament voting in support of the general principles. The sector has long resisted the introduction of this enabling legislation, giving local authorities the power to introduce a tourist tax on accommodation. Arguments focused on increased lack of competitiveness, complexity and cost to business.

Whilst there has been positive engagement with the Scottish Government on the Bill, concerns remain about the lack of detail and costs to accommodation providers, who will be tasked with collecting this charge on behalf of local authorities.

There is also no requirement in legislation for revenue generated to be used to support the visitor economy or destination development. Important points for our businesses, who need to be consulted on how money is spent.

Other charges on visitors: The visitor levy on accommodation has long been seen as a gateway to other forms of taxation on our visitors. So, whilst disappointing, it is not surprising that the budget document stated that the Scottish Government will continue to explore a levy on cruise tourism. Such a tax could adversely impact hospitality businesses, currently attracting visitors who disembark from vessels.

Deposit Return Scotland (DRS): The launch date for the schemes across the UK remains as October 2025. Whilst the enforced delay to the Scotland scheme has given much needed respite to our businesses, the implications and challenges of DRS remain.

Circular Economy Bill: This is another piece of legislation, with limited detail, but that will clearly impact on our businesses. A key aspect is the power for Ministers to introduce a charge on single use items. The conversation has, so far, revolved around a charge on single use cups, hitting food-to-go businesses.

Alcohol marketing and promotion restrictions: Following the publication of the results of last year's consultation, the sector now waits to hear more on the Scottish Government's plans. Last year's consultation provoked a strong reaction from across the hospitality, drinks and event industries, with proposals to introduce extreme restrictions on the promotion of alcohol.

13. Fair Work Convention – Hospitality Inquiry

Finally, UKHospitality Scotland, along with several of our members and industry partners, is involved in the hospitality inquiry, examining how our businesses can be helped towards delivering further on the principles of fair work.

The inquiry has moved into finalising recommendations. This will be an obvious area of interest to the Committee, once the final report is published. Members will note, however, that given the continuing challenges, many businesses will find it difficult to go further than they have already, as they battle rising costs, reduced custom and challenges brought by Scottish Government regulation.

UKHospitality Scotland
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