



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 24 January 2024

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

3rd Meeting 2024, Session 6

CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

DEPUTY CONVENER

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

COMMITTEE MEMBERS

*Maggie Chapman (North East Scotland) (Green)

*Murdo Fraser (Mid Scotland and Fife) (Con)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Colin Smyth (South Scotland) (Lab)

*Kevin Stewart (Aberdeen Central) (SNP)

*Evelyn Tweed (Stirling) (SNP)

*Brian Whittle (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Marc Crothall (Scottish Tourism Alliance)

Leon Thompson (UKHospitality Scotland)

Colin Wilkinson (Scottish Licensed Trade Association)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

Committee Room 4

Scottish Parliament
Economy and Fair Work
Committee

Wednesday 24 January 2024

[The Convener opened the meeting at 09:30]

Decision on Taking Business in
Private

The Convener (Claire Baker): Good morning, and welcome to the third meeting in 2024 of the Economy and Fair Work Committee. Our first item of business is a decision on whether to take item 3 in private. Are members content to do so?

Members *indicated agreement.*

The Convener: I should also say that we previously agreed to take agenda item 4 in private.

Budget Scrutiny 2024-25
(Tourism and Hospitality)

09:30

The Convener: Our next item of business is an evidence session with the Scottish tourism and hospitality bodies, following publication of the Scottish Government's draft budget in December 2023. I welcome Marc Crothall, chief executive, Scottish Tourism Alliance; Leon Thompson, executive director, UKHospitality Scotland; and Colin Wilkinson, managing director, Scottish Licensed Trade Association. Thank you all for attending this morning, and for the briefings that we received in advance.

I will start with some questions. I know that you have criticisms of the budget, but you also point to positive reports from the sector. We have seen growth in the sector's economic value, and you recognise that there has been an increase in visitor numbers, particularly international visitors. With that, we are seeing an increase in the economic contribution of the sector. If you can point to the positive growth and recovery in the sector, why is there so much concern about the budget, and why are the calls for Government support so strong?

There will be a chance this morning to cover all the areas that you have raised, so please do not feel the need to explain everything in your first answer. Leon Thompson, I will bring you in first to talk about what seems to be a contradiction. If you can point to figures that show that the sector is doing well and that there is buoyancy, why is there such a need for Government support?

Leon Thompson (UKHospitality Scotland): The sector is on track to recover from the pandemic—there is no doubt about that—but our issue is that, although venues might be busy, costs have gone through the roof. Therefore, although turnover is high, there is little profit for those businesses that are making any kind of profit; other businesses are simply at standstill; and others are making a loss. We have seen inflation increase, and interest rates have been rising, too.

As well as that, food and drink costs for our businesses, when they are buying in product, are up around 20 per cent. We have also been hit with wage increases, which is all good because businesses want to pay their workforce more money, but those increases are being driven by disruption in the labour market, particularly with shortages in skilled roles and especially in chefs. Energy bills have been exorbitant and remain incredibly high for businesses. There is a lot of focus on household energy costs, which are high,

but at least there is a cap in place there: there is no cap in place for businesses. A lot of our members are paying 40, 50 or 60 per cent more in their energy bills than they were previously, and there seems to be no end in sight. The cost of everything has gone up. So, even venues that are busy are struggling to make ends meet.

The other side of that is that we are starting to see consumer confidence, which was already quite fragile, soften even further. Members are reporting that people, when they are out in bars and restaurants, are not spending quite as much as they were and are not staying out for the same length of time—they are going home earlier.

That is the sort of thing that is happening, and it makes it a very, very tough environment for businesses. Working with our research partner, we found that we were looking at the loss of about 350 hospitality businesses in Scotland in the first three quarters of last year. As members will be aware, there is a lot of media coverage of businesses that, post Christmas trading, are now, sadly, closing, while other businesses are looking at reducing their hours and laying off staff to try to make the balance sheet work for them.

The Convener: Colin Wilkinson, I will come to you and your members next. The fact is that other businesses are feeling the pressures, too—not just tourism and hospitality. Everybody is dealing with increased energy and other costs. What is unique to the sector that is leading to the fragile picture that Leon Thompson has described? Are there unique factors that are making the environment tougher for hospitality?

Colin Wilkinson (Scottish Licensed Trade Association): As Leon Thompson said, one of the biggest disappointments with the budget was that, in our view, the importance of the sector was not recognised by the Scottish Government; in comparison, Westminster sees the sector in England as important. Rates relief would have made a huge difference to many of our members, who are small independent operators. We thought that there would be something, but, of course, that did not happen.

We are seeing the business confidence of our members dropping: about 67 per cent are not optimistic for the future. At the moment, we are carrying out one of our six-monthly surveys; we have seen 190 premises—pubs and bars—close permanently since Covid, and according to the survey results so far, we could see another 130 closing in Scotland in 2024. There are various things that need to be highlighted. We are being hit by legislation that is coming in, too, and businesses need a break to recover from the current situation that they find themselves in.

The Convener: When the committee did an inquiry on town centres last year, or maybe the year before, we found that one of the solutions was the need for town centres to have a mixed economy, and tourism and hospitality are key players in that. It cannot all be about retail—what we need is a changed economy. Does the picture that you have described make that harder to achieve? At that time of the inquiry, we were looking at how we might change the use of a property to allow a hospitality business to move in, but now we see those businesses closing. They are creating empty spaces as much as retail is.

Colin Wilkinson: The hospitality industry—and, indeed, the licensed hospitality industry—has received the accolade of being, perhaps, the saviour of the high streets. We have seen what happens with retail, but the fact is that there is no incentive to open businesses. We are seeing so much legislation, and we feel that we are not being supported enough by Government. There is also the issue of the low-emission zones; we have seen what has happened to the night-time economy in Glasgow as a result, and other cities will be introducing zones in the summer. They put a further burden on businesses that want to open and operate in city centres.

The Convener: I will bring in Marc Crothall in a second, but members have supplementaries for Colin Wilkinson. Brian, do you want to come in?

Brian Whittle (South Scotland) (Con): Thank you, convener and thank you, panel. It strikes me that the issue is not so much the LEZ itself as the way in which it has been introduced. What I am hearing with regard to the night-time economy is that the issue is not just that the clientele are unable to get in and out of the city as a result of public transport not being available at that time of the night and taxis not being available any more, but that workers themselves are struggling to get in. Can you confirm that workers cannot get into and out of work at that time of the night any more?

Colin Wilkinson: Yes. Of course, we want to make sure that workers can get home safely. If you do not have public transport or the ability to get into the city centre easily, that will have an impact on our staff's security when they are going home.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Colin Wilkinson, how much of the reduction in pub use is down to societal change? There is a lot more home consumption, and the cost of living rises mean that folk are going out less. There is pre-loading: youngsters might not be drinking as much, but, when they do, they tend to do so at home before they go to clubs and pubs at night. How much of the change that you are talking about relates to societal change?

Colin Wilkinson: There has been a great deal of societal change. With Covid, we have all become very insular, but pubs are very adaptable if they get help with that. We have had many crises during my 40 years in the industry, and we have managed to get through them. However, I can honestly say that our members feel that the current situation is worse than Covid; at least with Covid, we had some kind of support, such as the furlough and rates relief. We are getting nothing now, and that is hitting a lot of businesses hard.

Gordon MacDonald: In an article in the *Scottish Licensed Trade News* in January that touched on a number of people within the industry, Andrew Morrison of the Edrington Group stated, emphatically:

“The Scottish hospitality industry is robust and strong. Despite challenges, there’s a resilient spirit across the sector. Continued collaboration, innovation, and a commitment to quality will undoubtedly contribute to the industry’s strength and recovery.”

What would be your comeback to what the Edrington Group is saying?

Colin Wilkinson: My comeback is that it is looking at the overall picture, while we are looking at the small independent licensed operators whom we represent. There are, for example, the six-monthly surveys that we carry out. Unfortunately, the one that we are doing just now will not be ready until the end of this week, but one of the things that stood out for me was that we asked the more direct question, “Are you considering closure or are you going to close?” when, previously, we had asked, “Are you looking to cut operating hours?” Three per cent of respondents said that they were closing or seriously considering closing. That is why we could lose another 130 pubs. For our particular sector, it is a serious issue.

Gordon MacDonald: Okay. Thanks.

The Convener: Kevin Stewart, do you wish to ask a supplementary question?

Kevin Stewart (Aberdeen Central) (SNP): Please, convener.

Colin Wilkinson talked about being hit by legislation and gave the example of the low-emission zone in Glasgow. It would be interesting to see the figures from the LEZ, particularly as we move forward with change. What other legislation, Colin, do you think is having an impact?

Colin Wilkinson: It is the legislation that is going to have an impact.

Kevin Stewart: What legislation is that?

Colin Wilkinson: We have gone through the deposit return scheme, which, I am afraid to say, was shambolic. It really hit the industry, which was

doing its best to prepare for it, and it is going to be back in the limelight in 2024.

You also have the tourism tax. I know that it is being called a visitor levy, but it is basically a tourism tax, and it will place an extra burden on industry, not just the burden of the costs themselves but the burden of actually operating it.

There are the alcohol advertising restrictions, too. I understand that that legislation is going to be reduced in scope from what we were expecting last year, but those kinds of things do not help an industry that is fighting for its survival, as our sector is.

Kevin Stewart: Many other parts of the world have tourism levies that have worked and have not had an impact. How would a tourism levy coming into play here be different from the tourism levies that exist in other parts of the world, such as Spain, Germany and across Europe?

Colin Wilkinson: Unlike this country, other parts of the world do not have 20 per cent VAT on tourist spend. What we are looking at is a tourist tax on top of that 20 per cent. The VAT on top of the tourism tax is a tax on a tax. It is another cost burden not just for the industry but for consumers themselves.

Kevin Stewart: Have you got a spy looking over my shoulder at my notes, Colin?

The Convener: What Mr Stewart means is that he is going to ask some questions about the subject of VAT later. I know that it is something that the sector has raised.

Just to finish the initial line of questioning, I will come to Marc Crothall on the financial status of the hospitality and tourism sectors. Last year, the committee, in its budget proposal, asked for protection of the VisitScotland budget and recognised its important role in helping attract visitors and supporting the sector. However, a cut to that budget has been proposed in this year’s budget. What concerns do you have in that respect? As I have said, we have seen an increase in international passengers to Scotland and in their spend. Actually, the number of visits is slightly lower, but the spend is higher. What concerns do you have around the VisitScotland budget?

Marc Crothall (Scottish Tourism Alliance): Thanks, convener. I will add to the contributions that my colleagues have made and maybe pick up on some of the questions that have come back.

First and foremost, the frustrations being felt by the industry right now relate to our ability to compete in the future and to present a product that is really how we would want to present it so that it represents real value for money. What we are seeing right across the globe now is a strong

recovery in tourism; indeed, across Europe, it has pretty much returned to pre-pandemic levels. As for the financial conditions, I will maybe pick up on the visitor levy impacts later.

There is also a frustration about not being able to invest, because the profitability of the business is not at the levels that it needs to be at. It is not just about investing in the actual asset and the experience, but about investing in people and retaining those staff against that backdrop.

09:45

I got an email from a private independent operator who is—or has been—very successful, and who has made a huge commitment to Scotland over recent years. They operate in the Highlands and have diverse businesses, including breweries, hotels and restaurants. The email came through randomly to me on Saturday. I will read it out, because it is typical of many of the views and opinions of a lot of the people who operate in the sector. It is not a long email, but it will give you a picture of some of the sentiment and frustrations that sit around the situation.

The operator says:

“I don’t think ... I have ever known a harder time to operate a business in Scotland or seen a government destroying any hope for growth and the ability to come back from the years of brexit, covid, energy costs, interest rates, huge tax rises and cost of living crisis. In fact, it seems”

we

“are determined to squeeze any money left within the sector and ensure the final nails in the coffin are ... truly hammered in.

Sadly, I feel as an independent operator part of a dying breed where the future will see global chains running hospitality in Scotland, as they will be the only ones left who can offset the costs of operating ...

I remain a positive person with a solution led approach to life and I have”

as I always have been

“in my professional life ... I have ... responsibility for hundreds of staff ... who need to see a calm and positive working environment as they themselves are struggling with their own family circumstances and the state of the economy.

Creating a positive working environment under these conditions is a daily challenge requiring every bit of leadership and energy I have. For the past four years, I have had to be a social worker, pastoral leader, financial advisor and”

have

“offered more flexible working conditions before”

than I can ever

“think about”

when I have been operating a

“business!

This includes ensuring we are paying all our staff a real living wage and supporting those who can only work a few hours a week ... as this is not enough to live on so require free meals before and after they start a shift”

which we provide.

“With training involving accessible communication, managing difficult conversations, mental health and wellbeing—before training on the skills needed for the actual job people are doing.

We are literally sorting out the mental health and financial mess caused by”

decisions taken which lack

“any business understanding and not because it is part of my role as employer but because ... far too many people are suffering! And the cost—I wake up every day, pushing down fear and wondering what is coming today.

Looking ahead at the tourism levy, DRS, high taxes—all to prop up a failing economy, yet we are still seen as the ‘cash cow’ for the government and councils. Not sure they understand or care that this is not the case. We are their answer to funding cuts and infrastructure.

For a government that”

perhaps wants to see change, we seem to be

“destroying independent operators”

instead of allowing the Scottish hospitality industry to really thrive and flourish.

“However, despite ... these challenges, I will still address these issues and do everything I can to support my teams,”

my families

“and the barriers around inclusion and sustainability ...

Anyway—rant over! Thank you for being our voice”.

That is not the first such message that I have received. They come from many different people and owners and operators of all types of businesses, large and small. We have huge ambition here, and we have seen positive growth in international numbers; indeed, some more results will be published today that show as much. As a country, we are a destination of choice and are in demand.

The other concern that we have right now is that, although people can come, it is important that we are able to give them something to do. If pubs, restaurants and other businesses are shut, our proposition weakens against the very competitive market that we are up against elsewhere in the world.

Gordon MacDonald: I have a point of clarification on the email that you read out, Marc. I was busy taking note of all the points that you raised. Apart from a tourism levy—which is a Scottish Government responsibility, if it is introduced and if councils decide to take it up—you mentioned energy prices, high interest rates, cost of living, economy and social security. Those

are all within the remit of the United Kingdom Government, so who was the email pointing at? Was it at the UK Government, or just more generally?

Marc Crothall: It is a general piece. We have all been saying in the discussions around business that the cumulative impact of everything that is happening at the moment has put on pressure and that we need the stimulus to enable economic growth. The conditions for success for business are a lower level of VAT, not having any extra burden of tax put on us and not having a framework around us that prevents those businesses from having the confidence to invest.

I come back to the competing concern about prices having to be pushed up to combat inflation. When you are now commanding a price point for a meal, a hotel stay or otherwise, it is perhaps a bit uncomfortable for the owner or operator to charge that. After all, there is choice out there, and as consumers, we are all more and more conscious of how much we have available to spend when we go out. It is not just about overnight stays. When people go out and are asked to pay a bit more, they expect the quality and the service standard to be a bit better. It is the compound impact.

Looking forward, I think that the worry is that levies and other legislation are still under discussion, and, whether they relate to alcohol or advertising, they will, at the end of the day, represent costs to businesses. It is building and building. The industry, like that owner, has invested millions so far and is shouldering the responsibility—and rightly so, because it is about caring for its people and the community that it supports and contributes to.

The Convener: Before I bring in Murdo Fraser, I have a question about VisitScotland and its budget. Marc, you talked about competition. When we last looked at that issue, we considered the example of Ireland and the investment that it had made. There is a relationship between Scotland and Ireland's tourism offer. Do you know where the VisitScotland budget sits, compared with how much other countries are putting into their tourism markets?

Marc Crothall: I cannot be 100 per cent definite about a direct comparison, but the VisitScotland budget has been sliced, and I know for a fact that there will need to be some changes to the core activity that it has been able to do. In particular, a big chunk has come off the rural tourism infrastructure fund, which will affect investments to support the infrastructure piece. There will be a downward slide in core marketing, international competitiveness and creating awareness.

The Irish Government has lifted its levels of VAT slightly, but, when you look at the evidence of

what Ireland is still doing globally, you will see that it is still very prolific. Even though Dublin airport is at its capacity of 40 million passengers every year, they are still not holding back and are sending huge delegations to the likes of the golfing community and golf shows. My counterpart there, with whom I keep in close contact, has his frustrations, too, but Ireland is still very much a competitive destination. In any case, we should look not just at Ireland but at other European destinations.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning, gentlemen. I have some questions on what the Scottish Government is doing with its budget but, before I come to them, I will follow up on the previous discussion.

Marc Crothall mentioned some of the UK-wide pressures on the industry, such as VAT, interest rates and energy costs, but is there a specific Scottish angle? To contextualise it, I read a press report at the weekend from, I think, the Scottish Beer and Pub Association, which is the rival lobby group to Colin Wilkinson's. According to its figures, pubs in Scotland are closing at twice the rate of those in England. I appreciate that there are UK-wide issues, which we have discussed, but are there specific Scottish issues that make the situation more difficult here?

Colin Wilkinson: I go back to the rates relief for which we were looking. We have not had that for two years. That would have made a significant difference for our members, who are small independent operators. That is reflected in the fact that we are seeing pubs close at twice the rate of those in England.

I will add, however, that it is not just about pub closures but about the number of pubs that are not operating to their full operating hours. In January and February this year, just over 50 per cent of pubs will be operating restricted hours. Many will be open either five or four days a week, because there is just not enough business. Costs are forcing them to do that. Marc Crothall talked about the offering for people who are coming to Scotland. If they come in January or February, half the pubs will be on restricted hours.

Murdo Fraser: I will bring in Leon Thompson in a minute, but I will follow that up first. Some of these issues are not restricted to Scotland or the UK. Just before Christmas, I had a meeting with the German consul general, who said that, in Berlin, a lot of the restaurants are now shut two or three days a week because they cannot get the staff. There are issues that go beyond Scotland and the UK, but I am trying to focus on whether there are specifically Scottish angles here.

Leon Thompson: Colin Wilkinson touched on the issue of business rates. Non-domestic rates

are certainly where our businesses are at a competitive disadvantage to those operating in England. For example, rates are generally higher for businesses in Scotland than they are for businesses that are operating in England. A lot of my members are operating right across the UK so, obviously, they are able to tell me that there is a disparity in the costs of doing business in Scotland versus those in the rest of the UK. We had the revaluation in 2023. I suppose that we went into that process with the hope that we might see businesses starting to get more reasonable rateable values. In most instances, we saw quite the opposite, with businesses, certainly those among my membership, being charged anything up to 25 per cent more for their business rates.

We have another revaluation coming in 2026 now that we are on a three-yearly cycle, and businesses are concerned about how that will play out, particularly with turnover being high and rents going up. They could also be in for a big financial hit with the next round of business rates. It is something that we need to address. We need to address the system, which is 170 years old. Is it fit for purpose? Is it delivering the opportunities for investment and growth that we need to see? That is the Scotland-specific angle to this. There is also the 75 per cent rates relief that was not passed on. Again, from speaking to our members, we know that pubs in Scotland are being disadvantaged to the tune of about £15,000 a year; medium-sized hotels by around £30,000 a year; and larger businesses that get the cap by £110,000. That is money that they now do not have to spend on the rising costs of ensuring that the fabric of their buildings is up to scratch so that they are absolutely bang on for guests. The particular Scottish angle is the issue with business rates.

Marc Crothall: Obviously, a lot of these businesses are sitting with VAT bills and so on in their disbursement box and were hoping that reliefs and so on would take some of that pressure off. Leon Thompson summarised it very well. There have been two years on the bounce where there has not been flexibility and, again, it comes back to the investment piece, competition and creating the right proposition.

The point was made about whether there has been a change in behaviour—I cannot remember whether it was made by Gordon MacDonald or Kevin Stewart. Businesses need to respond, and they have been very fleet of foot in changing their business models, particularly during Covid, when most of them did. However, that all comes at a cost. The retention of staff is also a key issue. If you do not trade seven days a week but trade only on three, your appeal to somebody who is looking for work is reduced. If you can give them an assurance that they have a higher number of guaranteed working hours, that is fine, but one of

the other big impacts that we are still seeing in town and city centres in particular is that there remains a very different dynamic around people working in offices. There are still very few people in offices, which means that no vibrancy is being brought on to the streets and into the pubs after the offices close and at lunch time.

Murdo Fraser: I have a specific follow-up question on business rates. You have all made the plea for the 75 per cent business rates relief that applies south of the border to be replicated in the Scottish budget. The Fraser of Allander Institute has said that that would be relatively more expensive in Scotland due to the different structure of the industry here. As I understand it, there is a cap that applies above a certain level in England and, because there are more larger businesses in England, more businesses hit that cap and do not get the relief. I am interested to get your reaction to that, given that, even if you were to take all the Barnett consequentials from that in the budget, it would still not be enough to fund the full 75 per cent relief for everybody in the sector.

10:00

Leon Thompson: There are ways of managing this. One of the most disappointing things about the 75 per cent rates relief was that there was no discussion with our sector about it. We all made representations to the Scottish Government about how, if the relief were to come, we would like to see it passed on. Obviously, we would like to see it passed on in full. If you look at how it has been managed in Wales, you see that they have gone for 40 per cent. That is not enough, but the point is that there is a conversation to be had here. If we are serious about having dialogue between Government and business and if we are genuine about having a new deal for business and a good relationship, this is the sort of conversation that we should have been having—we should have been invited in to have—with the Deputy First Minister, Shona Robison, ahead of the budget, to look at options and possibilities, rather than just being given a flat no.

It is about the money, as I have outlined: significant amounts of cash that will make a difference to business. It will make a difference to whether some businesses survive, will be able to trade at something approaching optimal level or will, perhaps, be able to put in a little bit of investment just to keep their offer fresh. It is about the money and the lack of respect in not coming to us and having the conversation about this. This is the second year that it has not been passed on. I think that the Scottish Government knew what the reaction would be, based on last time. It would have been a sensible approach to have invited us

in for a conversation ahead of the budget. That did not happen.

Murdo Fraser: That is quite strong language—a “lack of respect”. Do you think that the Scottish Government is just not listening to your concerns?

Leon Thompson: We are all engaged with the Scottish Government. We are all in lots of different meetings with Tom Arthur, Richard Lochhead and Neil Gray. There is a lot of good dialogue there, but we needed a budget that backed up those words. We just did not get that. The 75 per cent rates relief issue rankles with my members. There is disappointment and anger. That is how businesses have viewed this.

Marc Crothall: Leon Thompson’s point chimes with some of the frustrations in the words of one of our members that I read out. Also, to Leon’s point, this is the first time that we have not had any dialogue at all with a finance secretary pre-budget. There was no visibility at all. We very much welcomed the engagement with Neil Gray and Richard Lochhead. We put submission papers in and they were well received.

The significance of this is huge, but in effect the sector is in effect receiving only £4 million—£4 million is a very welcome support for hospitality businesses in the island communities but, when you look at the impacts that those businesses have had to take as a result of ferry failure, you see that it is barely compensation for loss. Reference is often made to the small business bonus scheme, which is, of course, very welcome for many small businesses in our sector, but there are still 10,000 businesses in our sector that receive no benefit or support at all.

Murdo Fraser: Thank you.

The Convener: Gordon, did you wish to ask a supplementary question?

Gordon MacDonald: My point was covered, thanks.

Colin Smyth (South Scotland) (Lab): Good morning, panel. To follow on from Murdo Fraser’s question, the impact of the budget was hugely deflating for many businesses in the south of Scotland. Hospitality businesses were looking for that additional rates relief. The concerns over that are obviously well documented. What may not be as well documented, though, are the wider issues around business rates, which I know that you have strong views on. Leon Thompson touched on that at the beginning when he said that turnover has risen among a lot of businesses, which is positive, but not to the same scale as costs—energy costs, staff costs and everything else—have risen, so profit margins have fallen. Obviously, that has a big impact on business rates, given that we calculate business rates for hospitality on the

basis of turnover. Given those issues, can you say a little bit more about what the sector is looking for from the wider reform of business rates?

Leon Thompson: To put it quite simply, we are looking for a lower poundage rate for hospitality businesses. That model could fix a lot of the issues pretty quickly. Colin Wilkinson also has ideas about that, but reducing the poundage for our businesses would be a quick way of addressing the problems that they have with the charges on business rates.

Colin Smyth: So, the idea of using turnover should continue. If you were to reduce the poundage—

Leon Thompson: I suppose that there are two approaches. We need something that can help quickly, and reducing the poundage is a good way of doing that. If the Scottish Government believes that our sector—tourism and hospitality—is a growth sector, how does it stimulate that? It can be done by reducing the poundage rate on business rates for hospitality businesses. Beyond that, it is about looking at how the methodology currently works and how it is run. Basing it on turnover is not helpful. Basing it on rent values is, again, not helpful, because our businesses generally pay more for rent, because of the nature of the businesses. They generally need larger properties so that people will come into them and be comfortable there, and they spend money on those venues, which pushes up the rental values. Our businesses are caught by that.

If we want other options, we could look at profitability, at reductions for those who invest in net zero approaches to running their businesses and at fair work. If businesses sign up to the principles of fair work, how are they to be supported in doing that? How do we use the business rates system to support those businesses? There are a number of ways in which we can do that, but these things take time, so it is about asking, “What could we achieve quite quickly?” Reducing the poundage that is paid by hospitality is a quick way of getting us on a more level playing field with other types of business on the high street and with competitors elsewhere in the UK.

Colin Smyth: That is helpful. The convener will not let me carry out a full review of business rates at the moment, but, Colin, you have lots of ideas, according to Leon—[*Laughter.*]—about how we can change things. Do you want to share some of them?

Colin Wilkinson: From the long-term point of view, we had the Barclay review six or seven years ago, and here we are again. Rates are still a huge issue; they have not been fixed. I speak in particular about the licensed hospitality sector,

which has had an issue with commercial rates for decades, because of the way in which we are rated, which is based on rental evidence and on turnover. Nobody quite understands how the rateable values are fully worked out, but it used to work out that about 8.5 per cent of a business's turnover was rates payable. That has changed slightly, to between 6 and 10 per cent, but, compared with other sectors, that is still a very high percentage of turnover to pay in commercial rates. Along with the Scottish Beer and Pub Association, we suggested—I feel that we are justified in asking for this—a specific licensed hospitality rates poundage of 35p in the pound. We are justified in asking for that simply because we pay disproportionately more in commercial rates than many other sectors. That would be a quick fix but, as Leon Thompson says, we have to get commercial rates sorted out for all businesses, because they are just not working.

Colin Smyth: That is a very interesting point. A business across from my office showed me its accounts. Its turnover was going like that, and profits were going like this, but business rates were also going like that. Sorry, you will not be able to show that in the *Official Report*—[*Laughter.*] For the record, I was making signs with my hands to show that turnover was rising and profit was going down but business rates were rising. There is clearly something wrong with the way in which we calculate them. I do not know whether Marc Crothall wants to add anything to that from around the sector.

You mentioned that you feel that there is a lack of respect from Government. The one chink of light in the budget may well have been a commitment to review how we calculate business rates for hospitality. Have you been contacted by the Government on that review? Do you know what the timescale is, given the urgency of the issue? You may want to come back on that one. Marc, is there anything that you want to add about other parts of the tourism sector?

Marc Crothall: The commitment is very welcome, and it is one of the workstreams in the new deal for business group. However, on Leon Thompson's point, as well as on Colin Wilkinson's, I will say that we need pace before we lose too many more businesses in that adjustment and we need to create the environment that attracts inward investment and more people to want to open up and bring new products and new propositions to the marketplace. I think that Colin Wilkinson has a meeting tomorrow with Tom Arthur, Neil Gray and Shona Robison—is that right?

Colin Wilkinson: Yes.

Marc Crothall: That is a starting point, but the modelling is 170 years old, and the Barclay review

was six years ago. Okay, we had Covid in between, but there has to be transition and it has to be quick. As an industry, when we look across the rest of Europe, we see that the sector stimulates an awful lot of benefit for local economies and can be a real economic driver. We have a very backward model here that has to change. However, we welcome the dialogue, which is important. Those are great words, but it is about action now.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I want to explore another aspect of the Scottish budget that has been raised. The budget proposes that there will be a further divergence in income tax between Scotland and the rest of the UK, and submissions from the STA and UKHospitality Scotland argue that that is making it harder to recruit and retain talent. Is there any evidence on the extent to which that is impacting on businesses in the tourism and hospitality sector? I will ask Marc Crothall to kick off on that.

Marc Crothall: Thank you for the question. Yes, we said that because we have concerns. Leon Thompson, who is the chair of UKHospitality Scotland, is the managing director of Crerar Hotels, and, when recruiting senior management, we now have to pay more than the average salary that is offered elsewhere in the UK in order to compensate for the higher tax bands. My son, at 32 years old, is the resident manager of the Gleneagles Townhouse in Edinburgh. I am very proud of him, and he is a very successful young man, but there are a lot of young people in his age bracket who are exceptional at what they do. There is emerging talent in Scotland, and there are a lot of other opportunities elsewhere in the world that allow young people to leave and perhaps further their careers.

The dangling carrot is this: do I pay more tax or do I look at other options? Are people likely to come and tap that talent, taking it away from Scotland? We cannot afford to lose that talent, and that gives us concern. The hard facts will be in the ability to recruit, and when I spoke to Chris Wayne-Wills, he said to me that, given the inflated salaries, he has to weigh up whether, because of the tax bands, he can afford to attract that talent in. That perhaps puts us at a disadvantage, but the proof of the pudding will be in the eating, particularly over the next few months while we weigh it up. It is, without question, a live conversation in the industry among those colleagues who fall into that new banding.

Colin Beattie: In my mind, I never think of jobs in hospitality businesses as being particularly highly paid, certainly at most levels. You mentioned senior management in hotels and so on falling into the category that would be picked up by

the increased taxes. What other areas might be affected?

Marc Crothall: We employ people in our businesses now who are perhaps not just your traditional hotel employees. We have marketing experts, digital experts and engineers, so there are people with different skill sets right across the piece who are all needed to support an industry that delivers a rounded tourism and hospitality experience. Look at the Edinburgh International Conference Centre and the Royal Yacht Britannia. I am delighted to say that many people who work in the hospitality sector are earning levels of pay in that banding. Costs from the bottom up, from the real living wage upwards, have escalated right the way through all the groups of people who are employed in a business. Accountants are individuals whose skill sets are essential to our industry, as well. It is not just front-line service staff whom we are looking at here.

10:15

Colin Beattie: Perhaps Leon Thompson would like to come in.

Leon Thompson: Of course. Look at the wage and salary rises that have been taking place in hospitality. There are now many mid-ranking and senior chefs who are in the upper brackets for paying income tax, and that is where a lot of hospitality businesses are really struggling to get key workers in. Anecdotally, members are saying that the issue is cropping up in the interview process. When people are looking to take on a role and move to Scotland from elsewhere in the UK, it is something that they ask about. There is very much a sentiment and perception piece in there.

The facts are that businesses such as Crerar Hotels, which Marc Crothall highlighted, are having to pay more to offset the income tax increases. It will take time to see how that works out. We will be able to assess that against our membership. The Scottish Government, too, will be able to look at migration into Scotland from other parts of the UK to see how that has been impacted on by divergence in income tax.

Income tax increases also play into the narrative of Scotland being a more expensive place in which to do business. We are looking at large hotel groups that are looking to invest. Scotland is on their list. It is a great place, and people want to come here, but questions are being asked about whether Scotland is a good place in which to do business, what with all the costs and whether there will be any changes in the future.

It is an important point to make, because we need to understand the impact better. Marc Crothall talked about the professional services that

our businesses use. We know that other parts of the economy say that, because of the higher rates of income tax, it is proving difficult to get those professional people to move to Scotland. We will have to watch that and see how it plays out over time, but the issue is being raised by our members fairly consistently at the moment.

Colin Beattie: The difficulty is that most of the evidence that we are receiving at the moment is anecdotal rather than hard facts from which we can say, "Right, this is what happened then". Are you going to gather that sort of information?

Leon Thompson: We will pull that in from our members so that it can be put into the mix, but it would also be helpful to see figures from the Scottish Government—I am not sure whether those are available—on how it assesses the impact of the policy.

Colin Beattie: The Scottish Government would possibly benefit from getting input from business on that.

Leon Thompson: Absolutely.

Colin Beattie: That means that there have to be hard facts and examples that would help to support that narrative. Is that what you are aiming for?

Leon Thompson: Yes. We can add that to the survey work that we do with our members, and we can have those conversations with our board and council.

Kevin Stewart: I thank the panel members for joining us. We have spent a lot of time on business rates. I have to say that I get folk at me about business rates—you could probably name the folk from among your members—but there are not as many at me about that issue as about certain other things. You mentioned high energy prices. From conversations that I have had over the past year or 18 months, I know that additional business costs as a result of energy prices have been way up there. You might want to comment on that.

The other issue that comes up again and again is VAT. Some changes were made to VAT during the pandemic that were beneficial, but some structural elements have remained the same for a long while. For example, the other week, the Federation of Small Businesses called on the UK Government to uplift the VAT threshold by the rate of inflation, which has not happened since 2017. There have been calls from others in the industry for different VAT rates for hospitality, including pubs and hotels. What would you do on that front? Do you back the FSB's call on the threshold? What else would you do to change the VAT regime to make it easier for your members?

Marc Crothall: We have been clear in unanimously calling for a lowering of VAT for the hospitality sector, largely in order to compete against other destinations. We touched on the visitor levy earlier, and I hope that we will have a bit more conversation about that. I referenced our colleagues in Ireland: the VAT level in Ireland was 9 per cent and they were trading at that level. There is evidence to show that allowing that lower level of VAT delivered more returns and brought a stimulus to the economy.

It will come as no surprise that our UK budget submission contains, as it always has done, a call to lower VAT. We think that a lowering of VAT at national level is good for the consumer, too. At the moment, our campaign is calling for VAT to be 10 per cent, which, again, would be more favourable compared with other competing destinations in Europe.

When it comes to the VAT threshold, the current threshold of £85,000 is low. What we see across Scotland, particularly in its rural parts, is a lot of businesses electing not to trade above that level, which removes the product offer. Should a levy be introduced by a local authority, that sum of money will be treated as revenue and will lift a business to that level quicker and, potentially, reduce the capacity. We hope that calling for a rise in the threshold will create more year-round offerings and opportunities. It is a strong ask and will continue to be so. We have a collective voice across all parts of the industry; this is not just coming from a select few across Scotland or elsewhere.

Leon Thompson: Absolutely. The VAT rate is a key point that is continually raised with the Treasury, the Chancellor of the Exchequer and the Prime Minister. We need to get it down. We are trading at a huge disadvantage by having 20 per cent VAT on hospitality. The reductions during Covid were incredibly welcome and helped our businesses a lot while they were open and able to trade. About 70 per cent of hospitality businesses passed the VAT saving on to their customers, which stimulated more demand and spend and helped customers at what was quite a difficult time.

There are clear parallels between that situation and the situation that our businesses find themselves in now. A VAT reduction would help businesses to get over the many hurdles that are in front of them at the moment. In the medium term, it is also key to unlocking growth and investment opportunities, the lack of which is holding many businesses back.

As Marc Crothall said, if VAT was reduced, we would become much more competitive as a destination. It would increase the appeal, and we would be able to bring more visitors here to stay in

our accommodation and use our pubs, bars, restaurants and so on. That is a critical point, and it is an ask in the UK Hospitality budget manifesto to have that reduction put in place by 6 March for our businesses.

Marc Crothall has answered the point about the threshold. We have a situation at the moment in which the threshold is holding back growth. Businesses could be trading more. The threshold is certainly not helping our destinations.

Colin Wilkinson: I do not have much to add to what has been said. Kevin Stewart mentioned that he had heard about other issues that businesses have. From looking at all the costs of running a business in our sector since just before Covid—we are talking about drink, food, wages and utilities—we reckon that, by the end of this year, running costs will have increased by 43 per cent. A VAT reduction would certainly help to combat the increases that we have seen. We cannot pass them on, so it would help businesses if we got something resolved quickly when it comes to VAT.

Kevin Stewart: On the VAT threshold and folk choosing not to trade up beyond £85,000, do you have any idea how many of the businesses that you represent fall into that bracket?

Marc Crothall: I do not have a definitive number, but many are in the bed and breakfast and guest house sector, as you will probably appreciate.

Another thing that we are told is that, to lift yourself above the threshold to deliver and to grow your revenue accordingly, you start to get into the realms of employing people, too. It needs to be a meaningful adjustment. Obviously, you can stimulate and create jobs, but that balance is there.

A monitor of that is when you look across the Highlands and Islands and see how many people choose to shut their door on 31 October or immediately after the half-term window—there are many such businesses. However, we genuinely think that there is demand. We can create demand for year-round trade—or a 10-month period of trade, if not longer—because, for a whole heap of reasons, people will choose different opportunities and different levels of price point. Blended travel is another area, whereby people choose to stay in rural parts, away from their normal place of domicile, in order to work and enjoy leisure at the same time. Opportunities exist.

The FSB probably has a handle on the numbers. It goes back to the question around surveying and inviting answers from members to key questions. Collectively, we do that. One of the new deal for business group workstreams is about harvesting insights and data and making sure that we ask the right questions that can provide the

intelligence that we need in order to react positively.

The Convener: There are three members left who wish to ask questions, so we will make some progress.

Evelyn Tweed (Stirling) (SNP): Good morning, panel. It is good to see you here today.

Obviously, the committee is aware of the labour market and skills challenges that the sector faces. Can you provide the committee with an update on where you see things at present and what needs to be done in the medium term and the long term?

Leon Thompson: The labour market is still incredibly tight. We just do not have enough people in Scotland to do the jobs that are out there. Skills shortages are linked to that. Even where people are available to work, they do not necessarily have the full skill set that our businesses are looking for. Around 55 per cent of our members in Scotland say that staff shortages are an issue for them, and there is the skills issue, as well. Overall, we are still looking at between 25,000 and 30,000 vacancies in the sector.

Many businesses have had to adapt and accept the fact that they will not get the workforce that they need to trade in the way that they would like to and to provide the business that they would like to. Businesses are working incredibly hard to recruit and hold on to talent, and many businesses offer much more flexibility—we have talked about that. We have seen pay rise. The Office for National Statistics has estimated that pay across the sector is up by 7 per cent on average. Many positions will be attracting much higher rates of pay. Businesses are working hard to do what they can.

10:30

We at UKHospitality and other trade bodies are involved with Hospitality Rising, which is an industry-led initiative to encourage more young people to come into the industry and consider a career in it. That has been running for 18 months or a couple of years, and there have been good results. It began as a direct response to the shortages that we saw in our businesses post-pandemic and with the loss of access to European Union workers through Brexit. That has had an impact, and it continues to do so.

Businesses are doing everything that they can. They are reaching out to a much more diverse range of the population to bring people in and get them thinking about jobs and careers in the sector. Pay is up and conditions have improved. Businesses are working hard to plug the gaps, but the situation remains particularly tough and challenging.

Bringing in skilled workers from overseas has been difficult for most businesses, and the changes that will be in place from April this year, with the new immigration salary list and the salary increase from £26,200 to £38,700, will put that route beyond the vast majority of businesses. That is another reason why it is important that we can attract talent from the rest of the UK into our businesses here. Businesses are spending a lot of time on the human resources side of things and working hard to retain the good workers that they have.

Marc Crothall: Leon Thompson talked about the 25,000 figure. We need to be mindful of the fact that, by 2026, we will need 40,000, because the churn will have to be accommodated. The industry has been working hard on changing people's perception of it with its pay and rewards, which is great. I think that our sector has the biggest accelerant towards the real living wage pay, when compared with any other sector. We are still a bit behind, but certain changes, such as the recent royal assent to gratuities as well as other things, mean that the industry is an attractive one to work in because its pay and rewards are not bad.

The industry is not just for young people; it is for people in a wide range of ages. People can choose to have a second career in it. Various opportunities exist. If you look at the attractions sector, you will see that a lot of opportunities come about for volunteers in historic houses, for instance.

That goes back to being able to trade and be open. I know that many of you have met colleagues in the industry who work hard with the likes of Hospitality Industry Trust Scotland and Springboard. The industry is very committed to doing what it can to help young people—in fact, people of all ages—into work. We have a lot of other good initiatives to raise money to support investment in upskilling. It is the 30th anniversary of HIT Scotland this year. The industry contributes money to put emerging talent through accelerated skills development across a wide range of skill sets. We are certainly committed to that.

To go back to the availability of the offer, we hear inbound tour operators express frustration because properties that people want to go to are closed for two days a week, as the businesses are protecting their staff levels. Therefore, they do not trade on Mondays or Tuesdays. The knock-on impact of that is that the travel trade is unable to place business in Scotland even though it knows that there is the demand. Many businesses are now telling us that it is becoming more difficult to do business in Scotland because of the breaks in the supply chain—that is in the broader sense of the supply chain, as well.

We very much hope that on-going investment in apprenticeships, skills and all those things is forthcoming in the sector to grow it, stabilise it and help it to adapt. Our industry is a people industry, and we need people in the front line to have a conversation. We can be very good with technology, but people want to engage with people, whether that is a chef over a counter or a receptionist, for example.

Colin Wilkinson: Staff availability has been and continues to be a serious issue for our sector. Recent results show that around two thirds of premises have had staffing issues, and a third of respondents to the survey that we carried out had to reduce their operating hours solely because they did not have the staff to open for their full hours. For example, jumping back to before Christmas, I had never heard of pubs, bars and restaurants that normally open on Christmas day taking the decision not to open then because they could not guarantee that they would have staff. That is a huge issue.

People are looking at their work-life balance, and the shift patterns that the sector can offer help people who want to work only so many hours a week. As Marc Crothall said, we have improved the pay offer and our terms and conditions. It is a good industry to work in, but we continue to have problems getting staff.

Marc Crothall: Obviously, housing and transport are big challenges for the sector. How do we create places where people can stay? The housing challenge is well documented.

On the point about attraction—Leon Thompson touched on the Hospitality Rising campaign and changing perceptions of our industry—there was a 23 per cent increase in people who wanted to work in the industry for sociability reasons. There was not a pay issue; they wanted to have sociable interaction. That is a positive.

Leon Thompson: I have a final point. To go back to the budget, we saw in December the skills budget cut for the coming year. That does not help our businesses. A big concern is the fact that the flexible workforce development fund is being removed. A lot of hospitality businesses were able to make good use of that fund to engage with local education providers and schools, and bring young people in particular into hospitality. A lot of businesses were banking on that continuing to assist them with bringing more people into the sector. It is disappointing that we have seen that cut. We have talked about businesses taking on a lot of that activity themselves. Perhaps we are not seeing the support in the public realm that businesses need.

Evelyn Tweed: In my constituency, Forth Valley College has a great hospitality and tourism

courses offering. I had a good look at all the courses last night. I did not know that there was quite as good an offering as that. How important is it to your industry that there are ready-made courses, maybe not just for young people—one of you touched on that—but for anyone who wants to go back into the sector?

Marc Crothall: That is vital, but it needs to respond to the needs of the industry. Keeping those courses relevant and fresh is important.

Our national tourism skills group, which many of us are represented on, is there to inform. We work with the academic sector. We have professors from Edinburgh Napier University and representation from the college network in the group.

Responding to the needs of industry in the future will be key, as is making the industry accessible. In high school education, it is about how those opportunities are presented as careers options. There is an awareness and understanding that what hospitality is, the career paths and the opportunities need to be better presented. The pathway is there.

I am not sure that we have had strong take-up, and we have seen slippage in some of the draw into those hospitality and tourism careers options through further education. That is potentially because people see the industry and wonder whether businesses will stay open or will shut. There are a number of other factors that could influence decisions. A lot of the university sector has drawn business as a staple and then bolted specialist areas on top of it.

The Convener: Maggie Chapman has a question about the workforce. Maybe some of the points that you want to make can be addressed to her.

Maggie Chapman (North East Scotland) (Green): Good morning, panel. Thank you for being with us this morning.

I want to follow on from Evelyn Tweed's line of questioning. We have talked about lots of issues that affect the workforce and the attractiveness of the sectors, such as payment of the living wage, skills, training, immigration issues, housing and transport.

Marc Crothall, you have spoken about—including in your submission to the committee—making the sector more attractive, and you have said that you have the fastest acceleration to payment of the real living wage. Given that hospitality and tourism are the lowest-paid sectors in our economy, does there need to be greater emphasis on pay? Would that help with the shortages that you have described? Are those shortages across the board in different types of

jobs or are they in specific areas in the sector? On the question of the real living wage, my view is that it should not be something that we should aspire to; it should be taken for granted.

Marc Crothall: I do not think that any good aspirational operator in our industry would have any issue with wanting to pay its employees more. However, as you have heard from us all this morning, the balance is in trying to maintain that, given the high levels of business rates, energy costs and food inflation. Having been an operator myself many years ago and seeing what is now paid as a percentage of total turnover, I see that as a big shift.

Let us not forget that, in addition to pay, individuals get a number of other benefits and that, nine times out of 10, that is not picked up. The gratuity model involves quite a significant sum of money. The meals, accommodation and all the other stuff factor in as part of a very attractive package to an employee. However, there is a limit to how much people can pay. To pay more and offset the other input costs means pushing up the price point to the customer, and our destination is already very expensive. We rank 140 out of 140 in the world in terms of taxation on our tourism and leisure experience, and there is a tipping point in applying yet more cost and passing that on to the visitor or customer.

I think that, within the cohort of the Hospitality Industry Trust, if you ask many of those people whether they think that they get a good wage and they have the opportunity to earn a good wage, you will find that most will say yes. That is positive. I speak from the experience of having a young son in the industry. He has chosen to stay in the industry off his own bat, and he is, with his peers, happy to be in it because he sees the opportunity and potential in the broader sense.

Maggie Chapman: I am sorry; I asked too many questions in one. Are the shortages from the lowest paid all the way up?

Marc Crothall: There are shortages in specific skills areas. Leon Thompson touched on the shortage of chefs. That is not a Scotland-specific issue; it is a global issue. We also have real concerns about the loss of language skills. We would like to have people who have skill sets in guiding and other areas in the tourism economy, but they are not with us any more, and languages are not being taught in schools to the level that we would like them to be.

Housekeepers do not seem to be too much of a problem any more. I think that that is because of the flexibility that that job offers.

Leon Thompson talked about how businesses have chosen to set up their rostering. Very few have a split shift whereby people come in at 7, go

home at 12, and come back at 6; they are much more balanced. The rural parts of Scotland, in which we have seen depopulation, are where things become more intense and challenging. Having spoken at a number of conferences over the autumn, I have seen that a generation might leave to go to university and not return to its local communities to take up work in the industries.

Maggie Chapman: Geographically, it is rural areas that are struggling most.

Marc Crothall: Geographically, things are probably more of a stretch in them, but that is not limited to rural parts; there is a broad spread.

10:45

Leon Thompson: Businesses are paying more. They have to pay more anyway. Good businesses have been very much on board with fair work principles. Marc Crothall and I are involved in the hospitality inquiry that is being run by the Fair Work Convention. There has been a very positive conversation.

The key will be getting to a point where we find the levers to assist businesses to pay a real living wage. We have talked about what those levers are. Businesses are having to be much more flexible in their approach with the workforce on hours. There are all the points that we have covered on fair work in relation to effective voice, opportunities, security, fulfilment and respect. All the operators that I talk to that are members of UKH adhere to those principles. Some are accredited real living wage businesses. Obviously, everybody will have to pay more from April for the national living wage.

Marc Crothall talked about tips. We now have a tipping act, which will take effect from July. That will ensure that all tips and gratuities are passed on to workers. Tips are a strategic advantage for hospitality because they are another way in which we can promote jobs and careers in the sector. The tipping act will help us to ensure that we have a level playing field on tips across the sector.

There are a lot of positive developments in that space in the sector, and I am pretty certain that that will continue. I think that we will have the report from the hospitality inquiry later in the spring or in the early summer. I hope that it will identify the levers that can help businesses to get to where they want to go and point the way for our Governments—particularly the Scottish Government—to assist in achieving those ambitions.

Colin Wilkinson: The industry is a very good one to work in. Career progression can be quick in our sector if a person is good at the job and as

long as there are businesses left that people can buy into.

There is one thing that I will add about the living wage. Of course we want to pay our staff as much as we can, but we have to reflect on the fact that wages are increasing costs for businesses, and other staff with a longer service record or more qualifications are also looking for their differential to be increased. That is an issue for businesses. We want to pay as much as we can, but please do not forget that there are also increases for other staff who have been in the business for longer.

Maggie Chapman: You talked about the Fair Work Convention work that you are all contributing to in different ways. What is your sense of how industrial relations are across your sectors and your members?

Marc Crothall: People are a key pillar of the national tourism strategy, "Scotland Outlook 2030: Responsible tourism for a sustainable future". I co-chair the tourism and hospitality industry leadership group with Richard Lochhead, and the make-up of that group includes union representation. Bryan Simpson is on the fair work group, and I think that you were quoting him not so long ago. He is very encouraged by the dialogue and conversations that we have been having as an industry. Again, the strategy was developed by the industry in recognition that we needed to address some workstreams. We know that there are still challenges in one or two parts, but, overall, our relationship is that we are all in the church together rather than fighting against one another, and that is important.

We have never been a particularly unionised industry, but we recognise that fair work is important. How we can reposition the sector as the right industry to choose to work in as opposed to going to another industry is what we are all about.

Maggie Chapman: My final question is about completing the circle. I think that we are all guilty of focusing on one issue and not necessarily seeing the connections. You talked about the geographical variations in skills and labour shortages, challenges around languages that are being taught in schools, and challenges around rural housing and transport. All of those require public money and public investment, which comes from taxation, so there is a balance to be struck.

We have heard a lot this morning about how taxes are too high. If we were not to have those taxes, we would not have any of the public investment in education, schools, transport and the other things that support people to live where you need them to live in order for them to work where you need them to work. Are you involved in any conversations about the broader picture of our nation's economy, rather than sector-specific ones

about the levers that affect specific sectors? Are conversations taking place about how pulling those levers in a certain place would affect things in a different area and have indirect consequences, sometimes pretty far down the line?

Leon Thompson: We have all been involved in the Government's national strategy for economic transformation. That tends to be the starting point for a lot of conversations with ministers, so we are plugged into that. A lot of the issues and challenges that we have highlighted today are not exclusive to tourism or hospitality; they also pertain to housing and transport. Any trade association in Scotland would highlight that point. Similarly, the skills issue is not unique to us, as every trade association that I speak to is looking—

Maggie Chapman: To get those things, we need taxation.

Marc Crothall: There are other barriers that are in the way. Our planning system is awful. We have a shortage of planners. Having an accelerant in order to get planning applications through systems would attract private investors, who might be quite happy to build accommodation for staff. A number of other barriers get in the way, and investors walk away from perhaps putting private money on the table to do that.

As Leon Thompson said, we, as a collective business community, whether it be Homes for Scotland, the chambers of commerce or the FSB, are all joined at the hip when it comes to understanding the challenges and the balancing act that needs to be found. Nobody is blind to the fact that the public purse is challenged. Some changes, however, to the levers for how moneys are spent could really drive economic growth in some communities. That could provide the stimulus and returns that we want.

Leon Thompson: Our sector is all about growth and investment. That is where our businesses want to be. If we can give them the financial and fiscal breaks that they need, they can invest and grow, which can then ensure that there is more tax take coming into Government coffers to be spent on the services that we need and want to see. It is always about getting the balance right. At the moment, our businesses feel that they have a lot of tax burdens and cost pressures on them because of not only broader economic issues but regulation and legislation.

Brian Whittle: I have a couple of quick questions. I think that Leon Thompson mentioned the Scottish Government's new deal for business. How would you assess progress against the commitments at the moment?

Leon Thompson: We are engaging in good faith and we have very positive dialogue with

ministers. They listen to what we say, but we are not seeing the kinds of actions that we need to see. We need to see real delivery for our sector, and we have just not had that. The budget was the first moment when we could see that coming through. We now have the opportunity to reform business rates. We need to see where we can go with that, but, as well as dialogue, there needs to be action. The lack of action has been the frustration.

Marc Crothall: There are a couple of things. Other workstreams are happening as a result of actions from the new deal for business group, including workstreams on looking at how business and regulatory impact assessments are brought together, the regulatory review group and changing culture in the civil service when it comes to understanding business. At meetings that we have been involved in over the past week or so, there has been a clear demonstration from within the civil service of work that is in progress to make some changes. Inviting that commentary in to create that better landscape is good.

It goes back to Leon Thompson's point that it is about pace and delivery. An awful lot of time is being invested by a lot of people in the business community. I am not saying that they are doing that on a voluntary basis—many of us are paid to do that as part of our jobs—but we need to see it being a two-way thing.

The other balancing act is that the Verity house agreement is one thing and the new deal for business is another. There are collisions at times, where what a business might feel is the right way to go does not necessarily side with the commitments that have been made in the Verity house agreement.

Brian Whittle: Can you explain the contradictions that there might be between the Verity house agreement and the new deal for business?

Marc Crothall: The discussion on the transient visitor levy is a big one. Of course, that is an open-up opportunity to hand over responsibility to local authorities to make a choice on how they might introduce a visitor levy. As you will be aware from our conversations, the STA really would like to see a lot more conditionality put round a bill, if it is going to happen, so that there is not an open book that allows an authority to do what it wants with the money. If it is to be raised for the purpose of reinvesting in the tourism proposition and experience, you should stick to that and not just let local authorities collect more tax through a levy and do what they want with that. There is a balancing act, and, at times, we feel that there is a risk that local authorities could told, "On you go. It is not our problem."

Colin Wilkinson: The new deal for business was very much welcomed. The business community felt that the Scottish Government was out of touch with businesses, so we were very pleased to see the new deal for business being announced. How much have we got from it? In our view, the test was—I do not wish to go on about it—the 75 per cent rates relief. That was really the first test.

The Scottish Government has a huge mountain to climb. In this survey, 97 per cent of hospitality businesses say that the Government is out of touch with business, so that is a huge mountain to climb. The quicker we get back on track, the better. All the trade bodies will continue to participate, but I have heard of people saying, "Why are we actually part of this if nothing is really going to be achieved that will help us in the short term?"

Brian Whittle: I am happy with that, convener.

The Convener: Thank you. That brings us to the end of today's evidence session. Thank you very much to the members of the panel for giving us their time this morning.

10:58

Meeting continued in private until 11:25.

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