

Sustaining Employment and Enterprise in Tourism

**Submission to the
Tourism Renewal Group**

by the

Irish Hotels Federation

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1. INTRODUCTION

Following an extended period of sustained high growth, the Irish tourism industry experienced a sharp downturn during 2008. Although, on a year-on-year basis, growth remained positive during the first half of the year, there was a significant contraction in visitor arrivals in the third and fourth quarters of -6.5% and -5.2% respectively. The overall outcome was a drop of 2.2% in arrivals, and the outlook for 2009 is for a further contraction of at least 5%. The extent and depth of the economic problems now affecting our major markets suggest that there is unlikely to be any improvement in 2010.

In this challenging environment, the Tourism Renewal Group has been established to review and, where appropriate, renew Ireland's tourism strategy. This effectively constitutes a mid-term review of the current strategy set out in '*New Horizons for Irish Tourism: an Agenda for Action 2003-2012*'.

This submission to the Tourism Renewal Group has been prepared by the Irish Hotels Federation (IHF). The IHF is the national organisation of the hotel and guesthouse industry in Ireland. It represents almost 1,000 hotels and guesthouses nationwide, employing 60,000 people, and is a major stakeholder in Irish tourism.

2. SUMMARY OF RECOMMENDATIONS

2.1 Priority Recommendations

The most urgent issues for the Irish hotel and guesthouse industry over the next 3 years are survival and business generation. On this basis, our priority recommendations relate to finance and access to credit, competitiveness and cost base, and marketing. Our key recommendations on these points are as follows:

Finance

This is the most basic and urgent need. We recommend that:

- The immediate establishment of an SME Credit Monitoring Committee including the financial regulator, central bank (1) relevant government departments (2), business sectors (3) and an independent chair (university sector) to provide monthly assessments of the availability of credit within two weeks of each month end.
- Financial regulator to ensure that rules and regulations concerning credit cost, terms and conditions, and lending criteria should support the SME sector.
- Where adequate credit does not quickly flow to the enterprise sector, the Government must be prepared to implement more radical measures such as the re-establishment of an ICC type bank for direct lending. The nationalised Anglo Irish Bank may be a vehicle which could be used for such a purpose.
- Supportive approach by banks to serious cases of loan difficulty: rather than force the loss-making sale of an hotel, it would be better to partially write-off, restructure or park the loan with a moratorium on capital repayments and or roll/up of interest payments if the assessment of the hotel's business model is that, in the medium term, it will be capable of satisfying all obligations.

Competitiveness

The priorities are to avoid any further increases in labour costs and local authority rates and charges. We recommend that:

- The minimum wage be frozen for up to 3 years at the present level, and the JLCs be abolished.

- All local authority and public sector charges be frozen at their present level for 3 years.

Marketing

- The Tourism Ireland and Fáilte Ireland marketing budgets must be maintained at least at present levels, and the considerable importance of the domestic market recognised in the allocation of marketing funds.

2.2 Additional Recommendations

Our additional recommendations, all of which are considered relevant and important, are as follows:

2.2.1 Finance

- The immediate establishment of an SME Credit Monitoring Committee including the financial regulator, central bank (1) relevant government departments (2), business sectors (3) and an independent chair (university sector) to provide monthly assessments of the availability of credit within two weeks of each month end.
- Financial regulator to ensure that rules and regulations concerning credit cost, terms and conditions, and lending criteria should support the SME sector.
- Easing of tax payment requirements including commercial rates and Revenue Commissioner taxes to facilitate cash flow of enterprises and risk improvement for the lending agencies.
- Supportive approach by banks to serious cases of loan difficulty: rather than force the loss-making sale of an hotel, it would be better to partially write-off, restructure or park the loan with a moratorium on capital repayments and or roll/up of interest payments if the assessment of the hotel's business model is that, in the medium term, it will be capable of satisfying all obligations.
- Where adequate credit does not quickly flow to the enterprise sector, the Government must be prepared to implement more radical measures such as the re-establishment of an ICC type bank for direct lending. The nationalised Anglo Irish Bank may be a vehicle which could be used for such a purpose.

- The period available to move a business from receivership into examinership should be extended to 5 days from the present 3 days to assist in the survival of companies in difficulties by giving them more time to petition the High Court and to avoid the barriers created by banks appointing receivers just before the weekend.

2.2.2 Taxation

- The standard VAT rate be reduced by 5 percentage points (i.e. to 16.5%) with a pro-rata reduction of the lower rate (i.e. from 13.5% to 10%). This reduction should be piloted for a period of 6 months and then reviewed in terms of its impacts both on trading and on Exchequer revenues. It is essential that the reduction be fully reflected in lower prices and the IHF would undertake to monitor the response in the hotel and guesthouse sector.

2.2.3 Regulation

- No new regulations should be introduced for the next three years.
- The costs of existing regulations should be streamlined and reduced.
- Inspectors should be retrained to move from adversarial to advisory roles.

2.2.4 Competitiveness

Labour Costs

- The national minimum wage be frozen for up to 3 years at the current level.
- The national wage agreement be formally abandoned as inappropriate to the evolving economic circumstances.
- The Hotels Joint Labour Committees should be abolished, and the cost-increasing provisions of JLC orders, such as double-time on Sundays, should be removed.

Local Authority Charges

- There should be a total 3-year freeze on all local authority and public sector charges, including commercial rates, and no new charges should be introduced. There should be transparency in the structuring of charges on business to ensure that businesses are not subsidising the domestic and social content of local authority services.

2.2.5 Access Transport

- The €10 charge on air travel is removed as an unnecessary disincentive to tourism.
- Visa requirements for citizens of new and developing markets such as India and China are streamlined through reductions in charges, faster processing and application of a single visa system for visitors to the UK and Ireland.
- Reorganisation of immigration processes to avoid the problems that are arising from the current dispute at the immigration bureau at Dublin Airport which is leading to long delays. Arrivals from the UK and domestic flights should not have to go through immigration control.
- Offering of old age travel passes which are now available to people over 66 years of age from Northern Ireland as well as the Republic, to qualifying people from other markets as an incentive to visit Ireland.

2.2.6 Communication and Information Technologies

- Firm deadlines be adopted and rigorously pursued for the roll-out of high speed broadband of at least 20 MB per second to every business and household throughout the country by 2013.

2.2.7 Product

- The Tourism Capital Investment Programme under the National Development Plan 2007-2013 is fully implemented.
- Key attractors, such as the Titanic Signature Project in Belfast and the Centre for Contemporary Irish Culture in Kenmare are built, and other long-standing attractors such as Waterford Crystal Visitor Centre are maintained.
- Funding for innovation in tourism is increased - at present, it is a fraction of the investment in research and development in other industries.

2.2.8 Marketing

- Strong domestic marketing initiatives be sustained throughout the year.
- Ireland should be positioned as a 'domestic' destination in the British market, using tactical, sterling-priced offers in preference to destination image building.

- Increase the allocation of marketing funds to business tourism, with an uplift in effort in the US market following the model of the successful FI/TI strategy in Britain.
- The potential of concerts, shows and festivals with major international headline acts be further developed as these generate significant levels of tourist activity.

2.2.9 People in Tourism

- Fáilte Ireland training courses are promoted aggressively, with tourism being positioned as a high-value career choice.
- That official accreditation is given to work experience and a 'skills passport' is introduced for people working in the sector with a central on-line database being maintained.
- Particular emphasis in training courses be placed on customer care and service excellence.

3. ISSUES AND RECOMMENDATIONS

The issues of greatest concern to the hotel and guesthouse industry are, in most cases, relevant to all parts of the tourism industry. The priorities for the IHF and its members and the measures that we recommend are set out in this Section. Our approach has been to adhere to the framework applied in *New Horizons for Irish Tourism* to facilitate the work of the Tourism Renewal Group. The focus of our recommendations is on measures required to restore confidence and competitiveness in the industry, and to sustain employment and enterprise in tourism throughout the country.

3.1 Business Environment

The critical issues affecting the business environment for the hotel and guesthouse sector are finance, taxation and regulation. Of these, finance is the most urgent matter.

3.1.1 Finance

In the face of a deteriorating global economy and a large and sudden decline in business, hotels and guesthouses need access to increased levels of banking support and credit. However, our members report that credit terms and availability have become very restrictive. Our concern is that the difficult short term credit situation will cause the unnecessary closure of otherwise viable properties, which will be damaging both to Irish tourism and the wider economy.

Access to credit is an essential business requirement. However, data available from the Central Bank show that, in the year to December 2008, credit for the hotel and restaurant sector actually decreased by 2.9% compared to a decrease of 2.5% in manufacturing and 1.5% in wholesale / retail, and an increase of 0.6% in overall private sector credit. We believe that banks currently treat the hotel sector as high risk and this is driving a reluctance to provide adequate short term financing at bearable costs and conditions.

Some banks have announced earmarked funding for small and medium enterprises (SMEs) and Bank of Scotland (Ireland) in particular has allocated €100m to the hotel sector. Unfortunately there is not sufficient transparency in the system to know quickly that these funds are being released on appropriate terms and conditions. The commitment to an additional 10% lending to SMEs in the bank recapitalisation programme is welcomed, but the base for this 10% is unclear and it is very uncertain that this will provide the support needed by hotels and guesthouses.

Urgent responses are necessary in this area, and we recommend the following measures:

- The immediate establishment of an SME Credit Monitoring Committee including the financial regulator, central bank (1) relevant government departments (2), business sectors (3) and an independent chair (university sector) to provide monthly assessments of the availability of credit within two weeks of each month end.
- Financial regulator to ensure that rules and regulations concerning credit cost, terms and conditions, and lending criteria should support the SME sector.
- Easing of tax payment requirements including commercial rates and Revenue Commissioner taxes to facilitate cash flow of enterprises and risk improvement for the lending agencies.
- Supportive approach by banks to serious cases of loan difficulty: rather than force the loss-making sale of an hotel, it would be better to partially write-off, restructure or park the loan with a moratorium on capital repayments and or roll/up of interest payments if the assessment of the hotel's business model is that, in the medium term, it will be capable of satisfying all obligations.
- Where adequate credit does not quickly flow to the enterprise sector, the Government must be prepared to implement more radical measures such as the re-establishment of an ICC type bank for direct lending. The nationalised Anglo Irish Bank may be a vehicle which could be used for such a purpose.
- The period available to move a business from receivership into examinership should be extended to 5 days from the present 3 days to assist in the survival of companies in difficulties by giving them more time to petition the High Court and to avoid the barriers created by banks appointing receivers just before the weekend.

3.1.2 Taxation

Indirect taxes, notably VAT and excise duties, are already high relative to other EU economies. There is no scope to increase these further if domestic demand is to be supported and our international competitiveness is to be restored. The IHF recommends that:

- The standard VAT rate be reduced by 5 percentage points (i.e. to 16.5%) with a pro-rata reduction of the lower rate (i.e. from 13.5% to 10%). This reduction should be piloted for a period of 6 months and then reviewed in terms of its impacts both on trading and on Exchequer revenues. It is essential that the reduction be fully reflected in lower prices and the IHF would undertake to monitor the response in the hotel and guesthouse sector.

3.1.3 Regulation

The level of regulation imposed on hotels and guesthouses - and, indeed, on many other businesses - is creating unduly high costs in fees and compliance procedures. These regulations apply to almost all aspects of business, and include labour, health and safety, and environmental matters. Overall, there must be a more supportive regulatory environment, especially for small and micro-enterprises, and the compliance costs and charges levied by regulatory bodies and local authorities must recognise the prevailing economic circumstances. In this light, we recommend that:

- No new regulations should be introduced for the next three years.
- The costs of existing regulations should be streamlined and reduced.
- Inspectors should be retrained to move from adversarial to advisory roles.

3.2 Competitiveness

It is already evident that hotels and guesthouses are cutting prices to stimulate demand for their services. As margins have been falling - see Appendix 1 - this means that costs will have to be very carefully managed and, where possible, frozen or reduced for business to remain viable. There are two key areas in which a national approach is required - labour costs and local authority charges.

3.2.1 Labour Costs

Payroll costs for Irish hotels are now averaging about 40% of turnover, according to the Horwath Bastow Charleton *Ireland and Northern Ireland Hotel Industry Survey, 2009*. The equivalent figure in 2002 was 34%. The steep increase in payroll costs has been matched by a contraction in margins which, in turn, threatens viability. The IHF recommends that:

- The national minimum wage be frozen for up to 3 years at the current level.
- The national wage agreement be formally abandoned as inappropriate to the evolving economic circumstances.

- The Hotels Joint Labour Committees should be abolished, and the cost-increasing provisions of JLC orders, such as double-time on Sundays, should be removed.

3.2.2 Local Authority Charges

Local authority charges have risen continuously and steeply over the past decade. Apart from substantial increases in rates¹, there have also been steep increases in other areas such as water and waste charges. These charges impact directly on competitiveness. The IHF recommends that:

- There should be a total 3-year freeze on all local authority and public sector charges, including commercial rates, and no new charges should be introduced. There should be transparency in the structuring of charges on business to ensure that businesses are not subsidising the domestic and social content of local authority services.

3.3 Access and Transport

The priorities relating to access and transport relate to

- Maintaining a high level of air and sea access routes and capacities into Ireland.
- Avoiding and eliminating unnecessary barriers to tourist access.

With these in mind, the IHF recommends that:

- The €10 charge on air travel is removed as an unnecessary disincentive to tourism
- Visa requirements for citizens of new and developing markets such as India and China are streamlined through reductions in charges, faster processing and application of a single visa system for visitors to the UK and Ireland.
- Reorganisation of immigration processes to avoid the problems that are arising from the current dispute at the immigration bureau at Dublin Airport which is leading to long delays. Arrivals from the UK and domestic flights should not have to go through immigration control.
- Offering of old age travel passes which are now available to people over 66 years of age from Northern Ireland as well as the Republic, to qualifying people from other markets as an incentive to visit Ireland.

¹ e.g. commercial rates in Galway increased by 34% between 2002 and 2008, compared with inflation of just 23% over the same period.

3.4 Communication and Information Technologies

Efficient and low cost access to high speed broadband is vital in the tourism industry which is the greatest commercial user of the internet. Ireland is lagging behind other destinations, and our inadequate broadband infrastructure is a competitive disadvantage.

The IHF recommends that:

- Firm deadlines be adopted and rigorously pursued for the roll-out of high speed broadband of at least 20 MB per second to every business and household throughout the country by 2013.

3.5 Product

As prices, margins and occupancy rates fall, there is a concern that the quality of the hotel and guesthouse product will deteriorate. While we are in a good position with the quality of stock at present, there is a risk that it will be impossible to maintain standards.

The best way for the accommodation sector to address this risk is to generate new business and, in support of this, it will be vital to ensure that the investment in tourist attractors and in marketing is maintained. The IHF therefore recommends that:

- The Tourism Capital Investment Programme under the National Development Plan 2007-2013 is fully implemented.
- Key attractors, such as the Titanic Signature Project in Belfast and the Centre for Contemporary Irish Culture in Kenmare are built, and other long-standing attractors such as Waterford Crystal Visitor Centre are maintained.
- Funding for innovation in tourism is increased - at present, it is a fraction of the investment in research and development in other industries.

3.6 Marketing

The brief sectoral performance analysis in Appendix 1 highlights a number of issues, in particular the heavy dependence on and exposure to the domestic market, and the contraction in margins and profitability. The one-third increase in overseas visitor numbers between 2001 and 2007 did not translate into a comparable increase in hotel bednight demand among overseas tourists which only increased by 8%. This implies that more emphasis should be placed on higher-value overseas segments - notably business tourism - rather than volumes, and that the domestic market must be a leading priority as the evidence suggests that a drop in domestic demand will not be compensated by an increase in overseas demand, even if international tourist demand improves. The IHF recommends that:

- Strong domestic marketing initiatives be sustained throughout the year.
- Ireland should be positioned as a 'domestic' destination in the British market, using tactical, sterling-priced offers in preference to destination image building.
- Increase the allocation of marketing funds to business tourism, with an uplift in effort in the US market following the model of the successful FI/TI strategy in Britain.
- The potential of concerts, shows and festivals with major international headline acts be further developed as these generate significant levels of tourist activity.

3.7 People in Tourism

People have always been a key component of Ireland's image as a destination and one of our principal competitive advantages. The role of people in tourism will become even more important in the coming years as service quality and customer relations will be critical factors for the tourism industry. It can be anticipated that Irish people will once again be interested in working in tourism and it will be essential that the highest standards of education and training are available for them. It is also very important that tourism is not seen as a default career option, but that it is promoted as a positive and high-opportunity choice. The IHF recommends that:

- Fáilte Ireland training courses are promoted aggressively, with tourism being positioned as a high-value career choice.
- That official accreditation is given to work experience and a 'skills passport' is introduced for people working in the sector with a central on-line database being maintained.
- Particular emphasis in training courses be placed on customer care and service excellence.

4. APPENDIX

Trends in the Hotel and Guesthouse Industry

A1. TRENDS IN THE HOTEL AND GUESTHOUSE INDUSTRY

The purpose of this Section is not to analyse the Irish hotel and guesthouse industry in detail but rather to present a number of key trends which will provide a context for the identification of key issues in Section 3.

- **Capacity**

The trends in capacity are summarised in Charts 1 and 2. In brief, the number of hotels increased from 848 in 2001 to 915 in January 2009, representing an expansion of almost 8%. However, the increase in capacity was much larger at 51% (39,763 rooms in 2001 rising to 60,148 rooms in 2009), due to the much larger average size of new hotels and expansions in older properties. During the same period, the number of guesthouses fell from 489 to 337 with an associated reduction in capacity from 5,225 rooms in 2001 to 4,076 rooms in 2009 - a drop of almost 22%.

The expansion in hotel capacity was heavily influenced by the tax incentives available for hotel development, while the contraction in guesthouses is attributable to the closures of uneconomic properties and some conversions to hotels.

Chart 1: Trend in Hotel Capacity
 (No. of Rooms)

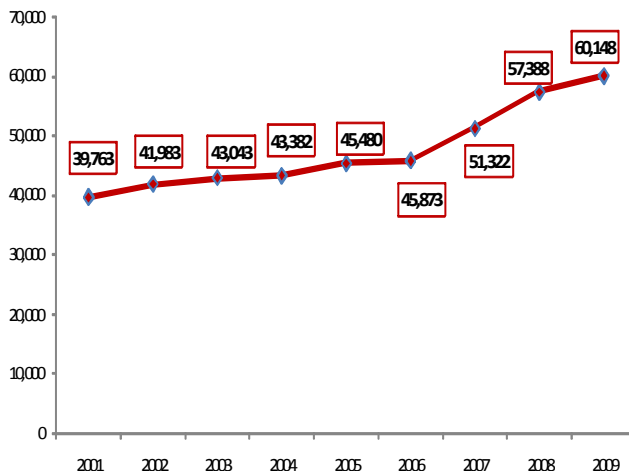
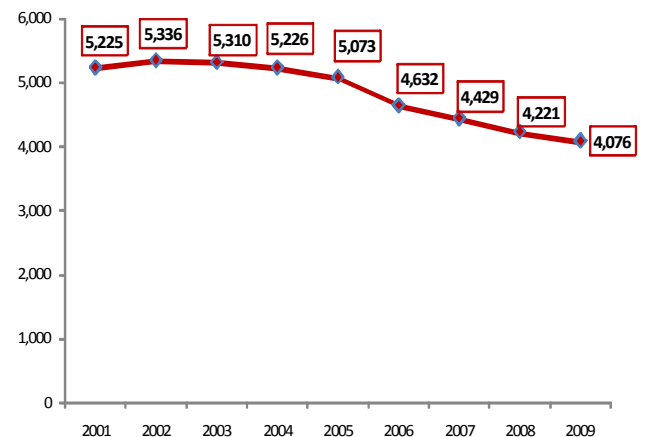


Chart 2: Trend in Guesthouse Capacity
 (No. of Rooms)



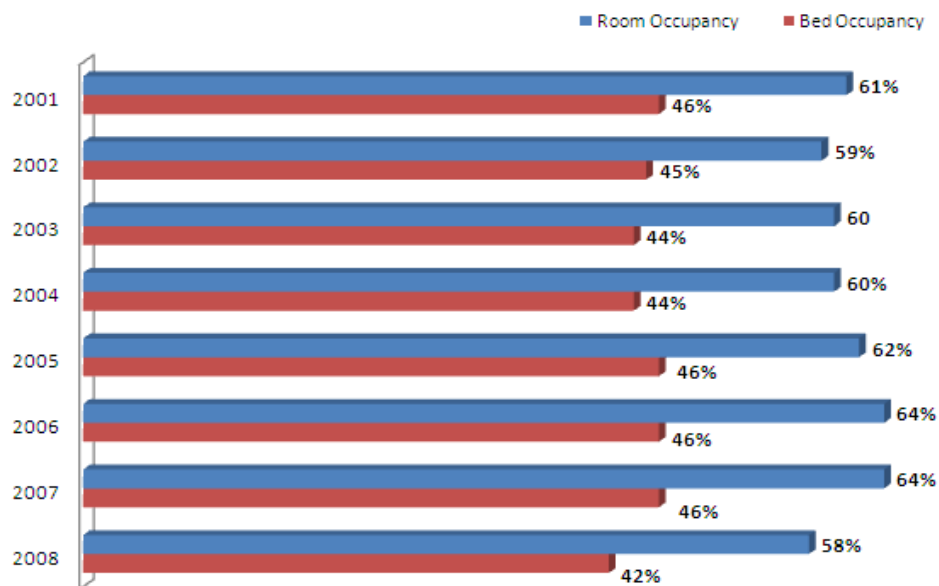
Source: Fáilte Ireland

- **Occupancy Rates**

The expansion of 51% in hotel capacity since 2001 has exceeded the growth in overseas tourist arrivals, which rose by 30% between 2001 and 2008. The growth in domestic trips and stayover visits by residents of Northern Ireland amounted to 26% and 16% respectively over the period from 2001 to 2007.

The excess growth in capacity, which has been pronounced during the past three years, was offset largely by a greater propensity to stay in hotels, especially by domestic holidaymakers. This meant that, up until 2008, hotel bed occupancy rates remained constant from year to year, while average room occupancy rates actually rose from 61% in 2001 to 64% in 2007. However, the downturn in demand in 2008 which was accompanied by a further increase in capacity has led to a sharp fall in room occupancy rates to 58% nationally, the lowest level since 1994. (see Chart 3).

Chart 3: Trend in Hotel Room & Bed Occupancy Rates



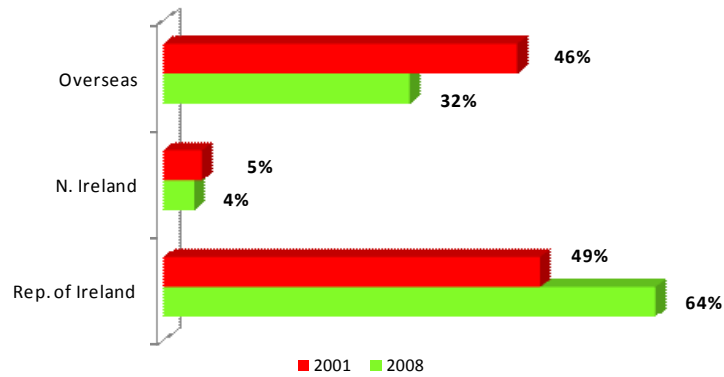
Source: Fáilte Ireland.

- **Markets**

There has been a notable shift in the profile of market demand for hotel accommodation during the past eight years. In brief, the share of hotel guestnights attributable to overseas visitors fell from 46% in 2001 to 35% in 2007, with a further

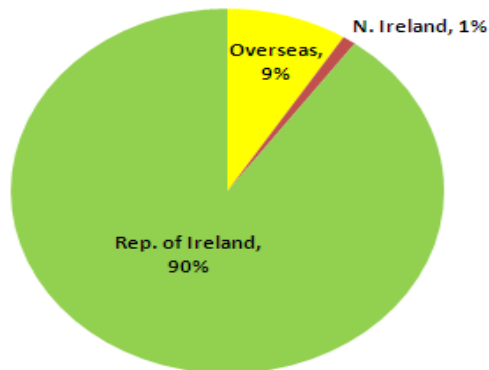
contraction to about 32% expected for 2008; at the same time the share attributable to the home market rose from 49% in 2001 to 61% in 2007 and is expected to have reached 64% in 2008. The Northern Irish market has held a fairly constant share of 4% to 5%. This shift in demand means that 90% of the growth in hotel bednight demand between 2001 and 2007 was generated by the home market, and only 9% by overseas tourists. The industry has therefore become increasingly dependent on domestic demand, and the evidence suggests that overseas visitors will, at best, only partially compensate for a decline in the domestic market, even when overseas markets are performing well.

Chart 4: Market Distribution of Hotel Bednight Demand



Source: Fáilte Ireland

Chart 5: Market Source of Growth in Hotel Bednight Demand, 2001-2007



Source: Fáilte Ireland

- **Turnover and Profitability**

A review of successive issues of the *Ireland and Northern Ireland Hotel Industry Survey*, produced by Horwath Bastow Charleton, gives a good picture of how hotels in Ireland have performed this decade. The key points are that:

- Gross operating profit as a percentage of turnover has fallen steadily from 24.4% in 2003 to 21.5% in 2007, and is expected to have fallen further in 2008.
- Profit per room before tax, interest, depreciation and amortization (EBITDA) fell in real terms by 17% between 2001 and 2007, and is expected to have fallen further in 2008.

- **Conclusion**

The preceding analysis shows that the hotel and guesthouse sector has entered upon a difficult period which can be expected to last for several years. As demand continues to contract, the performance indicators highlighted above will deteriorate further.

Overcapacity in the sector will lead to falling occupancy rates, back to levels last seen in the 1980s and early 1990s, and prices are also likely to be cut deeply as operators attempt to stimulate demand for their properties. There are serious risks for the sector in this scenario and, in the absence of adequate support measures, the outcome may be a greatly reduced and weakened hotel sector of diminished quality and marketability.