Irish Hotels Federation

Budget 2019 Submission

Irish Tourism: Supporting Job Creation & Economic Growth in the Brexit Environment

July 2018

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The Irish Hotels Federation is available as a resource for information and views on Ireland's hotels sector and wider tourism industry. Please contact the IHF on (01) 497 6459 or info@ihf.ie.

EXECUTIVE SUMMARY

Tourism is one of Ireland's largest indigenous industries and is essential for the country's prosperity, acting as a major engine of economic growth and employment generation. While tourism has made significant recovery in recent years following a sharp downturn, continued growth cannot be taken for granted. Our industry is very dependent on the economic environment of our major source markets and remains vulnerable to external economic shocks.

Ireland is particularly exposed to Brexit given our heavy reliance on visitors from the UK and the negative impact that a hit to the Irish economy would have on consumer sentiment and domestic tourism. The risks associated with Brexit have been brought into sharp focus following a 5% drop in the number of trips to Ireland from Great Britain in 2017 compared with the previous year and a corresponding 6% drop in expenditure. A significant weakening in visitor numbers from Northern Ireland also occurred.

Increased protectionist measures on global trade pose a further significant threat by undermining short and medium-term economic growth in our key markets, which is a major determinant of tourism performance.

It is essential that safeguarding measures are put in place as part of Budget 2019 to mitigate the risks posed to tourism. Having supported the creation of over 65,000 new jobs since 2011, tourism now accounts for approximately 235,000 jobs throughout the country, equivalent to 11% of total employment. Last year, tourism generated total revenues of €8.8 billion for the Irish economy and contributed over €2 billion in taxes to the exchequer. It plays a vital role in supporting economic activity and ongoing employment generation in the regions, with approximately 70% of tourism related jobs located outside of Dublin.

235,000
Jobs supported by tourism

65,000+
Tourism jobs since 2011

70%
Tourism jobs outside Dublin

€8.8 billion
Annual tourism revenue

€2 billion
In taxes for the exchequer

The recovery in tourism has been underpinned by a number of important Government policy initiatives such as the 9% tourism VAT rate, which has brought Ireland more closely in line with tourism VAT rates in other European countries with which we compete (see chart on page 4). This has made Irish tourism more competitive when marketing Ireland internationally. Other important policy measures include the zero rate air passenger tax and the liberalisation of the visa regime for visitors from selected markets. Irish tourism has also benefited enormously from external factors that have supported growth in overseas visitor numbers, including good economic performances in our major overseas markets such as North America and the UK (before Brexit).

The strong tourism growth in recent years illustrates the economic and employment potential of our industry and the capabilities of tourism entrepreneurs and enterprises. However, there is no room for complacency. Irish tourism faces a number of significant challenges that require a coordinated policy response in addition to the efforts of the industry. Notably Brexit, through the weakened Sterling exchange rate and economic uncertainty in the UK, is already seriously damaging to the sector.

The challenges faced by the hospitality sector and wider tourism industry include:

- Significant risks to the industry as a consequence of Brexit and the potential for a hard Brexit
- Inadequate Government funding of tourism marketing and product development
- Cost competitiveness issues within the Irish economy
- Uneven recovery and insufficient regional spread of tourism activity
- Seasonality within the industry

“The 9% VAT rate for tourism has brought Ireland more closely in line with tourism VAT rates in other European countries with which we compete. This has made Irish tourism more competitive when marketing Ireland internationally.”

Proposals for Budget 2019

The Irish Hotels Federation (IHF) recommends that Budget 2019 should include the following supportive measures to increase tourism demand and enable tourism businesses to continue to invest in their product and generate further employment:

1. **Brexit:** Implement targeted measures to mitigate the negative effects of Brexit, which has resulted in increased economic uncertainty and a significant weakening of Irish tourism's competitive position in the UK market following a sharp fall in the value of Sterling.

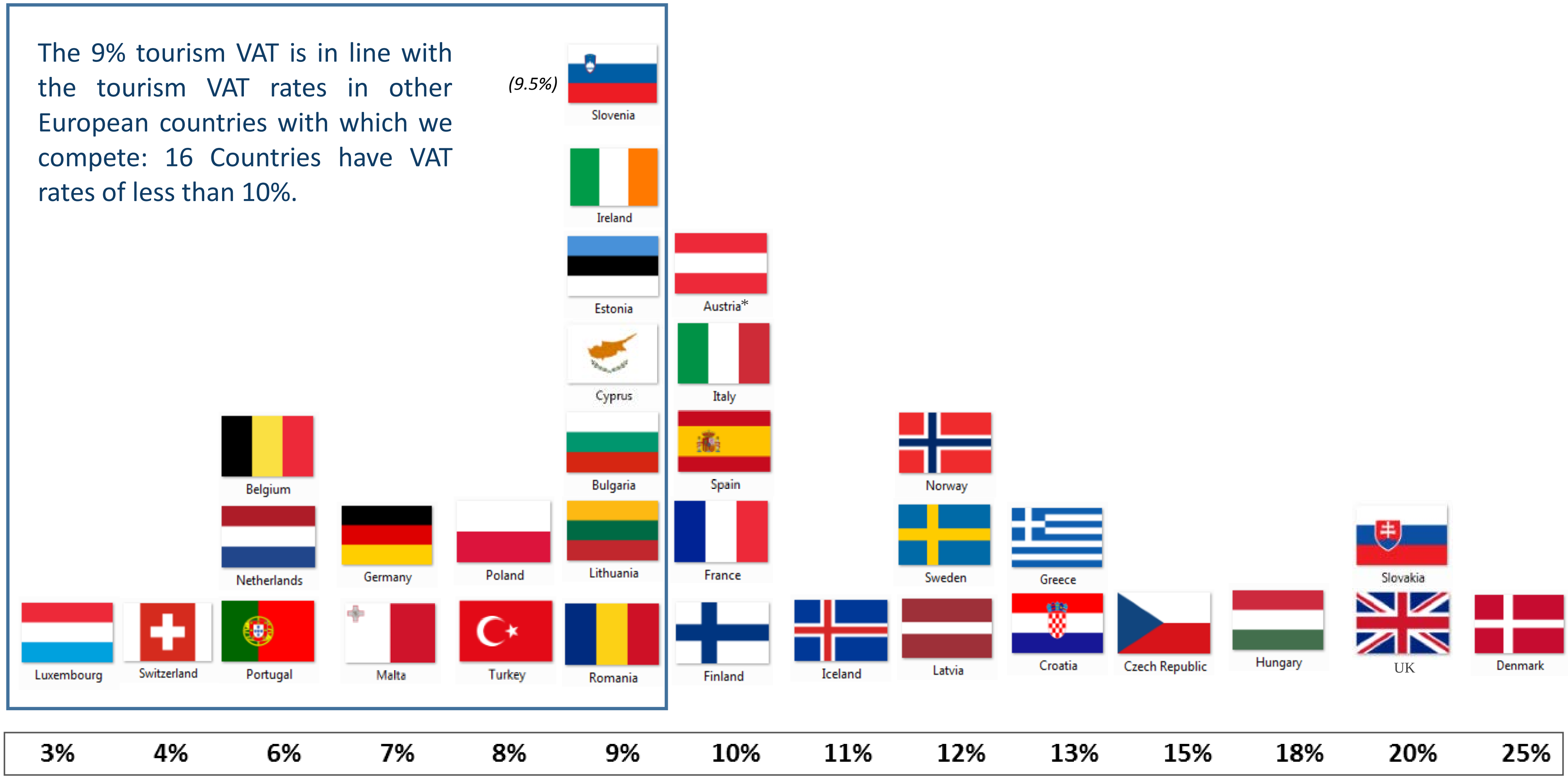
2. **9% VAT Rate:** Retain the VAT rate at its current level to support further growth and job creation. 9% is the correct VAT rate for tourism and aligns Ireland with tourism VAT rates across Europe (see page 4). It continues to provide vital support to tourism business throughout the country.

3. **Marketing Funding:** A substantial increase in international marketing funding is required to shore up UK market share and diversify into key growth markets. An increase of €10m is required in 2019, followed by further increases of €7m in 2020 and €7m in 2021.

4. **Capital Investment:** Increased investment by the State in tourism infrastructure and product development is required if tourism is to continue to grow, increase jobs and improve productivity. The current allocation under the National Planning Framework should be increased to include funding of €350m as part of a targeted five-year programme up to 2024.

5. **Cost of Doing Business:** Improve cost competitiveness and avoid any cost-increasing measures. Closely monitor labour costs, labour regulation, insurance costs, public sector taxes and other levies such as water charges and the Public Service Obligation (PSO) energy levy.

European VAT Rates for Hotels, 2018

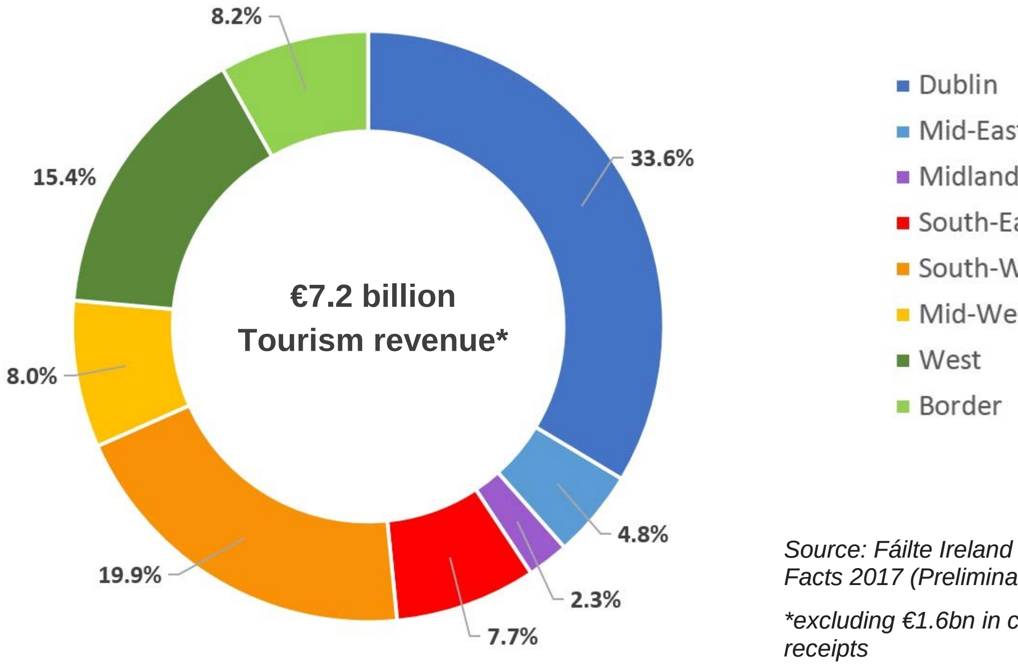


*Source: HOTREC 2018. *Austria VAT reduction to 10% effective November 2018*

TOURISM POLICY PRIORITIES

The IHF acknowledges and welcomes the significant support given to tourism by the Government in recent years including the tourism VAT rate; the zero air travel tax; support for tourism marketing and initiatives such as the Wild Atlantic Way, Ireland's Ancient East, Ireland's Hidden Heartlands and Dublin – A Breath of Fresh Air; the Employment & Investment Incentive Scheme (EIIS) and the visa reform measure. As a result of these initiatives, Irish tourism continues to act an engine of economic activity and job creation. This is particularly important for the economic prosperity of the regions given that approximately 70% of tourism-related jobs and 66% of tourism revenue are supported by areas outside of Dublin.

Regional Share of Tourism Revenue 2017



Source: Fáilte Ireland Tourism Facts 2017 (Preliminary)

**excluding €1.6bn in carrier receipts*

The recovery has not been evenly spread throughout the country, however, and this remains a significant challenge for rural tourism businesses that have not benefitted to the same extent from increases in overseas visitors. Additional policy measures are now required to ensure tourism fully delivers on its economic potential, particularly in light of the uncertainty surrounding Brexit. It is in this context that Budget 2019 should be framed, with priority given to mitigating risks to the economy and supporting sustainable long-term tourism growth and further employment generation.

Key Tourism Considerations for Budget 2019

- Irish tourism has proven itself to be an excellent investment for the country, supporting approximately 235,000 jobs and generating €8.8 billion for the Irish economy (€7.2 billion excluding carrier receipts and revenue from overseas same day visits).
- Tourism contributes €2 billion in taxes to the exchequer and accounts for 4% of GNP.
- Tourism offers substantial potential for further growth and employment creation given the right economic environment. Having created over 65,000 new jobs since 2011, it is on track to deliver a further 40,000 over the next five years.
- Brexit poses significant risks to the future growth prospects of Irish tourism through increased economic uncertainty and loss of cost competitiveness as a result of a significant depreciation of Sterling.
- As of June 2018, the Euro was 22% more expensive in Sterling terms compared to three years ago, resulting in a significant loss in Irish cost competitiveness. This has resulted in the Sterling cost of a €1,000 family holiday in Ireland increasing from £720 in June 2015 to £878 in June 2018 (an increase of £158).
- While much policy consideration of the tourism and hotel markets emphasises international tourists, the hotel sector is also significantly reliant on the domestic tourism market for economic and business sustainability.
- Irish tourism continues to experience a three-tier recovery, with Dublin performing strongly, followed by other large urban areas and tourism hotspots. However, many rural tourism businesses, including hotels and guesthouses, continue to lag behind.
- Room rates are now approaching sustainable levels in parts of the country. However, there is significant disparity throughout the country.
- The current Dublin hotel performance is a very significant determinant of the increased and necessary level of investment in new hotel capacity which is now taking place.
- The high cost of doing business in Ireland remains a concern, including the impact of public sector charges and the substantial burden of commercial rates on hotels.

1. A RESPONSE TO BREXIT

Brexit poses enormous challenges for our industry given the vital importance of the British market, which accounts for 38% of overseas visitors. Combined with visitors from Northern Ireland, the UK as a whole accounted for 46% of out-of-state visitors last year, generating approximately €1.4 billion in tourism revenue. The UK market is a very strong determinant of overall tourism performance and its importance cannot be overstated. Our dependence on this market is even more pronounced for regional tourism given the extent to which UK visitors travel throughout the entire country, including outside the peak tourism season.

Table 1: Tourism Performance 2017

	REVENUE	VISITOR TRIPS
Great Britain	€1,044bn	3.44m
Rest of Europe	€1,765bn	3.26m
North America	€1,526bn	1.72m
Other Overseas	€588m	0.61m
Total Overseas	**€4.922bn**	**9.02m**
Northern Ireland	€349m	1.29m
Total Out-of-State	**€5,271bn**	**10.3m**
Carrier Receipts	€1.611bn	-
Overseas Same-Day Visitors	53m	-
Total Foreign Exchange Earnings	**€6,935bn**	-
Domestic trips	€1.879bn	-
Total Tourism Revenue	**€8.814bn**	-

Source: Fáilte Ireland Tourism Facts 2017 (Preliminary) and estimates

Chief among the concerns faced by tourism businesses, including hotels and guesthouses, are the economic uncertainty arising from Brexit, low levels of growth and the significant weakening in the value of Sterling relative to the Euro in recent years. As of June, the Euro was 22% more expensive in Sterling terms compared to three years ago and this has made it less attractive for UK holidaymakers to visit Ireland, having greatly reduced their spending power since the Brexit referendum. This poses a serious competitive challenge for Irish tourism. The expectation is that Sterling will remain weak and may fall even further as negotiations become more difficult and as the date for Brexit gets closer.

£/€ Euro **22%** dearer in Sterling terms compared with June 2015

In addition, the final details of the new economic relationship between the UK and the EU may contain undesirable elements from the perspective of Irish tourism, especially in the conditions determining the flow of people. For example, the UK is an important access point to Ireland for long haul visitors who include Ireland on their UK visit. The range of long haul air services in the UK is also substantially better than in Ireland.

The 5% reduction in visitor numbers from Great Britain in 2017 and corresponding drop of 6% in revenues are a serious concern. This situation risks deteriorating further depending on Brexit arrangements. Indicators are that the 2017 loss will not be reversed this year. In the first six months of 2018, visitors from Great Britain numbered 1.786 million compared to 1.865 million in 2016.

5% drop in GB visitors in 2017

6% drop in GB tourism revenue

A sustained weakness in Sterling also poses a threat to tourism businesses in relation to our other key markets such as North America and the rest of Europe. We compete with the UK to attract visitors and holidaymakers from these markets with price being a significant competitive factor, and we therefore risk losing market share.

In light of the current uncertainty, it is imperative that both the Government and the industry do everything possible within our control to mitigate the risks associated with Brexit.

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2. TOURISM 9% VAT RATE

The 9% VAT rate continues to be one of the most successful job-creation initiatives in modern times with the positive impact on tourism exceeding all expectations. By bringing our tourism VAT rate in line with our European competitors, this measure has enabled the tourism industry to become more competitive, contributing to increased tourism demand and significant ongoing investment and growth in employment.

Since its introduction in 2011, the measure has supported the creation of over 65,000 new tourism jobs throughout the country. It continues to deliver enormous dividends for the economy in the form of increased tourism revenue and employment generation. This is being replicated through the entire industry, with the majority of hotels and guesthouses taking on new staff this year in addition to significant staffing increases in recent years.

The measure has allowed hoteliers and other tourism businesses to re-invest revenues in refurbishment, renovation, innovation and product development – resulting in substantial levels of further employment within the wider economy. This investment is critical for improving competitiveness and ensuring sustained growth in the industry. It is an essential element of the sector's response to the direct and indirect consequences of Brexit.

VAT Rate Comparison with Other European Countries

Governments across Europe generally choose to apply a lower rate of VAT on tourism compared with other sectors, providing targeted support for this important indigenous export industry. It is clear from the rates applied across other European markets that, far from being an exceptional or unusual measure, the majority of countries operate a low accommodation VAT rate.

The data below shows that Ireland's 9% VAT rate for tourism accommodation is in line with our main European competitors. At present, 16 European countries have VAT rates of less than 10% on accommodation while only 5 of the 32 countries listed have VAT rates above 13%. Increasing the VAT rate would therefore put Ireland at a major competitive disadvantage compared with other EU countries, particularly at a time when tourism businesses are preparing for Brexit.

Table 2: European VAT rates on accommodation, 2018

Country	Rate (%)	Country	Rate (%)
Luxembourg	3	Finland	10
Switzerland	3.7	France	10
Belgium	6	Italy	10
Netherlands	6	Spain	10
Portugal	6	Austria	10
Germany	7	Iceland	11
Malta	7	Norway	12
Turkey	8	Latvia	12
Poland	8	Sweden	12
Bulgaria	9	Croatia	13
Cyprus	9	Greece	13
Estonia	9	Czech Rep	15
Romania	9	Hungary	18
Lithuania	9	U.K.	20
Ireland	**9**	Slovakia	20
Slovenia	9.5	Denmark	25

Source: Hotrec, EU Commission

Implications of 9% VAT Rate for the Public Finances

Tourism is an export and internationalised industry and VAT on tourism is effectively a tax on exports. Unlike most other services and products that are subject to VAT, an increase in VAT on tourism would worsen Ireland's international competitiveness. Ireland is already a relatively high-cost economy and, against a backdrop of Brexit and global economic uncertainty, policy moves that impose additional costs on the sector carry a high level of risk.

Any increase in the tourism VAT rate would have negative effects on activity in the sector and in the broader economy. Tourism is a highly competitive sector which imposes discipline on margins and it is reasonable to assume that the full impact of a VAT hike would be reflected in higher prices.

"The data below shows that Ireland's 9% VAT rate for tourism accommodation is in line with our main European competitors. It is clear from the rates applied across other European markets that, far from being an exceptional or unusual measure, the majority of countries operate a low VAT rate on accommodation."

As tourism services are price-sensitive, higher prices would reduce demand and therefore shrink the total revenue base on which VAT is levied. The bulk of evidence suggests that tourism demand is very sensitive to price changes and is elastic. Thus, any gain in VAT yield from the rate hike would be dampened by the resulting drop in tourist activity.

An increase in the rate of VAT would also affect other areas of the public finances beyond VAT yields associated with tourist activities:

- Tourism is a labour-intensive sector. A hike in VAT would push up prices and depress tourist activity across the country and reduce employment and hours worked in the sector. The North West, West and South West regions of the country, which are most dependent on tourism for economic activity, would be hardest hit. Lower employment levels would mean a loss of income tax and USC receipts for the exchequer and probably higher social welfare payments.

- A decline in tourist numbers and tourism activity would depress excise receipts (for example, on alcohol) and VAT receipts from other sectors of the economy (for example, the retail sector). Many inputs into the tourism sector are produced in Ireland, so the import content of tourism activities is relatively low. As a result, the so-called "tourism multiplier" is relatively large. Tourism is a significant contributor to the exchequer across a range of tax heads.

- An assessment of the impact of changes in the VAT rate should also consider the effects on the public finances beyond 2019. The dynamic effects of policy changes are very important. Since higher prices for tourism services and products would reflect increased VAT and not higher margins, a VAT hike would depress levels of activity and revenues (net of VAT) to the sector. As internally generated cash is an important source of funding for capital spending for SMEs, a higher VAT rate would threaten investment in refurbishment, renovation, innovation and product development maintenance across the sector. This investment is critical for improving competitiveness and ensuring sustained growth in the industry. An increase in VAT would reduce the scope for the tourism sector to continue to generate growing tax receipts for the exchequer in future years.

Worsening the Brexit Impact on Cost Competitiveness

Tourism is a highly competitive, internationally traded service and is particularly exposed to threats to global economic growth and consumer sentiment. Irish tourism is one of the sectors most dependent on the UK market with incoming visitors from both Great Britain and Northern Ireland accounting for 46% of all out-of-state visitors last year. Prior to the Brexit referendum, the sector had benefited significantly from robust economic growth in the UK. However, there are now serious concerns about this market, which is a very strong determinant of overall tourism performance.

In June 2018, at the beginning of the peak tourism season, the average Euro/Sterling exchange rate was 0.8780. This compares with an exchange rate of 0.7205 in June 2015 (the year prior to Brexit decision), making the Euro 22% more expensive for visitors from the UK compared with three years ago. There is little expectation of a strengthening of Sterling. With a hard Brexit becoming more likely, the risk of a further weakening in Sterling poses a major challenge for Irish tourism businesses.

This challenge would be compounded further by any increase in the tourism VAT rate, which would add to an already significant loss in cost competitiveness due to the decline in the value of Sterling in recent years. For example, if the rate were to be increased from 9% to 13.5%, the combined effect with the fall in the value of Sterling would be a 27% increase in the tourism-related costs for UK visitors compared with June 2015.

Against this Brexit-related negative impact, it is vital that the Government avoids any changes in policy that further damage the competitiveness of Irish businesses and weaken the ability of the tourism sector in particular to cope with existing and potential threats coming down the line as a result of Brexit. There is now an even stronger requirement for competitiveness enhancing measures.

Dublin Hotel Stock

While room rates in Dublin city centre have recovered significantly over the past few years, historical data show that they are rising from unsustainably low levels associated with the financial crisis and the severe downturn in tourism. Increasing the VAT rate would lead to further increases prices charged to customers in Dublin and the rest of the country as the VAT hike would be passed on. Higher VAT rates are not an antidote for rising prices.

Upward pressure on average daily hotel rates in Dublin city centre reflects a shortage of capacity, similar to developments in the housing rental market. The market is sending a clear signal that additional hotel rooms are needed in Dublin. During the recession, selling prices for existing hotels slumped to below the cost of new construction and risk-adjusted returns on investing in hotels were not attractive. As a result, construction activity came to a halt.

Improved investor sentiment driven by the upturn in tourism means there is now a pipeline of new hotel projects which will curb upward pressure on room rates when it comes on line. The increased return on Dublin hotels has been a necessary encouragement to investment in much needed additional hotel capacity in Dublin.

Hotels Outside of Dublin

It is often overlooked that 84% of Ireland’s hotel stock is situated outside of Dublin city centre and 62% of stock lies outside the main urban centres (Dublin, Cork, Galway and Kilkenny). The evidence suggests that trading conditions for regional hotels in the third tier rural economy remain challenging and that these hotels are still finding it difficult to ramp up investment in maintenance, refurbishment, renovation and innovation.

Moreover, further progress is required if regional hotels are to maintain and grow market share so that the industry can continue to recover and create new jobs. Any proposals to increase the VAT rate on Irish tourism must be viewed in that context. The 9% rate is competitive by EU standards, it is not exceptional.

3. TOURISM MARKETING FUNDING

Tourism demand is constantly evolving and, as conditions change, we must be ready to respond. This requires continuous investment in tourism marketing and product development to ensure that our tourism offering keeps pace with global competition. Irish tourism has been an excellent investment for the country and needs to be nurtured if it is to continue to deliver returns for the economy. For every euro spent in overseas tourism marketing by the State in 2017, approximately €130 in overseas visitor expenditure was generated.

Since the economic downturn, however, the funding allocation for tourism marketing and product development has been cut back substantially and tourism bodies are now operating under very constrained budgets. As a result, Ireland's share of voice in our key markets has fallen significantly, risking a damaging loss of brand awareness. To date, the weak spend has been masked to an extent by other factors including favourable market conditions such as a decline in the euro/dollar exchange rate, which has contributed to a significant increase in USA visitors. Greater investment in tourism promotion and development is therefore now more important than ever if Ireland is to secure long-term and sustainable market growth.

Two particularly pressing strategic marketing challenges are the need to attract more visitors to the regions and to extend the tourism season. Reduced marketing budgets are having a negative effect on tourism potential of the regions. Irish tourism continues to experience a three-tier recovery, with Dublin performing strongly, followed by other large urban areas and tourism hotspots. However, many rural tourism businesses continue to lag behind. This is further compounded by the disproportionate negative impact that seasonality has on regional tourism.

"Since the downturn, funding for tourism marketing and product development has been cut back substantially and tourism bodies are now operating under very constrained budgets. As a result, Ireland's share of voice in our key markets has fallen significantly, risking a damaging loss of brand awareness."

It is now essential that funding for the tourism agencies be increased. Current low levels of investment cannot be sustained without putting our tourism brand at risk and limiting the capacity of Irish tourism to achieve sustainable growth and support the economy and employment. A substantial increase in marketing support is required over the next three years to shore up our UK market – where we are now losing market share – and to further diversify into key growth markets such as continental Europe and North America.

This should be aligned with increased funding allocations for specific campaigns supporting the Wild Atlantic Way, Ireland's Ancient East, Dublin 'A Breath of Fresh Air' and the roll out of Ireland's Hidden Heartlands brand covering the Midlands/Shannon corridor. Targeted assistance is required for regional tourism businesses and regions vulnerable to Brexit. Regions most exposed are the border counties, such as Donegal, and the Midlands.

The IHF urges the Government to substantially increase the marketing support by an additional €10 million in 2019, followed by an additional €7 million in each of 2020 and 2021. We agree fully that such expenditure should be rigorously and regularly evaluated, and its destination and content focus justified.

4. INVESTMENT IN PRODUCT DEVELOPMENT AND INFRASTRUCTURE

While Irish tourism has made up significant ground in recent years following the downturn, continued growth cannot be taken for granted. It requires long-term investment, both in terms of our tourism product and our tourism infrastructure. We are an island destination and face some unique challenges in terms of access and competitiveness. It is therefore vital that sufficient resources are allocated to tourism development in order to deliver sustainable, long-term growth that continues to benefit the local economies and the communities in which tourism businesses operate.

A major objective for the tourism industry is to broaden Ireland's tourism base and achieve a greater distribution of visitors throughout the country, including to regions which have been underdeveloped but have significant tourism potential. Success in this area will require ongoing investment in order to fully harness Ireland's tourism resources and cater for our target market segments. This is particularly true for tourism outside the key urban areas, which is mainly rural in nature.

As part of a long-term planning strategy, visibility of and commitment to tourism capital funding should be provided over five-year periods to enable more efficient policy implementation. This should be supported by greater alignment between national infrastructural investment and tourism policy to achieve more cost-effective international access via ports and airports as well as local access through road and rail infrastructure.

We recommend a significant increase in tourism-related capital expenditure within the National Panning Framework with the allocation of €350m for investment in infrastructure and product development over the next five years. This is essential if tourism is to continue to grow, increase jobs, and improve the productivity of the tourism sector. Investment should include dedicated funding for the strategic development of new tourism attractions with the potential to significantly alter the well-worn touring patterns and regenerate the regions outside the main tourism hotspots.

Funding should include a medium term capital budget for the full development of the Wild Atlantic Way project and other area-specific initiatives such as Ireland’s Ancient East and Ireland’s Hidden Heartlands to fully exploit their potential and to achieve a better regional spread of tourism economic activities.

Increased investment is required to rollout high-speed fibre internet throughout the country. Access to high-speed broadband is essential for our industry to innovate and attract visitors. However, the current quality of broadband is unsatisfactory in many rural areas, which is detrimental to modern day tourism. It is therefore essential that the procurement process supporting the National Broadband Plan is completed without further delay.

“Increased levels of investment by the State in tourism infrastructure and product development are required if tourism is to continue to grow, increase jobs, and improve the productivity of the tourism sector.”

5. COST COMPETITIVENESS

The international tourism market is exceptionally competitive and every tourism euro spent by overseas and domestic tourists in Ireland is hard won. As such, the high cost of doing business in Ireland remains one of the most pressing issues faced by tourism businesses such as hotels and guesthouses. Over recent years, government determined costs and prices have not followed cost reduction trends in the tourism sector and wider private sector.

Many public sector charges continued to increase and there has not been a determined programme of reductions in these charges and prices. Hotels and guesthouses have had to reduce costs and many have achieved substantial savings through higher efficiencies and productivity coupled with better procurement procedures. A renewed focused by Government is required to reduce all costs imposed by state owned agencies. The need for this is intensified by the Brexit situation. Some of these cost elements are outlined below.

Local Authority Rates

One of the major public sector determined costs on hotels and guesthouses is local authority commercial rates. Hotels make a disproportionate contribution to local authority funding, with many hoteliers being levied rates of up to €3,000 per bedroom and average local authority rates equating to €1,500 per bedroom, regardless of occupancy levels. There is a strong case for a substantial reduction in commercial rates. It is now seventeen years since the 2001 Valuation Act came into force and many of the rating areas in the country have not had revisions carried out by the office of the Commissioner of Valuation.

The local authority revisions which have been completed have resulted in the local authority rates liability of hotels being reduced by on average around 30%. As argued in previous submissions, it is reasonable to suggest that if the revisions were completed in the remainder of the country similar results would be achieved. It is therefore essential that greater priority is given to rolling out the revaluation of the rest of the country in line with the commitment in the Programme for a Partnership Government. In the meantime, however, hoteliers are being forced to pay excessive rates. To address this, Budget 2019 should include an instruction to all local authorities in which a revision of rateable valuations has not been completed to introduce a scheme to waive 30% of rates on hotels and guesthouses.

Labour costs

The Irish hotels sector is very labour intensive and, as such, is particularly vulnerable to labour cost increases – for example, payroll costs are approximately 40% of turnover in hotels, compared with 8% in manufacturing. The industry operates in highly competitive international markets and its domestic and international customers have a wide variety of alternative holiday destinations to choose from, often in low-cost locations. Ireland has one of the highest minimum wage rates among the OECD's 34 member countries.

Increases in labour costs have a definite negative impact on the viability of small and medium sized tourism business, including hotels outside the main urban areas and tourism hotspots where the recovery has significantly lagged behind. It is essential that wage rates take account of national and international competitiveness, market price limits, necessary profit levels, incentives to invest and growth objectives. Any future increases in the national minimum wage must be underpinned by robust evidence and shown to be fair and sustainable from an employment and competitiveness perspective. We therefore call for a greater focus on improving labour cost competitiveness through the reform of income taxes and adjustment of the social insurance structure for lower paid workers.

Insurance Costs

The IHF welcomes the Government's recognition of the impact of insurance costs on tourism businesses and the wider business sector. This is a pressing issue with hotel sector insurance costs set to reach €60 million this year (equivalent to €1,000 per bedroom), making it a major concern for our sector. Over 80% of hoteliers say rising insurance costs are having a significant negative impact on their business. Priority should now be given to the swift implementation of the recommendations and conclusions of the Cost of Insurance Working Group (CIWG) on employer and public liability insurance costs published earlier this year.

A particular concern for tourism businesses is the increasing level of fraudulent and exaggerated insurance claims and the very high levels of awards being made by the courts. We support the setting up of a new Garda unit dedicated to investigating insurance fraud which would play a vital role in combatting fraud and preventing exaggerated claims. This should be set up without delay and should go hand in hand with a policy of tackling fraudulent activity head on by taking prosecutions where appropriate. Further reforms are also required to address the rising cost of insurance, including in relation to the administration of the courts and the levels of awards being made – areas which are currently the subject of review by Government appointed groups and need to be addressed as a matter of urgent priority.

Utility Costs and Regulation

The IHF is concerned about current levels of the Public Service Obligation (PSO) energy levy and recommend a fundamental review of the scope and burden of the PSO, including the projected burden in the coming years. It is vital that the Government ensures that the Commission for Energy Regulation operates with the objective of reducing energy and water costs to the commercial sector.

National Training Fund Levy

The IHF is a strong advocate of greater investment in training and further education for workers interested in pursuing a career in hospitality. The hotels sector makes a substantial contribution to training and further education through a training levy that all hotels in Ireland pay to Fáilte Ireland as part of their annual registration fee. This funding structure for training is unique to the hotels sector and is in addition to the contributions hotels make to the National Training Fund (NTF) which are currently equivalent to 0.8% of reckonable earnings in respect of employees. This follows a 0.1% increase in the NTF levy this year.

Despite this funding contribution, hotels throughout the country continue to face serious difficulties recruiting skilled employees, including suitably qualified staff at craft and entry level. This is a result of a serious lack of investment by the State in employment training for our sector. It is therefore the IHF's view that any further increase in the NTF levy should be postponed for hotels and other industries until a full review is carried out examining how funding is currently being allocated for the provision of education and training.

This review should include a detailed assessment of the training requirements of the hotels sector and a comprehensive, long-term plan of action to tackle the current deficiencies and provide greater clarity on how future requirements will be met. As part of this, we would recommend that a dedicated national programme be put in place for hospitality training overseen by a Directorate of Careers in Tourism and Hospitality set up within Fáilte Ireland. This would involve greater collaboration with industry and better use of existing resources across Education and Training Boards and Institutes of Technology.

Excise duty

The IHF recommends that the Government reduce alcohol excise by 15% to support the commercial viability of drinks related enterprises in the on-licence sector and the continuing need for innovation and investment in tourism-related facilities.

ECONOMIC ENVIRONMENT

In its April World Economic Outlook Update, the IMF retained its expectation of strong global economic growth and advanced economies growth but expected a weak performance in the UK in 2018 and 2019. The GDP growth forecasts for the UK are 1.6% in 2018 and 1.5% in 2019. This compares with 1.8% in 2017. The USA growth rate is forecast to be better than the 2017 performance at 2.9% in 2018 and 2.7% in 2019.This compares with 2.3% in 2017. The Euro area growth rate is forecast to be 2.4% and 2.0% in 2018 and 2019 respectively, similar to the estimated growth rate for 2017 of 2.3%. Overall, the 2019 growth will be a little lower than 2018. Most of the uncertainty associated with the 2019 forecasts is on the downside with fears of protectionism and concerns with certain financial markets.

The weakening UK situation is notable given its importance to Irish tourism and the wider economy. It is also of concern that short-term future growth in the UK will be driven more by exports and investment as consumer expenditure slows. This weak consumer situation will continue to have a negative impact on UK consumer spending and intentions to travel abroad.

Table 3: International Economic Growth 2017 to 2019

GDP GROWTH %	**2017** Estimate	**2018** Projection	**2019** Projection
UK	1.8	1.6	1.5
USA	2.3	2.9	2.7
EURO	2.3	2.4	2.0
GER	2.5	2.5	2.0
FRA	1.8	2.1	2.0
ITA	1.5	1.5	1.1
Advanced economies	2.3	2.5	2.2

Source: IMF World Economic Outlook Update April 2018

In light of the objective of achieving ongoing substantial growth in Irish tourism and the international economic environment, it is clear that the tourism sector cannot rely only on international economic growth to significantly boost inward tourism numbers.

Instead, we must increase our market share and increase expenditure per tourist. This necessitates improved competitiveness, innovation, investment and effective and substantial marketing activity.

While much policy consideration of the tourism and hotel markets emphasises international tourists, the hotel sector is also significantly reliant on the domestic tourism market for economic and business sustainability. Consequently domestic economic circumstances are important determinants of the Irish hotel market performance.

The shortcomings of GDP as an indicator of Irish economic wellbeing and performance are well known. Personal consumption volume growth is a more accurate picture of actual Irish economy performance and a strong determinant of domestic tourism expenditure. This has grown by much less than the headline GDP indicator and will continue to grow by much less than GDP. Personal consumption, increased by a low 1.9% in 2017 and is expected to increase by 2.6% in 2018 and 2.4% in 2019. Average compensation per employee is expected to grow by 2.6% in 2018 and 2.8% in 2019. Consequently, prospects for the hospitality sector are less positive than would be indicated by the headline GDP growth performance for the Irish economy.

Table 4: Irish economic growth performance and forecast, % Volume change, Stability Pact Update 2018

YEAR	GDP	CONSUMER EXPENDITURE
2017 outturn	7.8	1.9
2018 forecast	5.6	2.6
2019 forecast	4.0	2.4

Source: Stability Pact Update, April 2018. Summer Economic Statement, June 2018. Department of Finance.

ECONOMIC CONTRIBUTION OF IRISH TOURISM:

- Tourism is a vital indigenous industry, accounting for 4% of GNP;
- There is substantial potential for further tourism growth and employment generation provided measures are introduced to mitigate the negative effects of Brexit;
- Tourism currently supports approximately 235,000 jobs throughout the country, including over 60,000 employed directly in hotels and guesthouses;
- Government policy measures such as the 9% VAT rate have enabled the creation of over 65,000 new tourism-related jobs since 2011, employing people in every town and county;
- In 2017, €8.8 billion in revenue was generated by tourism. This was made up of €6.9 billion in foreign exchange earnings (including carrier/fare receipts of €1.6 billion) and €1.9 billion in domestic tourism revenue;
- Every €1 in tourism expenditure by visitors generates about 23 cent in tax revenue, resulting in over €2 billion in taxes annually;
- Every €1 generated by tourism results in a further €1.26 in additional revenue in the wider economy;
- Tourism employment and economic activity is regionally spread and a vital part of the local economy of every county: 70% of tourism-related jobs and 66% of tourism revenue are supported by areas outside of Dublin;
- The sector also provides a substantial entrepreneurial resource as the vast majority of tourism enterprises are small and medium enterprises;
- The UK market is Ireland's largest source of inbound tourism, accounting for approximately €1.4 billion in tourism spend from Great Britain and Northern Ireland and 46% of all out-of-state visitors;

The Irish Hotels Federation is available as a resource for information and views on Ireland's hotels sector and wider tourism industry. Please contact the IHF on (01) 497 6459 or info@ihf.ie.