TOURISM 2020
Investing in our Future

A report from the Northern Ireland Hotels Federation on the current economic impact of the tourism and hospitality sector and the potential for future growth.
PRESIDENT’S MESSAGE
Mandy Patrick MBE

Tourism 2020 was produced to highlight the specific changes that the hospitality and tourism sectors require to reach their full potential. The Northern Ireland Hotels Federation is committed to working with the wider industry to affect change and improve the business climate. As part of my presidency, I will strive to bring the issues raised in Tourism 2020 to the fore and lobby for their adoption.

Tourism has the ability to transform our economy and bring substantial benefits to Northern Ireland. The NIHF sees it as an integral part of this region’s future and I look forward to playing my part in this process.
WHO ARE WE?

Tourism is a big industry with big ambitions

The Northern Ireland Hotels Federation is the trade body for hotels and guesthouses. The Federation was formed in 1999 and currently represents the views of 85% of the hotel sector. This sector is the largest provider of tourist accommodation and part of the wider tourism and hospitality industry.

The industry has enjoyed considerable growth and has the capability to deliver jobs and economic benefit to Northern Ireland. However, the NIHF believes that a number of changes are needed to ensure it reaches its full potential.

This report represents an investment in the future. The Federation has engaged ASM and Oxford Economics to analyse the current contribution of the industry, its role in the future of the economy of Northern Ireland and to identify the barriers to long-term growth.

What Northern Ireland tourism needs: the five Ts

TOURISM
Medium-term strategy for the whole sector

TAXATION
Reduction in VAT to 5%

TARGETS
Study on the long-term future of tourism

TRADING
World-class events and cohesive marketing

TRAINING
Delivery agency for tourism and hospitality

$1.3 trillion
Tourism represents 6% of the world’s exports or US$1.3 trillion

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This map shows the economic contribution of the visitor economy

6.8% of GDP £9.7bn
13.3% of GDP £6.2bn
8.6% of GDP £96.7bn
10.4% of GDP £11.1bn
4.9% of GDP £1.5bn
4.9% of GDP £1.5bn

Tourism 2020: Investing in our Future
WHERE ARE WE NOW?
Tourism and hospitality is already important to the local economy

Background
The hospitality economy is a huge engine for job creation and presents opportunities throughout Northern Ireland. It offers jobs to people with a wide range of skills including real progression for those with limited formal qualifications. A flexible work pattern can be of benefit to those seeking part-time or additional employment but it also offers many highly skilled and well-paid roles in finance, management, sales and marketing.

Hospitality and tourism, as an industry, directly employs around 60,000 people in Northern Ireland but it also supports many other jobs in the wider economy. The sector contributes £860m in Gross Value Added (GVA) to the economy annually from 4,900 business establishments.4

Tourism
Visitors from outside NI are extremely important to our economy. Because they’re bringing in money from overseas, in economic terms they are doing the same thing as any other export, yet tourism is the only export industry that is subject to VAT. It should be valued as importantly as any manufacturing export.

The contribution that tourism makes is much greater in Great Britain and the Republic of Ireland but Northern Ireland has the potential to greatly increase its tourism economy to catch up with these other regions.

In the United Kingdom the tourism economy is worth £115.4bn. Northern Ireland has 1.3% of this contribution at £1.5bn which equates to 4.9% of Northern Ireland’s GDP.5

Northern Ireland has just 15% of the island of Ireland's tourism spend from overseas visitors. In 2012, the total spend from overseas visitors was £418m in NI and £2,408m in the Republic of Ireland.6 An additional £70m is spent by visitors from the Republic of Ireland.7

The tourism performance in 2012 was greatly assisted by the NI2012 promotional campaign, which brought in an additional £42m8 to the economy.

In 2012 the only market that grew in a significant manner was the Republic of Ireland, where visitor numbers increased by 16% to 430,0009. These visitors also spent more; the spend increased to £70m or by some 19%.9 The increase in spend is welcome news but there is a belief in some quarters that the visitor numbers have been understated.

The NI2012 campaign is proof that a cohesive approach can deliver for all sectors; it increased the appeal of the region by offering world-class events. However, it should be noted that the success was partly driven by the opening of iconic visitor attractions - Titanic Belfast and the Giant’s Causeway visitor centre.
Hotels

There are 139 hotels in Northern Ireland, which form the backbone of the tourism industry. These hotels provide 7,854 bedrooms, the bulk of serviced accommodation utilised by visitors. Hotel occupancy in 2012 was 73.2% up from 64.7% in 2011. In 2012, hotels in Northern Ireland sold 1.8m bedrooms at an average rate of £65.50 equating to £118m in revenue. In addition to this, other hotel operations such as food and beverage added a further £222m of revenue.

Analysis shows that 67% of hotel rooms were sold to out of state visitors i.e. an export value of £79m. In order to meet an ever more discerning customer, £400m has been invested in new hotels over the last 15 years with an additional £100m spent on refurbishing existing properties over the same period.

Despite the gains made in 2012, the hotel industry continues to underperform compared to other UK regions. Turnover declined by 10% between 2008 and 2011 and the recovery has been sluggish. Wales is up 35%, the Midlands 27% and the South East 10% over the same period.

Hotels understand that they do not trade in isolation. A buoyant accommodation economy is supported and enhanced by a range of other businesses including restaurants, retail outlets, visitor attractions, bars and cafés.

The hotel industry is as much an investment in human capital as it is an investment in buildings. Hotels support 10,700 full time equivalent jobs and pay £161m in wages per annum.

Strategy

A Draft Tourism Strategy for Northern Ireland to 2020 has existed since 2010. The targets set out by this document are £1bn in tourism spend and 4.5m visitors by the end of the decade. They are quoted on a regular basis and mooted as the goals to which the industry should aspire. This strategy has remained in draft form for three years and has never been adopted by the Assembly.

An analysis of VAT rates on accommodation across the EU highlights the problem faced by Northern Ireland in competing with its nearest neighbour, the Republic of Ireland.
The dry-stone Mourne Wall is 35km (or 22 miles) long and crosses 15 summits. It was completed in 1922.
WHERE CAN WE GO?

The future holds out a promise of more jobs and more investment

The Federation believes that tourism has a huge role to play in our future. As a destination, we are only scratching the surface of the potential this growing industry can bring.

**Tourism**

Tourism has the ability to transform the economic landscape of Northern Ireland. Its labour-intensive nature and flexible employment opportunities can positively benefit every town and village in the country.

Tourism is an export opportunity, allowing us to bring out-of-state income to our economy. By 2020, we could double the contribution to GDP and generate £1bn in tourism spend. This would create 10,000 new jobs. More tourism will mean more construction, increased retail spending and greater demand for things to see and do.

To achieve this growth we need to become more competitive. One way of doing this would be to reduce VAT on accommodation, visitor attractions and out-of-home meals.

Lowering the VAT rate could make NI a more accessible destination for tourists who may not have previously been able to afford a trip. It could also encourage those considering a visit to stay longer, upgrade their accommodation, use the savings for expenditure elsewhere in the economy or return for further visits.

Northern Ireland's relatively high rate of VAT puts it at a distinct disadvantage to other European countries - particularly the Republic of Ireland. Given the proven responsiveness of visitor arrivals/expenditure to changes in tourism taxes, a VAT rate cut could lead to increased demand and provide a much needed stimulus to the industry – leaving it well positioned to benefit from strengthening consumer and business confidence in the UK economy.

Not reducing VAT could cost the NI economy £128m in lost economic potential over the next seven years.

**Hotels**

The NI hotel industry is forecast to grow by 15%, faster than the 9.2% growth expected for the UK. A lower VAT rate would accelerate this growth.

By 2020 the Northern Ireland hotel sector could be supporting as many as 14,900 jobs - 9,942 directly employed in the industry, and 5,000 in the supply chain supporting it. Similarly, the sector could be generating £225m in wages - £150m paid to those directly employed in the hotel sector, and a further £75m paid to those in the supply chain supporting it.

Our research clearly demonstrates the positive effect that a VAT reduction in the hotel sector would have on the NI economy with a significant number of jobs supported directly in the industry, and also indirectly, in the supply chain supporting it. This is especially evidenced in the manufacturing sector, where the hotel industry supports over 1,100 jobs, primarily in the manufacturing of food and drinks.
Northern Ireland turned pink in 2014 for the Giro D'Italia Grande Partenza when 200 riders from 30 countries took part in the biggest sporting event ever staged.
In order to transform the industry, the Federation believes that the following policies need to be implemented and actions taken. These will not just benefit the hotel industry but will bring significant gain to the wider Northern Ireland economy.

**Tourism Strategy**
We believe that the industry needs an agreed, over-arching tourism strategy supported by all Government departments. This strategy needs to focus on growth and set out clear and concise responsibilities. As mentioned earlier, a draft strategy was written in 2010 but it has never been adopted.

The NIHF believes that the formal adoption of an updated strategy would result in the Northern Ireland Executive taking a more cohesive approach to the industry and would reinforce the message that tourism is being taken seriously. A strategy should set out the major contribution tourism currently makes and put in place the building blocks for the future.

Nine departments in the Executive, as well as every local council, directly affect tourism and hospitality. The introduction of a new council structure, as set out in the Review of Public Administration, is a real opportunity for the development of Northern Ireland tourism. This reduced council structure has a key role to play in driving the tourism economy forward because the pooling of resources will lead to a clearer regional message.

There is also influence at a national level from Westminster. The NIHF is keen for the Assembly to highlight the challenges of regional tourism and raise these at a national level. Northern Ireland is in a unique position. It is part of the United Kingdom on a political level but is marketed with the Republic of Ireland as a single island destination for tourism purposes.

The government in Dublin is in a position to make decisions for the benefit of the tourism industry in the Republic of Ireland, which are sometimes to the detriment of Northern Ireland. The Executive has the power to address some of the needs of tourism and has been a supporter of the industry over the last decade. However, a number of key challenges can only be addressed on a UK level and we must actively campaign for changes to be made at this level.

The Federation would ask that the tourism strategy is updated and formally adopted as a matter of urgency. The NI2012 campaign and its successes need to be built upon and, in order to maximise its legacy, a cohesive strategy is required.

**Taxation: VAT Reduction to 5%**
The Federation believes that a reduction in VAT is the single biggest game changer for the industry. Northern Ireland’s unique position of being marketed along with the Republic of Ireland on an international basis makes the 11% differential in VAT a real challenge. Following a pilot, the Republic of Ireland has decided to maintain the 9% rate for the foreseeable future.

The NIHF is appreciative of the Executive’s commitment to VAT reduction and its passing of a motion in support of this in 2012. The Federation would like to see a commitment from all political parties to bring the VAT issue to the fore at the next General Election, supporting and
highlighting a VAT reduction as an economic driver. We have the third highest VAT rate in Europe at 20% and are one of only four countries in the 28 member EU that does not have a reduced rate for accommodation.

The Cut Tourism VAT Campaign has extensively explored the issue of a VAT reduction on a national level. A report by Professor Adam Blake (a Treasury adviser), using the government’s economic Computable General Equilibrium (CGE) model, concludes that cutting tourism VAT to 5% is “one of the most efficient, if not the most efficient, means of generating GDP gains at low cost to the Exchequer”. In other words, it costs the government very little to reduce VAT yet that is one of the best ways to grow the economy.

Findings by Professor Blake and a major independent analysis by Deloitte/Tourism Respect show that reducing VAT on key UK tourism services such as visitor accommodation and entry to attractions would:

- Boost GDP by £4bn a year
- Create 80,000 jobs over 2 to 3 years
- Deliver £2.6bn to the Treasury over ten years

Northern Ireland would gain 1.5% of this £4bn boost at the current level. Modelling shows that there would be a 10% increase in direct jobs within the hotel sector and a further 8% rise in the wider industry. Despite NI2012 being billed as a “game changer” for Northern Ireland, the campaign did not deliver as much growth as the Irish Government’s package of measures to stimulate demand. For example, hotels in Northern Ireland recorded a modest growth in average income of 6.3% whereas the hotels in the Republic of Ireland saw an increase of 13.1%. Perhaps this provides clear evidence of the very positive impact that a reduced rate of VAT can have in driving visitors to a destination and in stimulating spending.

Another possible outcome, which is difficult to quantify but that has been experienced in markets where VAT has been reduced, is an increase in those making taxable returns and a decrease in the shadow economy.

Costing carried out for the nights of 18th & 19th July 2014 and exchange rates on 16th May. Based on a family room in Jurys Inn Belfast and Jurys Inn Cork and meals in Pizza Express Belfast and Milano Cork.

**Targets: a study on the long-term future of tourism**

The Federation calls for the commissioning of an in-depth study into the future of tourism to assess long-term needs including infrastructure, the need for new accommodation and the development of visitor experiences. This study should analyse trends and explore the expectations of new and developing markets.
Trading: world-class events and cohesive sector marketing

Collaborative Marketing
Northern Ireland tourism requires standout promotional activity in order to change negative perceptions, increase visitor numbers and change our customer mix.

The Federation recognises the benefit of events and campaigns such as NI2012 and Derry-Londonderry UK City of Culture. As part of a tourism strategy, we would like to see:

- An event plan, with at least one world-class event staged in Northern Ireland each year.
- Business tourism run by a business-focussed body with marketing monies from a pooled funding source.
- Business Ambassadors engaged as part of Invest NI export initiatives to ensure that clients are encouraged to bring meetings and conferences to Northern Ireland.
- Capital projects to receive on-going marketing support to realise their full potential.

Tourism Development Restructuring
The Tourism Development Scheme, overseen by Invest NI, needs to be reviewed. Currently, the scheme provides financial support only to new-build properties outside of the greater Belfast area. The NIHF would like to see:

- Funds being available or redirected for refurbishment and upgrade of existing properties.
- A review of the policy of no capital grant aid within a 10 mile radius of Belfast.

Access Improvement
As a destination on a small island, Northern Ireland tourism is heavily dependent on air and sea access. Less than 10% of the island of Ireland’s air access is directly into Northern Ireland. As a short break destination, direct access is crucial. The NIHF would like to see:

- An access strategy developed and implemented in tandem with the tourism strategy.
- Progress on long-haul route expansion.
- Commitment to reduce Air Passenger Duty on short-haul routes.

Training: Industry Skills Focus
The hospitality industry is a huge engine for job creation throughout the country. It offers an excellent career path and long-term secure employment. As noted earlier, it offers an opportunity to recruit people with a wide range of skills, offers real progression for those with limited formal qualifications and a flexible work pattern for those seeking part-time or additional employment.

The NIHF would like Government to recognise the hospitality industry for what it is: an industry that rewards employees who work hard, demonstrate flexibility and team work and deliver great service. In other countries, such as Italy and France, it is not viewed as a second-class career. We would like to see:

- A single delivery agency to provide training and qualifications for the sector similar to the CERT/Failte Ireland model in the Republic of Ireland.
- A commitment to training and focus within education on the hospitality and tourism sectors, placing a similar emphasis to STEM skills (Science, Technology, Engineering and Mathematics).
- Standardised qualifications in further education fitting into the structure of the single delivery agency.
WHAT NEXT?
You can help this industry transform the Northern Ireland economy

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TOURISM
- Passenger Transport
- Cultural Events
- Visitor Attractions

HOSPITALITY
- Licensed Clubs
- Takeaway Food
- In-house Catering
- Hotels
- Guesthouses, B&Bs
- Self-catering, Hostels, etc
- Restaurants
- Pubs & Bars

WHAT NEXT?
You can help this industry transform the Northern Ireland economy

£100m
Titanic Belfast represents the single largest investment in Northern Ireland tourism at around £100m. It has already welcomed over 1 million visitors

References throughout report
1. World Tourism Organization
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4. People 1st
5. ASM Belfast
6. British Hospitality Association
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8. Northern Ireland Tourist Board
9. Northern Ireland Statistics and Research Agency