



9th June 2020

Ms Aileen Fallon
Clerk to the Committee (Work Programme)
Special Committee on Covid-19 Response
Leinster House
Dublin 2
D02 XR20

Ref: SCC19R-I-0073

Dear Ms Fallon,

Thank you for the invitation to make a written submission to the Special Committee on Covid-19 Response.

Please find attached a submission from the Irish Hotels Federation on the topic of reopening the economy - the State's response and support for businesses, reference SCC19R-I-0073.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tim Fenn', is written over the text 'Yours sincerely,'.

Tim Fenn
Chief Executive



IRISH HOTELS FEDERATION

Submission to the Special Committee
on Covid-19 Response

Ref: SCC19R-I-0073

Re-opening the economy – the State's
response and support to businesses

June 2020

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1. Introduction

The Irish Hotels Federation (IHF) is officially recognised on a national and international level as the representative body of the hotel and guesthouse sector in Ireland. We represent almost 800 properties in Ireland and are a key stakeholder in Irish tourism, working closely with our industry partners to ensure the right conditions are in place for tourism to grow and prosper, thereby contributing to growth and job creation.

The IHF welcomes this opportunity to make a submission to the Special Committee on Covid-19 Response on the impact of ‘close-down’ on tourism and hospitality and hotels and guesthouses.

This submission identifies the catastrophic impact that Covid-19 has had on our industry manifesting itself in job losses, revenue losses and a significant reduction in business financial resources. It provides an outline plan on how to restore the industry to 2019 levels by 2025 and the financial benefits to the state in helping this happen.

It outlines the current Government Supports for employees and businesses and additional Government initiatives required in the areas of liquidity and competitiveness.

It also outlines the procedures for reopening business, the impact of physical distancing and includes a section on the key facts highlighting the Economic Contribution of Irish Tourism.

2. Executive Summary

This is the greatest health crisis in living memory and we appreciate that significant resources are being committed by the Government to address the overriding issue of public health. We also welcome the great progress being made in suppressing the disease.

The immediate impact of Covid-19 has been the elimination of €5.7 billion (excluding carrier receipts) in tourism revenue, representing a 74% drop for the full year, the closure of 85% of hotels, a collapse in business working capital and an unprecedented level of job losses. It puts at immediate risk 200,000 of the almost 270,000 jobs supported by our industry throughout the country.

With the right Government supports, we project that annual tourism revenues and employment can recover to 2019 levels over a five-year period up to 2025. (€7.7 billion tourism revenue and 270,000 people employed). Without appropriate supports, we see 2025 tourism revenue at €5.4 billion and employment returning to just 190,000 (-30%). Over a 5 year period this would represent a cumulative additional loss of approximately €7 billion to the Irish economy and additional cumulative unemployment costs of €3.3 billion.

The IHF has developed an outline plan to restore activity and employment to 2019 levels by 2025. It will also help restore the estimated €2 billion contribution in tourism taxes to the exchequer each year in addition to reducing a potential State bill of €2 billion per annum in unemployment costs. This proposed recovery plan will require a coordinated approach from Government, the State Agencies and industry stakeholders and will be presented to the Tourism Recovery Task Force recently announced the Government.

We welcome the various business and employment supports that have been introduced already, but they do not go far enough. The tourism and hospitality industry has been far more severely affected and faces a more challenging road to recovery than other parts of the economy and this is not being adequately recognised as yet. It is our view that additional Government measures on liquidity and competitiveness are required to protect tourism livelihoods and address the challenges we face.

Liquidity measures are required to address the significantly weakened capital base of businesses caused by restrictions introduced to suppress Covid-19. Other countries such as Germany, France and Spain have provided immediate fiscal impulse measures including direct supports to help businesses restore their capital base and re-start.

International competitiveness is key to our industry. We are calling for a return to 9% VAT on tourism related services on a permanent basis to assist recovery and secure a viable and sustainable future. Hotel VAT in Ireland is now higher than 28 European countries with which we compete. We are also calling for a continuation of the Wage Subsidy Scheme until the impact of Covid-19 has abated. In addition, the Local Authority rates and charges waiver period should be extended to coincide with business

interruption due to Covid-19 and with a revision of ongoing charges to reflect reduced business activity during the recovery period.

The Irish Hotels Federation has worked closely with Fáilte Ireland to establish agreed operational standards for hotels in line with HSE requirements and international best practice. Our main priority will always be the health and safety of staff and guests. We are confident that people can look forward to a relaxing, enjoyable and well-deserved break in an Irish hotel this summer, secure in the knowledge that they are staying in a safe environment.

Hoteliers will be required to meet Public Health advice on maintaining physical distancing (currently 2 metres) between people when they open. Physical distancing of two metres does not apply to members of the same household. We welcome the great progress being made by the Government, the Chief Medical Officer, health professionals and society in general in suppressing the disease and look forward to the time that the physical distancing restrictions can be lifted. We estimate that 2-metre distancing would result in a further reduction of 30% in revenues compared to 1-metre.

Tourism is a vital indigenous industry, accounting for 4% of GNP as of 2019 and with the right supports it can again be one of the most effective ways to spread employment opportunities and prosperity across the entire country.

3. Impact of Close-Down on Tourism and Hospitality - Hotels and Guesthouses

This is the greatest health crisis in living memory and we appreciate that significant resources are being committed by the Government to address the overriding issue of public health. We also note the willingness of our industry to play its part in providing assistance to essential services where required by the HSE and other Government Departments.

The health and wellbeing of all citizens is intertwined with the economy, and people will need livelihoods after the crisis is over – including the almost 270,000 people across the country who, up until recently, were employed in tourism and hospitality. These jobs

represent 11% of total employment nationally. It is important to note that 70% of these jobs are outside of Dublin which highlights the regional contribution of tourism and its vital role in spreading employment opportunities and prosperity across the entire country.

In normal times, Ireland competes internationally for visitors every day. Our success has been built up over time on the back of substantial investment by the industry and the State in developing Ireland's brand as a great tourism destination underpinned by our wonderful hospitality and quality of product standards.

However, our industry must now face the enormous challenges in relation to an unprecedented downturn in economic activity and sentiment, a collapse in air access onto the island, restrictive public health measures around travel, physical distancing and mass gatherings, consumer concerns around health and safety and the time it will take to have a vaccine available for the world population.

The immediate impact of Covid-19 has been the elimination of €5.7 billion (excluding carrier receipts) in tourism revenue, representing a 74% drop for the full year, the closure of 85% of hotels, a collapse in business working capital and an unprecedented level of job losses. It puts at immediate risk 200,000 of the almost 270,000 jobs supported by our industry. The implications are particularly devastating for the regions with 70% of tourism employment located outside of Dublin.

In 2019, Ireland attracted 10.9 million out-of-state visitors, a figure currently estimated to drop by 80% this year decimating business, events, sports and leisure tourism. A significant part of hotel sector income derives from the wedding market and Covid-19 related restrictions have already had an enormous impact on 61% of this year's 20,000 wedding dates that were scheduled to take place between March and August.

With the right Government supports, we project that 90,000 of the 270,000 tourism jobs can be retained this year leading to annual tourism revenues and employment recovering to 2019 levels over a five-year period up to 2025, (€7.7 billion tourism revenue and 270,000 people employed).

Without appropriate supports, we see 2025 tourism revenue at €5.4 billion and employment returning to just 190,000 (-30%). Over a 5 year period this would represent a cumulative additional loss of approximately €7 billion to the Irish economy and additional cumulative unemployment costs of €3.3 billion.

The IHF has developed an outline plan to restore activity and employment to 2019 levels by 2025 and the estimated €2 billion contribution to the exchequer each year. Every €1 generated by tourism results in a further €1.26 in additional revenue in the wider economy, and this plan will also help reduce a potential State bill of €2 billion per annum in unemployment costs, at €10,000 per person.

This proposed recovery plan will require a coordinated approach from Government, the State Agencies and industry stakeholders and will be presented to the Tourism Recovery Task Force recently announced the Government. The key elements at national and enterprise level to be addressed include:

- **Air Access:** with a 95% reduction in air access onto the island specific aid will be required to rebuild the routes from our main source markets.
- **Consumer Confidence:** will require industry structures and operational practices, policies and procedures to restore the desire to travel and the belief that it is safe to stay in quality assured accommodation, attend venues and events and participate in leisure, sports and social activities.
- **Market Development Plans:** as appropriate and when the time is right, to reactivate our domestic and overseas marketing activity in business, events, sports and leisure tourism.
- **Business Planning:** including financial, sales, marketing, people and operations planning and breakeven analysis to assess the timing and cost of reaching commercial sustainability.
- **Barriers to recovery:** including competitiveness and liquidity.

- **Human Resources:** rebuilding and retraining the people capacity for an industry in a new world.
- **Accessibility, Sustainability and Carbon:** Maintaining the process of innovation in accessibility, sustainability, the reduction of carbon while restoring commercial viability.

4. Current Government Supports

We welcome the various business and employment supports that have been introduced already, but they do not go far enough. The tourism and hospitality industry has been far more severely affected and faces a more challenging road to recovery than other parts of the economy and this is not being adequately recognised. Tourism proved itself to be a powerful engine for economic growth following the last recession, creating some 90,000 new jobs. With the right supports it can do so again, but time is of the essence.

In this section we set out an overview of current Government Covid-19 supports for people and business.

Pandemic Unemployment Payment

The COVID-19 Pandemic Unemployment Payment (CPUP) is a payment of €350 per week. It is available to employees and the self-employed who have lost their job on (or after) March 13 due to the COVID-19 pandemic. The number of people in receipt of Pandemic Unemployment Payment on 26th May was 579,400. Of this figure 123,700 (21%) were classified as accommodation and food services. This is a shocking illustration of the scale of the impact of Covid-19 on our industry and the loss to the exchequer due to Covid-19.

Temporary Wage Subsidy Scheme

The Temporary Wage Subsidy Scheme (TWSS) commenced on the 26th March. In the week to 22nd May 2020, 7.9% of the employers 50,500 and 9.9% of 250,600 employees were categorised as accommodation and food services. These figures are in addition to the those supported on CPUP.

On the 2nd May the Government agreed, at a special Cabinet meeting, a suite of measures to further support small, medium and larger businesses that are negatively impacted by COVID-19 in addition to the Temporary Wage Subsidy Scheme and the Pandemic Unemployment Payment.

Those measures are:

Restart Grant for Small Businesses

- a €10,000 restart grant for micro and small businesses based on a rates/waiver rebate from 2019. The grants are equivalent to the rates bill of the business in 2019, with a minimum payment of €2,000 and a maximum of €10,000.

This Grant is available to businesses with a turnover of less than €5m and employing 50 people or less, which were closed or impacted by at least a 25% reduction in turnover out to 30th June 2020. It is a contribution towards the cost of re-opening or keeping a business operational and re-connecting with employees and customers.

The average local authority rates bill for a hotel is estimated at €1,500 per room per annum with some paying €500 and others paying €3,000. This means that the cap on the start-up grant for a hotel equates to a local authority rates bill on less than 7 rooms.

The average size of a hotel in Ireland is 74 bedrooms making this grant totally inadequate for our industry.

Waiving of Commercial Rates for a three-month period

- the waiving of commercial rates for a three-month period beginning on 27 March for businesses that have been forced to close due to public health requirements.

This is a very welcome support from Government and should be extended until the impact of Covid-19 restrictions have abated.

Pandemic Stabilisation and Recovery Fund

- a €2 billion Pandemic Stabilisation and Recovery Fund (PSRF) within the Ireland Strategic Investment Fund (ISIF). The PSRF will focus on investment in large and medium enterprises employing more than 250 employees or with annual turnover in excess of €50 million. ISIF may consider investing in enterprises below these levels if they are assessed to be of substantial scale and of significant importance at national or regional level.

This is a very welcome initiative and will probably suit hotel groups with in excess of ten average size hotels. We have no indication as yet on whether or not support has been made available to hotels through this scheme.

COVID-19 Credit Guarantee Scheme

- a €2 billion COVID-19 Credit Guarantee Scheme to support lending to SMEs with facilities of €10,000 up to €1m, on terms of up to 7 years through Term Loans, Demand Loans and Performance Bonds. The scheme is available to independent viable micro, small and medium sized enterprises (SMEs) having fewer than 250 employees and a turnover of €50 million or less (or €43 million or less on their balance sheet) and established and operating in the Republic of Ireland

This is a very welcome initiative also and will probably suit independent hotel groups with less than nine average size hotels. There are recent indications of a small number of successful applications in our sector but media reports indicate a very low uptake from SME's overall. There has been some negative feedback on the cost of those funds.

The 'warehousing' of tax liabilities

- the 'warehousing' of COVID-19 related VAT and Payroll tax debts, due from 1 March 2020 to the date when sectoral restrictions are lifted, will be parked for a period of 12 months with no interest accruing on the tax debts during the 12

month period and thereafter, the COVID-19 related tax debts will carry a reduced interest rate of 3% (down from 10%), until the debt is paid.

This is a welcome measure for those businesses were able to retain employees. The VAT benefit is not significant for businesses that are closed. Caution is also advised given that while it has positive cash flow benefits in the short-term, businesses will have to repay the revenue liability at some time in the future.

Local Authority Rates Shortfall

- a commitment to local authorities to make up the rates shortfall, so that local authorities can continue provide full services to the public.

This measure will ensure that Local Authorities will be able to maintain service levels in the absence of a significant portion of the €1.5 billion normally received from Local Authority Rates payers.

5. Additional Government Initiatives Required

Given the scale of the potential damage to tourism and hospitality which is an otherwise viable industry and major contributor to the exchequer, there are a number of additional Government measures on liquidity and competitiveness required to protect tourism livelihoods and address the challenges we face. A summary of these measures is set out as follows:

Liquidity Measures

The Government restrictions introduced to suppress Covid-19 have significantly weakened the capital base of businesses in tourism and hospitality. These are otherwise viable businesses but liquidity measures including grants, access to debt finance and equity support are now required to help restore their working capital to help them survive, re-start and recover. These include:

- A direct grant scheme for businesses, targeted at SMEs and with a significantly higher limit than the €10,000 Restart Grant for Small Businesses

- Additional deferred capital payments on loans, where the impact of Covid-19 extends beyond the current deferrals being provided by the banks
- Government supported and targeted bank support initiatives
- Loan Guarantee Schemes through additional funding channels
- Re-assessment of the SBCI loan system to ensure that products are available and appropriate for tourism and hospitality
- Expansion of the Pandemic Stabilisation and Recovery Fund (or similar) to provide appropriate investment for SMEs

These supports are required to help avoid long term structural damage to Ireland's brand as a great tourism destination and the already substantial investment by the industry and the state in infrastructure that also provides an important role in supporting the social fabric of Irish Society.

Other countries have recognised the important role that businesses play in the livelihoods of people and the functioning of the economy and have taken a more supportive approach to providing immediate fiscal impulse.

In Germany, as part of a €456.5 billion package of measures there is a €25 billion fund to re-start every company which has had a revenue decline of more than 60% relative to 2019. They will receive compensation of up to 70% of their fixed costs of business. The benefit will be capped at €150,000 per company.

In France, as part of an €88 billion package of measures, €1.614 billion has been allocated to support the tourism industry including €800 million in direct supports to companies hard hit by the crisis.

In Spain, as part of a €28.6 billion package of measures, €400 million has been allocated through liquidity provision, to support firms and self-employed workers in the tourism sector affected by COVID-19.

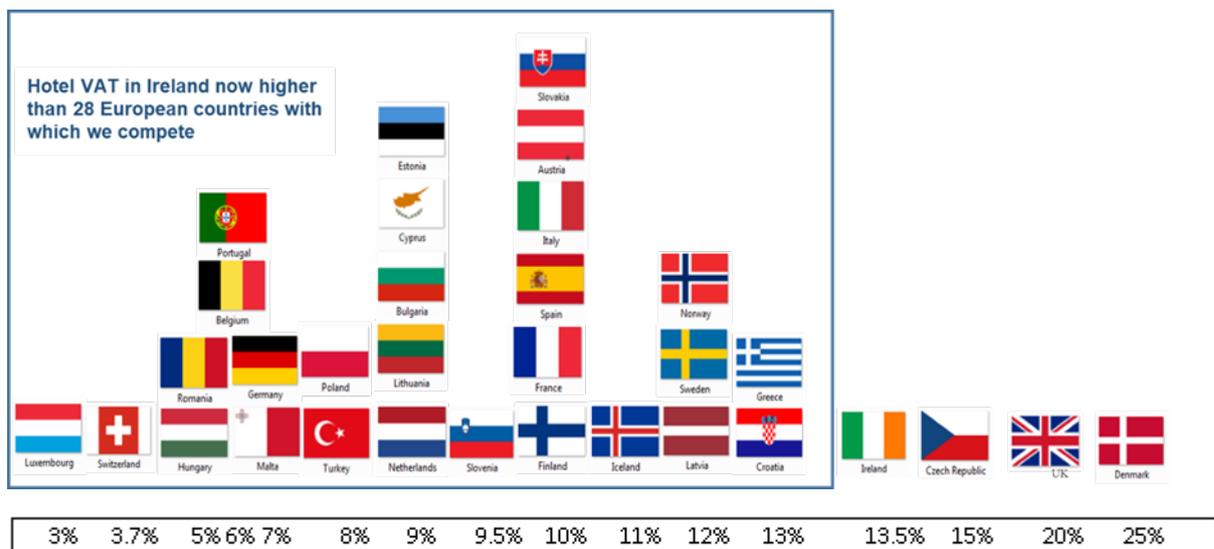
Competitiveness Measures

The international tourism market is exceptionally competitive and every tourism euro spent by overseas and domestic tourists in Ireland is hard won. International competitiveness is therefore a key determinant of the long-term sustainability of our industry including in relation to taxation, such as VAT on tourism spend, and our overall cost base.

Reduction in tourism VAT

- A return to 9% VAT on tourism related services: on a permanent basis to assist recovery and secure a viable and sustainable future. Tour operators are already looking to prepare their brochures for 2021/2022 and are looking for measures to assist in improving their offering for what they believe will be a highly competitive market when desire to travel recovers. The 9% tourism VAT rate was pivotal in starting the recovery back in 2011 and can now prove to be an important catalyst in facing up to the challenges ahead. Hotel VAT in Ireland is now higher than 28 European countries with which we compete, as set out in table 3 below:

Table 3 – Comparison of European VAT Rates on Tourism Accommodation



Employment Supports

- Continuation of the Wage Subsidy Scheme until the impact of Covid-19 has abated in this labour-intensive industry. Tourism and hospitality businesses will

be operating at less than normal levels of activity for some considerable time. The Temporary Covid-19 Wage Subsidy Scheme is very welcome and should be continued until the impact of travel, physical distancing and mass gathering restrictions has abated. Businesses will be required to roster increased staffing levels in order to implement new safety protocols at a time when occupancy levels will also be restricted. Labour is a significant cost for hotels during normal trading conditions due to the high levels of service provided. Gross value added (GVA) refers to the value added generated by a sector. In effect, it is turnover less bought in materials. GVA is a more accurate measure of the economic contribution of a sector than turnover. Hotel labour costs represent approximately 39% of turnover and 78% GVA. These metrics indicate the difficulty hotels will have when trying to operate with Covid-19 restrictions in the absence of a job subsidy.

- Seasonal employees are not currently eligible employees for TWSS as they will not have been on their employer's payroll on 29 February 2020. We ask that the Government consider including seasonal employees in the TWSS scheme in a manner similar to employees returning to work following maternity or adoptive leave. The marginal cost to the state will not be significant given that these employees are likely to be receiving social welfare. Eligibility criteria could be developed based on using historical employment records to construct a Qualifying Payroll Submission.

Local Authority Rates

- The Local Authority rates and charges waiver period should be extended to coincide with business interruption due to Covid-19 and a with revision of ongoing charges to reflect reduced business activity during the recovery period. Government measures have closed or severely restricted the ability of hotels to operate. The historical open market rental value of those premises used to calculate Local Authority Rates charges is not appropriate during the Covid - 19 crisis and hotels simply cannot pay this enormous fixed cost burden.

Other Measures

- Direct business supports are required for marketing assistance and business continuity training through the State Agencies.
- Increased budgets for Fáilte Ireland and Tourism Ireland are required to ensure marketing capacity and direct business supports are in place to enable recovery in tourism.
- An urgent review of insurance is required to protect businesses from COVID19-related claims. Insurance companies are now introducing clauses into their policies, for avoidance of doubt, excluding cover for respiratory diseases such as Covid-19. The personal injuries system in Ireland supports significant awards whereby ‘occupiers’ (SMEs, charities, sports organisations, event organisers) are now regularly assumed to have an absolute duty of care when it comes to ‘visitors’ (customers, clients and others), while the concept of personal responsibility has been significantly diminished. Businesses that adopt appropriate public health advice and guidance should be assured that they will not be subject to opportunistic claims.

6. Procedures for the re-opening of business

The Irish Hotels Federation has worked closely with Fáilte Ireland to establish agreed operational standards for hotels in line with HSE requirements and international best practice. The standards cover all aspects of hotel operations and facilities and we expect they will be announced shortly. Hotels have already begun to adapt their services and facilities in anticipation of reopening under COVID-19 guidelines and we expect that many will be ready and delighted to welcome guests after 29th June when hotels will be allowed open.

While the operational standards have yet to be published, we are confident that people can look forward to a relaxing, enjoyable and well-deserved break in an Irish hotel this summer, secure in the knowledge that they are staying in a safe environment. We expect that breakfast buffets and carveries will give way to table service and expanded room service while some hotels may also use large function rooms to provide additional dining options; although bars may not reopen until August, guests will be able to enjoy a drink with their meal. Guests, including children, can also look forward to enjoying a

wide selection of leisure facilities. Hotels will be adapting their existing offerings and adding new options to work within the guidelines so, for example, while steam rooms and saunas may be closed for the foreseeable future, pools and gyms will be open with special booking arrangements so that guests can plan their visits. We also expect that Spas will reopen too, again with special booking arrangements and a selection of treatment options.

7. Impact of Social Distancing

Our main priority will always be the health and safety of staff and guests. We want hotel employees to work in a safe environment and for those who are planning to book a holiday in an Irish hotel that they can be assured that they will have an enjoyable and safe experience.

Hoteliers will be required to meet Public Health advice on maintaining social/physical distancing (currently 2 metres) between people when they open. Physical distancing of two metres does not apply to members of the same household. We welcome the great progress being made by the Government, the Chief Medical Officer, health professionals and society in suppressing the disease and look forward to the time that the physical distancing restrictions can be lifted.

We currently project total tourism revenues (excluding airline carrier receipts) of €2bn this year compared with €7.7bn in 2019, representing a 74% drop for the full year. This is based on 1-metre WHO social distancing guidelines, which would facilitate tourism capacity and experience in relation to hotels, restaurants and bars. This would enable tourism businesses to support a projected 90,000 jobs (direct and indirect) in 2020. A 2-metre criteria would have a significant further impact by limiting tourism capacity and visitor experience. We estimate that 2-metre distancing would result in 30% less revenues compared to 1-metre. Many smaller tourism businesses will have to wait until this requirement is lifted before choosing to re-open and the remainder will be required to drastically cut back on operations.

8. Economic Contribution of Irish Tourism

- Tourism is a vital indigenous industry, accounting for 4% of GNP as of 2019;
- Tourism growth is one of the most effective ways to spread employment opportunities and prosperity across the entire country.
- Over 90,000 new jobs were created after 2011, demonstrating the capacity of tourism to act as a major source of employment generation.
- As of 2019, tourism supported 11% of total employment, representing almost 270,000 jobs, including over 60,000 employed directly in hotels and guesthouses.
- Tourism employment and economic activity is regionally spread and a vital part of the local economy of every county: 71% of tourism-related jobs are based in areas outside of Dublin.
- In 2019, €9.2 billion in revenue was generated by tourism. This was made up of €7.25 billion in foreign exchange earnings (including carrier/fare receipts of €1.7 billion) and €1.96 billion in domestic tourism revenue.
- In 2019, Ireland attracted 10.9 million out-of-state visitors.
- Every €1 in tourism expenditure by visitors and domestic tourists generates about 23 cents 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.
- The sector also provides a substantial entrepreneurial resource as the vast majority of tourism enterprises are small and medium enterprises.
- The country's 62,897 hotel and guesthouse bedrooms in Ireland have an estimated €13bn replacement cost.