Supplementary evidence from the CLA (RUT 0302)

What measures should the Government adopt to tackle problems with recruiting and retaining labour?

One of the major constraints faced by rural tourism businesses is the lack of the availability of skilled labour in the first instance and then the inability of businesses to retain sufficient levels of labour. Despite well meaning government attempts to address this problem, it is likely to get worse rather than better.

Without an adequate labour force, rural tourism businesses who wish to grow simply are unable to do so. There are clear issues that need to be resolved in encouraging those that live in the locality to undertake jobs where pay is low and the labour period is often seasonal. This means that there is no incentive for local people to apply for jobs with tourism businesses.

This lack of a suitably qualified and local labour supply has meant that rural tourism businesses have recruited large numbers of migrant labour from the EU. As the UK prepares to leave the EU however, this is clearly under threat. Economically, a reduction in labour supply will lead to a reduction in output and productivity, thus, putting a brake on economic growth. In addition, those land based businesses who see rural tourism as a means of profitable diversification are now beginning to question the wisdom of such an approach if the lack of staff means that any new business will be unviable.

Clearly decisions will need to be taken by Government as to the level of migrant labour that will be permitted in the UK post Brexit. The CLA strongly believes that in order to protect both the investments made thus far by rural tourism businesses and the potential for growth of rural tourism businesses, there has to be a definitive scheme that permits labour for the rural tourism market.

Together with such a scheme, the Government also needs to expand its present apprenticeship programme. A widespread apprenticeship programme for the rural tourism sector will act in a way to reduce the concerns many businesses have regarding the shortage of labour.

What level of funding is needed to replace EU funds such as Leader in order to maintain rural tourism development?

Under the current Rural Development Programme for England (RDPE) £453m has been allocated under socio-economic schemes for the programming period 2014-2020. This includes funds under Leader (£138m), Countryside Productivity (£138m) and the Growth Programme as part of the European Structural and Investment Fund (£277m). One of the priority areas for the allocation of these funds is rural tourism. We estimate that the total
allocation of RDPE funding will be in the range of between £90m to £100m up to 2020. Importantly, RDPE funds are match funded by the UK Exchequer.

The UK’s decision to leave the EU can deliver a number of opportunities for rural tourism businesses if the right funding structure can be agreed and put in place. As we made clear in our original submission to the Committee, what is required is a dedicated funding mechanism that is able to interact with other tourism funding mechanisms, for example, the Discover England Fund.

However, the question that needs to be addressed is the level of public funding that will be available after 2020. This is very dependent on decisions made by HM Treasury on the level of funding available for direct income support for farmers and funds that are released for agri-environment and rural development. At the present time, these decisions have yet to be made but we believe that the actual return England receives from rural tourism funding through public support strongly supports the view that public funding of rural tourism infrastructure and monies towards product development is necessary and economically sound. Based on the current levels of RDPE funding towards rural tourism at around £14.5m per year, we believe that this should be increased to at least £25m per year post 2020.

But as importantly will be the ability to act on the synergies between the various grant pots that are made available. This was made clear in Defra’s 10 point productivity plan published in 2015 where the lack of co-ordinated thinking acts as a barrier to rural tourism development. We believe that Defra and DCMS have to act jointly to put in place a clearly defined structure where there are set attainable actions through proper collaboration between Government and the industry. The CLA has already stressed to both Defra and DCMS that a definitive inter-departmental funding policy initiative is very likely to have the support of the rural tourism business sector. What we require now is a progressive proposal from Government.

**How many farmers are without an effective broadband connection?**

There is little doubt that telecommunications in general and broadband in particular are vital for the viability of rural tourism businesses. Without access to an effective and affordable broadband connection as well as an efficient mobile signal there are two immediate negative effects: firstly, the rural tourism business is unable to compete which simply exacerbates the rural-urban digital divide; secondly, it will have an adverse impact on visitor numbers as the inability to provide adequate digital communications will simply put visitors off.

However, there needs to be an understanding of what is actually required and how these needs can be met. From a technical viewpoint, the communication between a tourism business and a customer would be deemed as a “back office” function and require a limited bandwidth. Even online, it should be possible to have a sufficient level of communication
speed at 10Mbps. The main issue relates to the provision of connectivity to the visitor on site. There are a number of different scenarios that can be assessed, all of which will require a different technical solution and all of which have advantages and disadvantages. Three examples are set out below.

**Self-Catering Holiday cottages**

- Rural tourism business with 4 self catering holiday cottages and main house
- Broadband connectivity based on Fibre to the Cabinet (FTTC) and then transmitted over copper: broadband speed to the cabinet at 48Mbps
- Distance from the cabinet to the main house: 1.5km (telephone line distance)
- Speed received at main house: 20Mbps download, 8Mbps upload
- Connectivity based on the FTTC connection wifi networked to the 4 cottages – distance from the main house between 150m to 200m. Average connectivity rate between 5Mbps to 8Mbps per cottage
- Suitable for data streaming
- Advantages: sufficient speed to allow all cottages connectivity
- Disadvantages: possible issue with contention, both within the wifi network as well as within the locality

**Caravan/camping site (50 pitches)**

- Rural tourism business with caravan/camping site and main reception area
- Connectivity achieved through a satellite base station of 8 satellites. A self contained wifi network created through a series of router points across the area of the site
- Average broadband speeds: 20Mbps download for each satellite base and 8Mbps uploaded
- Available connectivity for each individual unit: average of 5Mbps
- Suitable for date streaming
- Advantages: network capacity can be regulated and no obvious contention issues
- Disadvantages: possible high cost and maintenance requirements

**Hotel (room occupancy 20-25)**

- Rural tourism business with small to medium hotel
- Connectivity achieved through Fibre to the Premise (FTTP)
- Average connection speed to central hub: 75Mbps
- Rooms have access to wifi through a routed network using the FTTP broadband connection
- Average speeds per room: 10-20Mbps
- Advantages: high speed broadband available
- Disadvantages: prohibitive cost if provided through a leased line: very dependent on the available of FTTP in the area

The CLA believes that there are a number of alternative technical solutions, based on fixed line broadband, which are available and that will provide sufficient bandwidth. However, we are not convinced that the necessary mobile infrastructure exists that can provide an efficient and effective service for visitors. That is why it is crucial that the legal agreement between the Government and the mobile industry, and the commitments set out, is fulfilled. If this were not to be the case, rural tourism operators will find themselves at a significant disadvantage.

In addition, it is still the case that there is a distinct lack of awareness as to the opportunities broadband can deliver. It is simply not just the case of being able to access effective connectivity, it is also the ability of using the technology to improve and enhance the tourism product. Without this understanding not only will the business itself fail to benefit but so will the prospective visitor. That is why we believe it is incumbent on the Government together with the industry to agree an information and education programme for business in order to secure these advantages.

**Reducing the VAT rate to stimulate rural tourism businesses**

The ability of rural tourism businesses to compete is essential if they are to remain viable. This is not only the case in terms of competition with urban tourism areas but, also with EU tourism businesses. However, the high level of VAT of 20% imposed by the UK government on tourism services immediately puts this competitiveness into question.

Under EU law, VAT on tourism can be reduced by a national government. Indeed, 25 of the 28 Member States have reduced tourism VAT (the exceptions are Denmark and Slovakia). The UK has not however and the 20% rate if almost twice the EU average.

Modelling by the Cut Tourism VAT campaign has suggested that if VAT was reduced to 5% on accommodation and attractions, the HM Treasury revenue gain would be some £3.86 billion over a ten year period. This is set out in table 1 below.

**Table 1: Reducing tourism VAT to 5% on accommodation and attractions**
<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal gain/loss (per year) (£m)</th>
<th>Fiscal gain/loss (cumulative) (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>- 764.1</td>
<td>- 764.1</td>
</tr>
<tr>
<td>2</td>
<td>- 152.4</td>
<td>- 916.5</td>
</tr>
<tr>
<td>3</td>
<td>+ 221.3</td>
<td>- 695.2</td>
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</tr>
<tr>
<td>6</td>
<td>+ 597.9</td>
<td>+ 871.0</td>
</tr>
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<td>7</td>
<td>+ 664.1</td>
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</tr>
<tr>
<td>8</td>
<td>+ 723.7</td>
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</tr>
<tr>
<td>9</td>
<td>+ 777.1</td>
<td>+ 3,035.9</td>
</tr>
<tr>
<td>10</td>
<td>+ 824.8</td>
<td>+ 3,860.7</td>
</tr>
</tbody>
</table>

Source: www.cuttourismvat.co.uk

However, in discussions with former Treasury Minister David Gauke MP, it was stated that the first loss in tax revenues negated a reduction in VAT. Although accepting that cutting VAT on tourism “would lead to long-term benefits to the UK economy and possibly to HMT net income.....the initial (year one) cost was too high for HMT to contemplate given the present economic climate and political objectives.” (VAT on Visitor Accommodation and Attractions in the UK, p.6, Tourism Respect and Nevin Associates, March 2016).

Nevertheless, over the medium to longer term, a VAT reduction does present clear fiscal and economic benefits. In terms of the potential effect on the balance of trade, according to the Cut Tourism VAT campaign the UK’s foreign exchange earnings would increase due to the growth in overseas visitors in addition to increasing numbers of Britons choosing to holiday in the UK.

Table 2: UK balance of payments increase resulting from VAT reduction (10 year period)

<table>
<thead>
<tr>
<th>Year</th>
<th>Improvement per year (£)</th>
<th>Improvement (cumulative) (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>632m</td>
<td>632m</td>
</tr>
<tr>
<td>2</td>
<td>1.1bn</td>
<td>1.732bn</td>
</tr>
<tr>
<td>3</td>
<td>1.5bn</td>
<td>3.232bn</td>
</tr>
<tr>
<td>4</td>
<td>1.7bn</td>
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</tr>
<tr>
<td>5</td>
<td>2.0bn</td>
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<td>9.132bn</td>
</tr>
<tr>
<td>7</td>
<td>2.4bn</td>
<td>11.532bn</td>
</tr>
<tr>
<td>8</td>
<td>2.6bn</td>
<td>14.132bn</td>
</tr>
<tr>
<td>9</td>
<td>2.9bn</td>
<td>17.032bn</td>
</tr>
<tr>
<td>10</td>
<td>3.1bn</td>
<td>20.132bn</td>
</tr>
</tbody>
</table>

Source: www.cuttourismvat.co.uk

The CLA has been made aware of a view expressed by the Chairman of the Wiltshire Local Enterprise Partnership in evidence to the Committee on 11 January 2017 that consideration should be given to reducing the tourism VAT rate on a seasonally adjusted basis. The argument goes that this type of fiscal instrument could aid the process of extending the
season where during the main tourism period, many accommodation businesses find occupancy rates extremely high which offsets the far lower levels out of season. It is suggested that lowering the VAT rate at low season would encourage greater numbers of overnight and short stay tourists while reducing the negative return HM Treasury would receive in year one of such a scheme.

We would certainly support such a measure in principle although such a proposal has to be modelled. There are indeed advantages for rural tourism businesses becoming more competitive vis-a-vis London and other metropolitan cities. However, we would not support this measure if the adjustment was made on a geographic basis as this would undoubtedly lead to significant market distortion which, we believe, would not advantage small rural tourism businesses.

The impact of new business rate levels on rural tourism businesses

The revaluation of business rates is based on the valuation date of 1 April 2015 and will take effect from April 2017. Significant concern has been expressed that the revaluations for a number of rural tourism businesses has led to very significant increases in business rates. As requested by the Committee, we have set out below two examples of significant increases.

A rural tourism business has 8 self catering cottages. The rateable value before the revised rates was £15,711. However, the revised rate increases to £40,400, a percentage increase of some 157%. It should also be stressed that small business rate relief is only available on the first property. In this case, the business would still be impacted by the increase in business rates for the other seven cottages.

A second case concerns a rural paintball business in the North East. The current business rate bill is £2,100. However, the revaluation now sets a business rate of £9,250, a massive increase of 340%. Such an increase has questioned the validity of the business itself and the owner has little choice but to appeal.

These are two of a number of cases the CLA has received. On average, the percentage increase is just over 134%. These examples are a serious concern in that the increases are likely to put in jeopardy the viability of a number of rural tourism businesses. Irrespective of whether any future appeal is successful, the sheer scale of the proposed increases questions the efficacy of the valuation system on which they were based.

Concluding remarks

The CLA wishes to reiterate the points that it made, firstly, in its written submission to the Committee and secondly, in its oral evidence to the Committee on 16 December 2016. One of the greatest barriers to a buoyant and productive rural tourism sector in England is the fragmentation between Government and the rural tourism industry.
Rural tourism businesses are unique entities. They have unique features and they face unique challenges and barriers that do not exist or have the same effect and impact as in urban and metropolitan areas. That is why they need tailored solutions.

The very fact that the Committee is holding its inquiry into rural tourism fully illustrates that it understands the social, cultural and economic importance of rural tourism to England. As such, it is hugely disappointing that the Government, through DCMS, does not appear to share that view. Focusing on an idea that economic growth can only be achieved through a form of central control without full consultation with the rural tourism industry, does serious damage not only to the economic contribution delivered by rural tourism operators but also to the legitimacy and credibility of the sector.

We believe that those bodies that represent rural tourism interests can actually assist Government in providing answers and resolving the challenges. But this can only be achieved if there is genuine dialogue between DCMS and these bodies. We believe that if industry had faith that its representative bodies were receiving a fair hearing from Government, a more structured approach to engagement could help address the problem of fragmentation and, in future, lead to a clearer vision of meeting the needs of rural tourism businesses. However, continuing along the present course will simply accentuate the lack of dialogue which will be to the detriment of all those who work in the sector and the CLA believes is a situation that cannot be allowed to continue.

*January 2017*