

Migration Advisory Committee
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Call for Evidence: EEA workers in the UK Labour Market

1. Introduction

The Tourism Alliance was established in 2001 as the voice of the UK tourism industry and comprises 55 tourism industry trade and marketing associations that together represent some 200,000 business of all sizes throughout the UK (see Appendix 1 for membership list). The Tourism Alliance's mandate is to work with Government on issues relevant to the growth and development of tourism and its contribution to the economy. It is therefore responding to this consultation in that capacity.

2. UK Tourism Industry Background

Tourism is one of the UK's largest and best performing industries. It is made up of over 250,000 businesses which provide jobs for 3.1m people (over 9.6% of the UK workforce) and contributes £127bn to the UK economy (7.1% of GDP).

Globally, the UK inbound tourism industry is the sixth largest in the world based on value, contributing £25.4bn per annum to the UK economy in export earnings with the revenue generated by these overseas visitors providing direct fulltime employment for 470,000 people in the UK.

Importantly, the World Economic Forum ranks the UK tourism industry as the fifth most competitive in the world, meaning that it is highly productive and able to provide significant growth for the UK if provided with a supportive regulatory environment.

The tourism industry's growth is dependent upon visitors from other EU countries - of the UK's top 10 source markets for inbound tourism, eight are other EU countries. The 23m visitors from other EU destinations (67% of all visitors to the UK) contribute around £10bn to the UK economy each year including taxes such as Air Passenger Duty and revenue to UK carriers. This expenditure directly supports around 185,000 full time equivalent UK jobs. On the outbound side, UK nationals undertake 57m visits to other EU countries each year, where they spend £25bn. This represents, respectively, 78% of all outbound travel and 57% of total UK expenditure overseas as well as generating at least £14bn of expenditure in the UK which generates employment for a further 249,000 jobs in the UK.

3. Tourism Employment

The overriding characteristic of the UK tourism industry is that it is largely composed of very small businesses. Work by the UK Commission for Employment and Skills shows that, of the 250,000 tourism businesses in the UK, over 70% are micro-businesses and a further 25% are SMEs.

The employment generated by these businesses has a number of important economic features. These include:

- **Regional Spread**
Unlike other industries, the revenue and jobs created through tourism are spread widely across the country with all UK regions having at least 90,000 people working in the tourism industry.
- **Transfer of Wealth**
Tourism is the largest private sector source of wealth transfer between urban and rural/seaside areas. Last year urban visitors spent £25bn in rural and seaside destinations, supporting over 460,000 fulltime jobs in these areas.
- **Youth Employment**
Tourism is a major source of employment for minority groups and provides an important first step on the career ladder for young people. Approximately 44% of the people employed in the tourism industry are aged under 30 compared to around 24% across other industries

Notably, the tourism industry has been at the forefront of the UK's economic recovery. Research by the Office for National Statistics has shown that, since the global economic recession in 2008, the sector has provided growth for the UK economy at a faster rate than most other industries and increased export earnings by 26.5%. Importantly, the ONS research found that almost a third of the additional 900,000 jobs that were created in the UK between 2010 and 2013, were created by the tourism industry and that these jobs were located across the country in rural, urban and seaside communities.

Due to this growth, and potential for future growth, the Government and the industry are currently working together to develop a Tourism Deal under the new Industrial Strategy.

4. Current Tourism Employment Patterns

As a result of the referendum the pound has fallen by approximately 15% against the currencies of most of the EU's source markets. Research that has been conducted by VisitBritain on the price elasticity of tourism to the UK is -1.3, ie., for a 1% fall in the price of visiting the UK, revenue from inbound tourism will increase by 1.3%, with half of this increase occurring in the first year. Using these figures, we would therefore expect tourism revenue to the UK to increase by 10% in 2017.

The latest ONS International Passenger Survey figures for the year up to the end of July show that inbound tourism revenue has increased by 9%, which is consistent with this model. Forward bookings in the sector indicate that, despite the terrorist attacks, visitor numbers for the remainder of the year should continue at this level, generating an additional £2bn for the UK economy. This is sufficient to create an additional 37,000 jobs in 2017.

In terms of the domestic tourism market, price elasticity work undertaken by VisitBritain indicates that, with the fall in the value of the pound, domestic tourism should increase by around 8% this year. While the current figures for domestic tourism show that expenditure is only 4%, it is worth noting that the current figures are only until the end of June and that, after a slow start to the year, revenue was up by 11% over the three months from April to June.

Even if the domestic tourism revenue figure is up just 5% for the year as a whole, this will translate to an additional £1.2bn in domestic tourism revenue which will create a further 22,000 jobs. As such, the industry is set to create around 60,000 additional jobs for the UK this year. These figures add weight to research by People 1st which concludes that the sector will need to recruit 1.3m new staff by 2024.

Compounding this recruitment issue are demographic changes that mean that by 2022, there will be 700,000 fewer 16-24 year olds. For a sector where 44% of employees are under 30, this will have a significant impact on the ability of the sector to find new employees from within the UK.

It is currently estimated that around 11% of the people who work in the UK tourism industry are EU nationals. While this may not seem a large percentage, this figure hides significant variations between destinations and individual businesses. For example, it is estimated that over 30% of the people working in the tourism industry in London are EU nationals, while over 80% of the staff at businesses such as Pret a Manger and Café Rouge staff are EU nationals.

More importantly, research by People 1st indicates that, as the unemployment rate has decreased over the last five years, the tourism industry's reliance on EU nations to fill vacancies in the sector has increased to the point that just under half of all new employees in the sector are now thought to be EU nationals. This not only demonstrates the dependence of the industry on workers from the EU but also highlights the fact that there are increasingly fewer UK nationals able and willing to work in the sector. This strongly suggests that EU nationals are not taking tourism jobs that could be filled by UK citizens, but rather they are filling positions where there are no UK nationals available.

Even while we are in the EU with access to EU workers, the sector is facing both a skills and a labour shortage. The latest Employer Skills Survey shows that 25% of businesses have vacancies, of which 38% are considered to be hard to fill and 64% are skills-related. This high level of demand for staff means that there are currently 10,000 unfilled positions in the tourism sector and that 21% of businesses reporting that the staff that they are employing lack essential skills. This compares with just 15% of all businesses in the UK reporting this problem.

Although research by DCMS indicates that productivity levels in the tourism industry have increased significantly in recent years, the increasing number of businesses now employing people who lack the skills that they need in order to provide world class service to international and domestic visitors suggests that productivity levels may now reverse.

A recent report indicates that many large sector businesses are being forced to rethink their recruitment strategies, increasing investment in apprenticeships as a retention and progression tool. Over the next three years, People 1st estimates that there will be approximately 53,000 apprentices completing sector-specific apprenticeship standards in the sector. While this change is welcome, there will still be a considerable shortfall in the number of employees available to the sector.

Should the industry suddenly cease to have access to this broad talent pool, particularly when the UK unemployment rate is so low, it would present severe,

fundamental operational challenges. Tourism businesses are already engaged in expanding apprenticeships, work programmes and retention drives. However, initial analysis indicates this shortfall cannot be filled by these measures in the short to medium term, exacerbating current staffing and skills shortages. As staff shortages increase, this will force up wage costs for businesses.

5. Resolving the Shortfall in Tourism Industry Workers

Tourism is fundamentally different to other industry sectors. While other sectors are defined by the goods or services provided, tourism industry is defined by who the customer is. This makes the sector very broad and diverse in terms of the type of businesses, its customer base, its businesses model and its supply chains.

As such, it is generally accepted that there will not be a single means of resolving the employment needs of businesses that span a wide range of interdependent sectors including transport, hospitality, entertainment, heritage and attraction industries.

The Tourism Alliance is therefore advocating that the Government develop a more holistic approach by devising a Tourism Employment Strategy that integrates a range of mechanisms to provide businesses with employees that have the wide range of skills required by different components of the sector.

A Tourism Employment Strategy

It is proposed that the Government develop a Tourism Employment Strategy that comprises a range of different options for filling the shortfall in workers with the skills required by the sector. This strategy would combine mechanisms for encouraging UK residents coming through the education system to undertake careers in the tourism industry and for tapping into the UK labour market (eg., people wanting to return to work or newly retired people wanting to gain additional income or workers shifting from sector impacted by AI), with mechanisms for gaining access to EU workers.

It is recognised that initiatives to increase the uptake of tourism jobs through the education system will take time to come to fruition and therefore continued access to EU nationals will be important at the start of the strategy but it is envisaged that, as efforts to recruit new employees from within the UK develop, the routes to access EU workers can be scaled down in future.

The Strategy would comprise the following components

1. Immediate clarification on the status of EU nationals.

One of the most significant issues currently facing the industry is retaining existing staff in the face of ongoing speculation on their future status. The UK tourism industry is highly dependent upon overseas workers. These employees are highly valued and actively contribute to the UK providing a high-quality experience for visitors. The Government needs to reach an agreement with the EU on their future status as soon as possible, including those who have arrived in the country since Article 50 has been triggered. In a recent survey of their members by UKinbound, 20% reported that EU employees have already left their organization due to the uncertainty surrounding Brexit and 47% of respondents reported that they are finding it difficult to recruit EU employees because of Brexit.

2. Establishing a National 10 Year Campaign to attract and retain a significantly higher number of UK workers

The Tourism Industry is currently negotiating a Sector Deal with the Government to support the sector in a post-Brexit environment. One of the key proposals in the bid document is the development of a 10 Year Campaign to attract UK workers to the sector. It is therefore essential that this initiative forms a key component of an overall Tourism Employment Strategy. Under the bid it is proposed that a National Board be established. The Campaign will recruit its own staff and have an independent financial structure. Whilst funds will be sought from businesses, our initial attention will be on the grant - awarding charitable sector.

At the heart of our approach is to see Hospitality and Tourism presented in a fresh and contemporary way to the unemployed, school and college students and potential returners to the labour market. The purpose of all this campaigning is to raise the profile of the sector and showcase it in the most dynamic way to boost recruitment levels.

3. Reviewing TIER 2 Skilled Worker Criteria

One of the ongoing problems faced by the tourism industry is the acknowledgement of skilled workers under TIER 2. Presently the requirement is that an employee must be paid the higher of £30,000 per year or the 'appropriate rate' for the job. This requirement prevents many hotels and restaurants seeking specialist staff including chefs or tour operators employing sales agents with particularly strong language and source market knowledge from overseas. UKinbound, the UK trade association for inbound tour operators, reports that 85% of their members cite language skills as the top benefit of employing EU nationals, followed closely by customer service skills (60%) and specific country knowledge (54%) – yet the current criteria for TIER 2 does not take account of these skills.

We would therefore ask that the Government review the skilled worker criteria to make it more appropriate for the tourism industry.

4. A Quota Scheme through TIER 3

One way to achieve this is to reopen TIER 3 and have the Migration Advisory Committee work with People 1st to monitor staffing requirements of the tourism and hospitality industry and develop criteria for allowing people into the UK fill shortages in the industry. We foresee the Migration Advisory Committee working with People 1st, DCMS and the industry to undertake an annual assessment of vacancies within the sector in order to determine the number of Work Permits to be granted to businesses to recruit EU nationals.

5. Expanding the TIER 5 Youth Mobility Scheme

The Youth Mobility Scheme allows people aged 18 to 30 from countries such as Australia, Canada, Japan, New Zealand to live and work in the UK for two years. The scheme has been operational for many years and is well understood by the industry.

This scheme could be extended to include EU nationals, giving them the opportunity to come to the UK and work in the sector. As the 44% of employees in the tourism sector are aged under 30, the extension of the scheme to include EU nationals is particularly well suited to filling vacancies in the sector.

6. Revising the Rules for Students Under TIER 4

At the moment, the rules for students studying in the UK prevent many students working. While Tier 4 students, at an approved HEI on a degree programme can

work up to 20 hours per week, Tier 4 students at other institutions cannot work at all and short-term study visa students cannot work or do work placements.

This means that non-HEI students are restricted to those who can support themselves financially, which makes it inaccessible to many students, who genuinely want to study but cannot afford to do so. Reviewing these rules to allow non-HEI students to work while studying in the UK would both increase the UK's educational export earnings but provide a source of workers for the tourism and hospitality sector which has numerous evening jobs that are ideal for students who are attending classes during the day.

There is also an added advantage to students in that the ability to work in the UK while studying helps them to integrate more into the community and, if they are learning English, it enhances and hastens their ability to attain fluency.

The other key issue for revision is for the post-study work right to be reintroduced. Not only has this drastically worsened the UK's competitive advantage compared with other countries, it is preventing UK businesses (including those in the tourism industry) from hiring the best and the brightest students that will help improve productivity and drive growth.

Gaining employment in the UK is a natural progression for students want to make before they return to their own country in order to consolidate what they have learned from their studies, and research shows that that 97% of students do comply with the rules and return home.

6. The Posted Workers Directive

A separate issue, but no less important to the tourism industry as a whole is the Posted Workers Directive. The outbound travel industry relies heavily upon the flexible employment arrangements that exist between the UK and the EU, especially as concerns the Posted Workers Directive (PWD). A recent industry survey, conducted by MPI Brokers with the support of ABTA, AITO, BIBA, and ITT has found that there are around 20,000 UK workers posted across Europe using these contractual arrangements. A further 5,000 workers are estimated to be working across Europe on locally based contracts, many of whom will be UK nationals. Staff posted under the PWD provide a significant boost to HM Treasury, as they are taxed within the UK, and the holidays they support provide a significant economic boost to the UK economy and that of EU Member States. The ONS notes that outbound travel is worth some £35bn a year in pre-holiday spending alone, with around 75% of all outbound trips going to the EU.

The PWD allows workers to be posted across the EU for a short period of time, without the need to sign up to local systems of social security. However, all applicable national employment regulations for the host country - such as minimum wage - must be met. This enables the employees to maintain their own social security payments in their home country during these periods, and provides a significant administrative benefit for businesses. The same arrangements are in place for EU travel companies sending staff to the UK, supporting inbound tourism.

It is vitally important that an agreement is reached between the UK and EU that enables existing employment arrangements to be maintained, or that they are replaced with flexible arrangements that retain the main characteristics, enabling short-term posting of workers on a seasonal or temporary basis. For the UK outbound industry, UK nationals provide a highly valued service to consumers in resorts, offering assurance and support during a holiday. Likewise, many overseas operators rely on the ability to post local workers to the UK to accompany their own

visitors. As a low margin industry, in many cases it would not be financially viable for travel companies to replace these staff with local hires, owing to the additional burden that businesses would face during the recruitment process and operationally, and in many cases existing business models could not be maintained. The result of this is likely to be restriction of consumer choice, and increased holiday costs.

The Tourism Industry would welcome the opportunity to discuss this issues and suggested solutions more fully with the Migration Advisory Committee and therefore we would suggest a meeting with industry leaders at a date of your convenience. I look forward to hearing from you



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