Budget 2025
Tourism's submission

Securing a Sustainable Recovery

Restoring competitiveness and increasing investment to enable Ireland's tourism industry overcome cost and capacity challenges

July 17th 2024

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Tourism's 3 Key Budget Asks

The Irish Tourism Industry Confederation (ITIC), representing 20,000 tourism and hospitality businesses throughout Ireland, is calling for the following 3 decisions in Budget 2025 to support a key domestic export industry and our most significant rural employer.

More detail on each budget ask is contained throughout this submission.

List of ITIC members:
Aer Lingus, Association of Irish Professional Conference Organisers (AIPCO), Approved Tourist Guides of Ireland (ATGI), Association of Visitor Experiences and Attractions (AVEA), B&B Ireland, Car Rental Council of Ireland, CHQ, CIE Tours International, Coach Tourism & Transport Council (CTTC), Convention Centre Dublin, Do Dublin-Dublin Bus, Dublin Airport Authority, Dublin City Council Culture Company, Dun Laoghaire Rathdown County Council, Emirates, Fáilte Ireland (Assoc Member), Fingal County Council, Guinness Storehouse, House of Waterford Crystal, Incoming Tour Operators Association-Ireland (ITOA), Inland Fisheries Ireland, Ireland's Association for Adventure Tourism (IAAT), Ireland's Blue Book, Irish Boat Rental Association (IBRA), Irish Caravan & Camping Council, Irish Ferries, Irish Heritage Trust, Irish Hotel Federation (IHF), Irish Rail, Irish Self Catering Federation (ISCF), Jameson Distillery Bow St, Kildare Village, Kerry Tourism Industry Federation, Office of Public Works (OPW), Planet Payments Ireland, Restaurants Association of Ireland (RAI), Shannon Group plc, South Dublin County Council, Stena Line, Tourism Ireland (Assoc Member), Trinity College Dublin, TU Dublin, Vintners' Federation of Ireland, Waterways Ireland.

Economic Context

Budget 2025, to take place on October 1st, is of particular importance to Ireland's tourism and hospitality industry. With demand mixed, and costs of business at unprecedented levels, Irish tourism is at a tipping point and Budget 2025 needs to provide support to Ireland's largest indigenous industry and biggest regional employer.

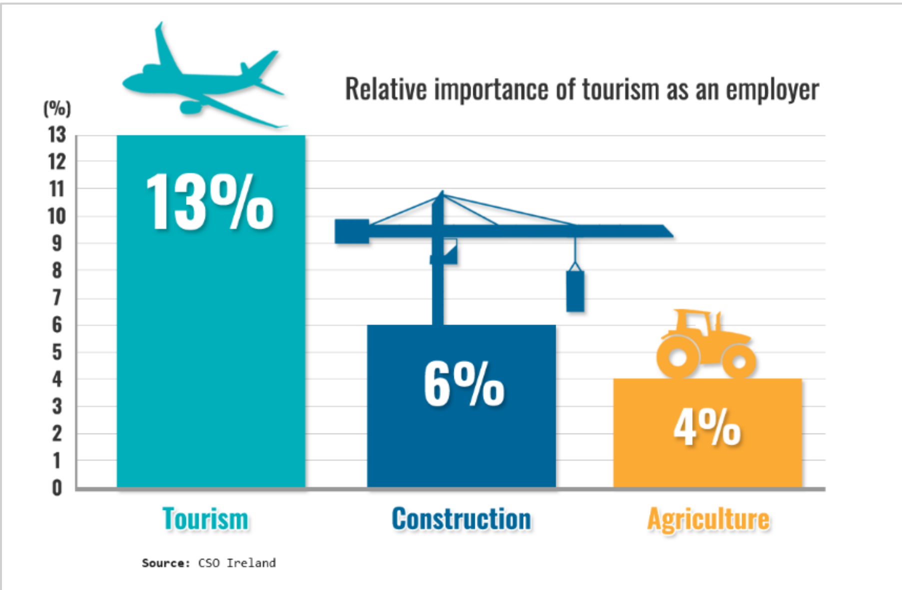
With 69% of the tourism industry outside of Dublin, the sector is of fundamental importance to rural Ireland and the national economy. This budget submission from the Irish Tourism Industry Confederation (ITIC) looks at the opportunities and challenges for the sector and outlines how policy decisions in the upcoming Budget should be made.

Crucially this submission sets out a number of strategic recommendations as to how Irish tourism's performance can be sustainably enhanced.

Last year the CSO published a 'deep dive' *Tourism Satellite Account*– an internationally recognised harmonised framework for measuring tourist activity. The output highlights the importance of tourism to the national economy, utilising supply and demand side data, drawing on National Accounts and more refined employment data, including activity in tourism related industries. The key findings of the TSA include:

- Tourism consumption amounted to €10 billion annually – 73% from inbound tourists and 27% from domestic trips.
- Tourism accounted for 4.4% share of Gross Value Added (GVA) in the Irish economy.
- 284,800 directly employed in almost 46,000 tourism-related enterprises, based on full time job equivalents – 13% share of total employment across the economy. Total employment related to tourism is estimated to increase to 352,000, when jobs in non-specific tourism businesses are taken into account.
- Tourism generated approximately €2,000 per head of population.

Tourism's importance to the economy is validated by the CSO and the sector's employment statistics compared to other industries makes a compelling case.



The upcoming Budget presents the Government with an opportunity. All latest data, as shown in the Summer Economic Statement of June 10th, shows that the State has both a significant forecasted Budget surplus and will be framed around a sizeable tax and spending package of €8.3 billion, This will consist of additional public spending of €6.9 billion and taxation measures amounting to €1.4 billion.

The spending element corresponds to an annual increase of 6.9%, significantly above the Coalition's 5% spending rule. The Department of Finance said the Coalition's expenditure strategy was being adjusted to "accommodate higher capital spending and to provide additional public services against the backdrop of a larger-than-assumed population".

The higher Budget package comes in the wake of buoyant exchequer returns data in July showing tax receipts up almost €4 billion or 9% on last year. Ministers have said clearly that the SME sector will be supported in Budget 2025.

Based on Government figures ITIC is of the view that Ireland is resource-rich with a real opportunity to support the domestic SME sector. However, as a small open economy, the emerging new global context including more protectionism and less open borders to trade poses a challenge. In such a context it is vital that the right decisions are taken in Budget 2025 which support indigenous sectors such as tourism, an industry that cannot be out-sourced or off-shored.

Competitiveness through appropriate taxation measures, a moderating of the pace of the gamut of labour measures, and strategic investment behind sustainability and training are all vital measures that need to be enacted.

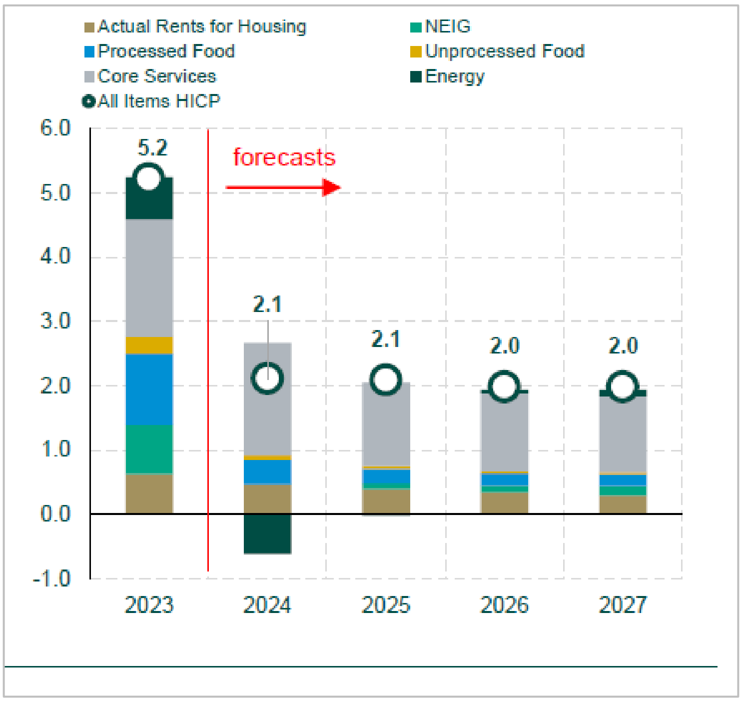
Business representative group IBEC have carried out analysis of the appropriate envelope of funding in this year's budget of being circa €4.5 billion (see yellow circle in Table 1). As per the Summer Economic Statement Government anticipates a much higher package.

Table 1: Meeting the expenditure rule, € billion.

	2025	2026	2027
Allowable 'core' expenditure under 5% domestic fiscal rule	4.5	5	5.1
Notional revenue raised from non-indexation of the tax system	1.2	1.25	1.3
Total resources available	**5.7**	**6.25**	**6.4**
Total 'core' tax and spending changes needed to index	**7.1**	**6.75**	**6.4**
Demographic pressures	0.9	1	0.9
Public wage and pensions	1.9	1.4	1.2
State pension demographics	0.5	0.5	0.5
State pension indexation	0.8	0.7	0.7
Social Welfare indexation	0.3	0.4	0.4
Other prices of public services	0.7	0.7	0.7
Capital spending	0.8	0.8	0.7
Income tax, USC and PRSI indexation	1.2	1.25	1.3
Gap (+/-)	**1.4**	**0.5**	**0**

Source: IFAC estimates of standstill spending pressures June 2024, Ibec calculations

Thankkfully inflation which has dogged Ireland in recenty years is now in a downward trajectory as shown in Government's own forecast for the coming years..



Buoyed by surging corporation tax receipts, and after setting aside money for the Contingency Reserve, the Future Ireland Fund. and the Infrastructure, Climate and Nature Fund, Government - by its own estimation - still has €8.3 billion as a Budget Day package.

In ITIC's view the 'one-off' measures for the hard-pressed public announced in recent budgets are less justifiable and instead Government should focus on restoring fitness to an economy which has seen competitiveness eroded sharply in recent years.

The Government has built up a surplus of nearly €2 billion in the National Training Fund (NTF), which is funded by annual contributions by employers worth 1% of payroll. This has the potential to deliver a step change in industry-led skills development and incentivise industry to scale investment and engagement with the education sector. Whilst it may not be possible to spend down the full surplus, a significant release of investment from the fund should be outlined in Budget 2025, to take place over the coming years and earmarked for labour-intensive sectors such as the tourism and hospitality industry. As outlined by our colleagues in IBEC the NTF should be treated, similarly to the likes of the Brexit Adjustment Fund, and recognised as non-core expenditure and thus outside of the cap of the domestic expenditure rule.

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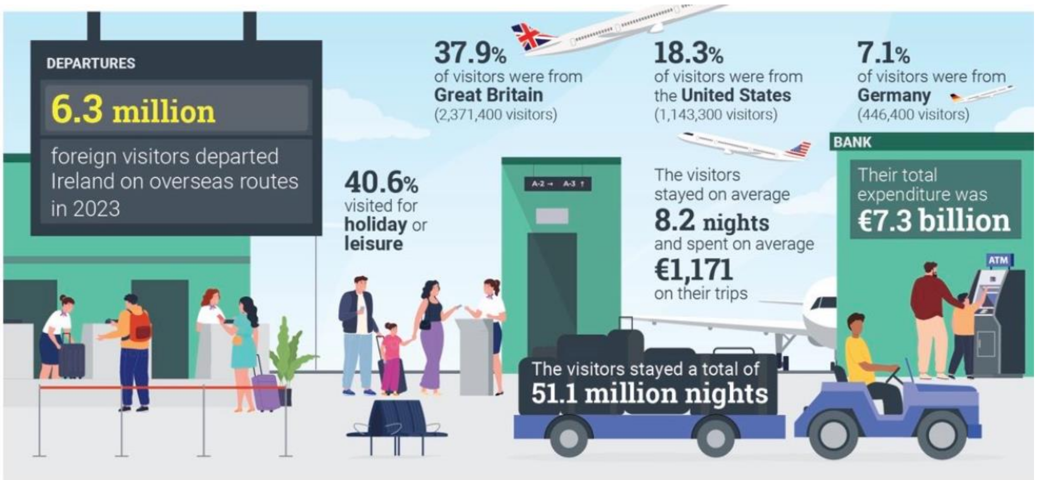
Industry Performance & Outlook

Compared to pandemic times Irish tourism has bounced back strongly and recently released data by the CSO on inbound tourism pointed to 6.3 million international visitors in Ireland in 2023, each staying on average 8.2 nights and spending €7,3 billion.



Despite good air access and strong demand from the key North American market 2024 is proving a mixed season to date as evidenced by ITIC's May Tourism Dashboard which shows that compared to the same month last year the number of nights in the country spent by international visitors is flat with no growth despite volume and revenue being up. Certain key metrics are of significant concern including hotel occupancy and Average Daily Rate being down for the month of May and indeed year-to-date (see below).

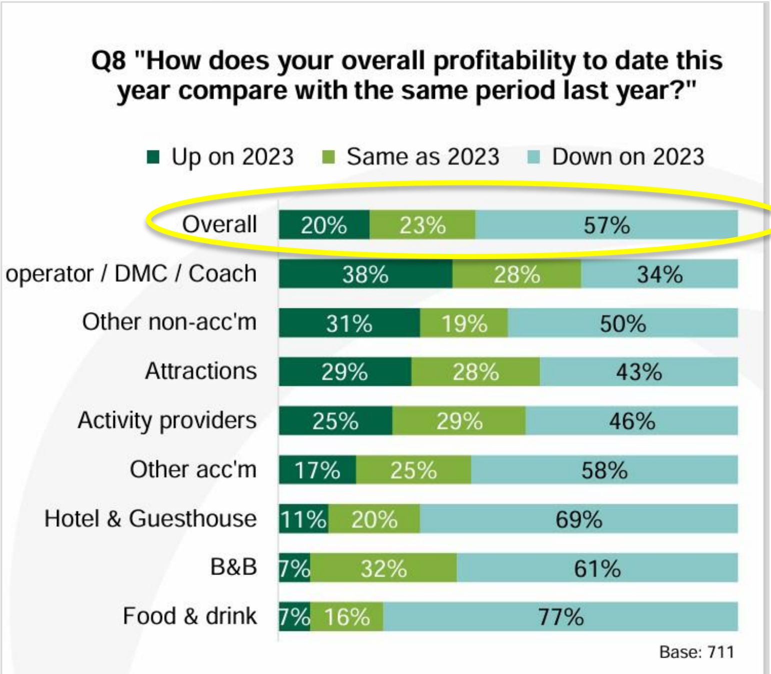
Dublin hotel occupancy, average daily rate, and revenue per available room – data by STR

Current Month - May 2024 vs May 2023											
Occ %		ADR		RevPAR		Percent Change from May 2023					
2024	2023	2024	2023	2024	2023	Occ	ADR	RevPAR	Room Rev	Room Avail	Room Sold
88.6	89.5	200.73	206.13	177.90	184.44	-1.0	-2.6	-3.5	2.5	6.3	5.3

Year to Date - May 2024 vs May 2023											
Occ %		ADR		RevPAR		Percent Change from YTD 2023					
2024	2023	2024	2023	2024	2023	Occ	ADR	RevPAR	Room Rev	Room Avail	Room Sold
77.8	79.0	162.15	172.17	126.23	135.94	-1.4	-5.8	-7.1	-1.2	6.4	4.9

Despite positive international connectivity across air and sea carriers, Ireland is facing a mixed demand outlook. The North American market looks strong but key European markets appear soft with air access from Britain down 4% for the summer months compared to last year. Furthermore the Aer Lingus industrial dispute, a key carrier for Irish tourism from critical source markets, will have an effect and impact which although not quantifiable at this point will be damaging.

On the supply side the industry is pushing hard against capacity and competitiveness challenges. Costs in particularly are eroding margins at an alarming rate. The 9% VAT hike last year to 13.5% has added a significant business inflation and Government-induced labour measures are having a disproportionate effect on Ireland's tourism and hospitality industry. A recent extensive survey by Fáilte Ireland of all tourism businesses showed that 57% of respondents expect their profitability to be down on last year and a further 23% expect it to be only the same as last year.



All evidence points to a very mixed year on the demand side for Irish tourism with enormous cost, capacity and competitiveness pressures.

Cost, Capacity & Competitiveness Concerns

Competitiveness is critical to the continued recovery and sustained growth of Ireland's tourism industry and it is very evident, that due to high costs and capacity constraints, competitiveness has been sharply eroded.

- *Cost concerns*

A report for ITIC in April 2024, carried out by economist Jim Power, estimated that new labour measures of Government would cost the Irish tourism and hospitality industry €466 million this year and as much as €1.4 billion by 2026. The report argued that mitigation measures are urgently needed to ensure the competitiveness and viability of Ireland's largest indigenous industry and biggest regional employer. The report by Jim Power entitled "*An Analysis of Government-induced costs on tourism and hospitality enterprises*" argues that labour market measures including the move to a living wage, PRSI increases, pension auto-enrolment, and enhanced statutory sick pay are all applying significant pressure on the sector and will add 6.6% to payroll costs this year alone and 19.4% by 2026.

With tourism and hospitality businesses operating on very thin margins Government must step in to support the sector and the report argues for the restoration of the 9% VAT rate for the sector, changes to employer PRSI rates, and an annual enterprise support package. The full report can be accessed here: https://tinyurl.com/2p9cumv8.

There is a strong argument too, as articulated by IBEC, that the pace of roll-out of new labour measures should be moderated to allow vulnerable sectors such as tourism manage the transition. Furthermore the calibration of the Living Wage as defined as 60% of the Median wage has to be mindful of the latter category being skewed by high wages in the FDI and public sectors.

Key recommendation:

1 Restore the VAT rate of 9% to support competitiveness

Business viability is under real pressure in the food services sector and the 9% VAT rate needs to be restored and this should be extended to vulnerable downstream sectors such as attractions, activity providers and caravan parks.

- *Capacity concerns*

Irish tourism has some severe capacity concerns that are putting significant pressure across the industry. The principal issues relate to aviation, accommodation and car hire sectors.

Aviation

Ireland, an island nation with an open economy off the mainland of Europe, is critically dependent on air service connectivity. It acts as an essential facilitator of trade, investment and especially tourism, Tourism and aviation are intrinsically linked and mutually inter-dependent: tourism relies on aviation to bring in visitors and airlines rely on tourism to fill seats.

70% of the Irish tourism economy is made up of international visitation and 90% of all international tourists arrive into the country by air. The numbers are stark and, in this context, the Irish state should be doing all within its power to support the aviation sector and make sure it is allowed grow in a responsible manner. Regrettably the current passenger cap at Dublin Airport limits further growth at the capital and, along with the State's failure to maximise support for Cork and Shannon airports, this means that the welfare of 40,000 tourism and hospitality businesses in the country is immediately jeopardised.

In a flagship bulletin on this subject in May ITIC made 6 key recommendations for Government to adopt without delay namely; Lifting of the passenger cap at Dublin Airport; Maximising the underutilised capacity at Cork and Shannon airports; Incentivising the use and development of Sustainable Aviation Fuel; Assist and enable the decarbonisation of Irish airports; Align Ireland with other island nations in the EU in relation to aviation needs; Support moves to consolidate air traffic control across the EU. The bulletin and more detail on recommendations can be accessed here: https://www.itic.ie/aviation-report-2024/.

A recent report by Jim Power Economics for Aer Lingus starkly illustrates the impact on Ireland of a failure to quickly resolve the planning issues at Dublin Airport. The measurable impacts suggest that for every 1 million passengers annually denied use of Dublin Airport, €1.4 billion would be lost to the economy in direct, indirect and induced expenditure, €322.1 million would be lost to the Revenue in tax revenues foregone, and 37,000 direct, indirect and induced jobs would be lost. Furthermore "InterVistas' analysis from last year indicates that maintaining the current 32 million cap would lead to Ireland forgoing an additional 17,800 jobs and €1.5 billion in GVA by 2030. By 2055, the number of jobs lost to Ireland would be 53,300 while €4.4 billion would be lost in GVA. This would have huge implications for Ireland's tourism sector and business community, with trade and visitor numbers being constrained

As well as the vital importance of lifting the passenger cap at Dublin Airport ITIC is of the view that the scope of the regional airports programme should be extended to include the State Airports of Cork and Shannon. This would allow for the provision of operational and capital funding under the Regional Airports Programme on an enduring basis and is justifiable under EU State Aid parameters and would align Ireland with European peers.

Accommodation

Ireland's over-reliance on tourist accommodation for providing shelter to Ukrainian refugees and international asylum seekers has greatly restricted the broader tourism industry. Although the number of contracted tourist beds to the State has declined recently it is still far too high and Fáilte Ireland estimate that it is costing downstream tourism and hospitality businesses as much as €1 billion in foregone earnings over an annualised period.

As well as a comprehensive plan to house refugees and asylum seekers, incentives and capital allowances must be considered for tourism accommodation construction as well as staff accommodation developments.

Latest data from Fáilte Ireland show that 10% of all registered tourism accommodation is contracted to the Government and therefore out of circulation for visitor use. Certain counties along the Wild Atlantic Way such as Clare (25%) and Mayo (17%) have a far higher figure and the data below does not take into account non-registered tourist beds. In total there are 77,315 beds across registered and non-registered beds that are contracted to the State as of May 2024. The impact on downstream tourism businesses including attractions, activity providers, cultural experiences, restaurants and pubs is profound and a new fit-for-purpose mitigation fund will need to put in place in Budget 2025.

Percentage of Contracted Beds in Registered Properties Relative to County's Total			
Clare	25	Dublin	9
Meath	19	Kerry	9
Louth	19	Laois	9
Mayo	17	Limerick	7
Wicklow	16	Longford	7
Offaly	14	Waterford	7
Westmeath	14	Kilkenny	6
Cavan	13	Galway	6
Tipperary	12	Roscommon	5
Cork	11	Wexford	4
Leitrim	11	Monaghan	3
Donegal	10	Carlow	3
Sligo	10	Kildare	2
All County Average			*10*

It is clear that Government must continue to lessen its over-reliance on tourism beds for humanitarian purposes and this process needs to be supported in Budget 2025.

Another very sharp tourism accommodation capacity headache centres around the Short Term Tourist Letting Bill that is expected to be signed off by cabinet shortly. A "one-size-fits-all" approach, as currently envisaged, risks denuding the country of self-catering tourism properties at the very time that it needs them the most. It has been welcomed by all in the tourism industry – from large online booking platforms to small property owners - that a register of short-term tourism lettings is coming into effect and is to be managed by Fáilte Ireland. This gives transparency and regulation to a sector that for too long has operated in a grey zone. However it is the potentially onerous planning conditions required to be on the register that are causing tourism leaders great concern – these risk squeezing thousands of short term tourism rental operators out of the market. A balance needs to be struck between the needs of long-term housing and short-term tourism rentals.

Car hire

In terms of car hire the rental industry is a critical element of the infrastructure of Irish tourism, with 51% of overseas holidaymakers visiting Ireland hiring a car last year. However, the car rental sector cannot function fully in the peak summer months without a permanent relief to counter the anomaly caused by the removal of the VAT equalisation measure on short-term purchases of cars in 2019. Therefore, ITIC asks Government to reinstate the VAT equalisation measure in Budget 2025. Independent research from the Car Rental Council of Ireland show that this is low/no cost due to the benefit accruing.

Key Recommendation:

2 Reduce capacity blockages to enable tourism growth

With 70% of the tourism economy dependent on international visitation the passenger cap at Dublin Airport needs to be lifted and regional airports of Cork and Shannon must be supported by the exchequer. The State must lessen its dependence on hotels for humanitarian reasons and appropriate supports are needed for the short-term tourism rental and car hire sectors.

- *Competitiveness concerns & funding shortfall*

The current competitive dynamic presents a set of new challenges for businesses in the sector. While price is not the sole defining factor of Ireland's competitiveness, value for money is undoubtedly a major determinant of competitiveness. With steep price cost rises feeding through to higher prices Ireland's competitiveness is at risk of losing its the value for money positioning in the international and domestic marketplace.

To restore competitiveness, we must avoid past mistakes and address high costs. The National Competitiveness and Productivity Council highlights the rising costs impacting on business. Budget 2025 should aim to ameliorate the competitiveness concerns of business.

Everything from excise to VAT to credit to utilities are considerably higher than the EU average and Budget 2025 must proactively address this. According to the most recent Eurostat survey prices for goods and services in Ireland are the 2nd highest in the EU, 42% above the average. The high cost and poor availability of insurance cover continue to have a negative impact on the hospitality and tourism sectors. While ITIC acknowledge the very positive progress made by Government in this area in recent times, it has not yet had the desired impact on premia and liability insurance. ITIC urges Government to do everything in its power to increase underwriting capacity in the liability market, encourage competition and improve availability of cover. Equally, ITIC urge Government to do nothing from a fiscal policy perspective that would discourage new entrants into the Irish market or diminish risk appetite.

On the funding front Irish tourism is under resourced this year leading to failure to fulfil the sector's potential and overcome challenges. Both tourism agencies carry out vital work supporting the sector and the industry therein but additional funding is required, ITIC advocate that in Budget 2025 current funding for tourism services is increased to €200 million up from the 2024 level of €167 million which was a cut on last year, The additional budget will enable agencies to support businesses and stimulate growth. Businesses are operating on thin margins yet are being asked to invest in people and climate action – with additional funding Failte Ireland can continue to deliver better workplace environments and employee development as well as helping businesses in the key area of climate action such that they can contribute to the delivery of government targets.

Meanwhile Tourism Ireland needs an increase in its core funding to stimulate overseas marketing, increase its regional air access fund, deploy season extension initiatives, and implement the joint-agency Business Events Strategy.

In terms of sustainability there needs to be a radical improvement in funding supports for business. Tourism enterprises are willing to play their part but in terms of big-ticket items like green energy, EV infrastructure or retrofitting heritage buildings the state has to make a step-change in its ambitions to achieve national targets. One of the key areas of sustainability is that of Sustainable Aviation Fuel (SAF), the most likely way in the immediate future of reducing emissions in the air. Irish aviation, including carriers Aer Lingus and Ryanair and airports DAA and Shannon, are taking a lead on this but there is a real opportunity for the Irish state to become an international hub for R&D and production of SAF. The critical challenge for aviation is to establish production facilities and delivering sufficient supply of SAF as well as ensuring the price differential compared to traditional aviation jet fuel is reduced. With appropriate Government incentives and capital allowances for SAF, Ireland could be at the centre of EU progress in this key pillar of decarbonisation.

Capital funding is also of critical importance to both the tourism sector, in terms of creating new experiences and enhancing older ones, and the related transport sector with for example more drop off points and parking facilities needed for coach companies. With a full labour market, employment permits need to be expedited to improve labour supply and the National Training Fund needs to be unlocked to provide training and upskilling for professions within hospitality as well as for coach drivers, guides and introducing apprenticeship schemes.

Key Recommendation:

3 Increase current funding for tourism services

The current tourism budget was reduced this year to €167 million. This needs to be reversed and increased next year to €200 million if sustainability initiatives, international marketing, domestic promotion, and industry supports are to be properly funded.

Concluding Comments

The full recovery of Irish tourism is of immense importance to the Irish economy. Pre-pandemic our industry employed 270,000 people, was worth €9.5 billion annually to the economy, and over €2 billion was returned to the exchequer in direct tourism-related taxes. ITIC and its members are determined that Irish tourism fully recovers and Budget 2025 is a key staging post in enabling this journey.

Last year ITIC outlined its vision for Irish tourism and set an ambitious goal of growing revenue by 50% over today's levels by 2030 whilst at the same time being mindful of its environmental obligations. The industry's commitment and determination to achieve this is undimmed despite external challenges and internal pressures. However like all industries success has to be enabled by a supporting environment set down by Government. In this regard Budget 2025 and the subsequent General Election are of significant importance. A return of the 9% VAT rate, a reduction in capacity blockages, and a restoration of tourism funding are all critical steps that will enable the industry to prosper for the benefit of business, employment and the exchequer.

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