

Item: 4

Special General Meeting of the Council: 28 October 2020.

Coronavirus Response Fund.

Hotel Sector Job Support Scheme.

Report by Executive Director of Development and Infrastructure.

1. Purpose of Report

To consider provision of a Hotel sector job support scheme to be funded from the Council's Coronavirus Response Fund.

2. Recommendations

The Council is invited to note:

2.1.

That, on 16 April 2020, the Council established a Coronavirus Response Fund, with an opening balance of £5,000,000.

2.2.

That the Council has established several financial support measures drawing from the Coronavirus Response Fund during the response phase to the coronavirus pandemic, as follows

- Business Hardship Support Grant (BHSG), launched on 1 May 2020.
- Emergency Loan Scheme, launched 25 May 2020.
- COVID-19 Response Grant – Orkney Islands Council 10% Top-up grant, launched 19 August 2020.
- Protective equipment grants, launched 19 August 2020.
- COVID-19 Recovery Development Grant (CRDG), launched 19 August 2020.

2.3.

That Scottish Government financial support for the Hotel sector has been highly variable in terms of awards made to Orkney businesses.

2.4.

That the UK Government recently announced its Job Support Scheme designed from 1 November 2020 to protect viable jobs in businesses who are facing lower demand over the winter months due to COVID-19, to help keep their employees attached to the workforce.

2.5.

That a Hotel representative subgroup of Destination Orkney met to identify and prioritise the main COVID-19 related issues, as outlined in section 3 of this report.

2.6.

That the UK Government's new Job Support Scheme was not considered by the subgroup to support job retention for the sector due to lack of trade and resulting lack of affordability to pay for non-productive time.

2.7.

That the Scottish Government announced a Hotel Recovery Programme aiming to secure jobs at Scotland's larger hotels until the start of the summer 2021 tourism season, but that only two or three local hotels are understood to be eligible and successful applicants are not yet known.

2.8.

That, on 7 October 2020, the Scottish Government announced a further £40 million package to support the hospitality trade during tighter restrictions still to be announced at time of writing.

2.9.

That, recognising the urgency of redundancy notices already issued, a specific request has been made to the Council to explore a support scheme to seek to protect key roles for the Hotel trade in Orkney.

2.10.

The options for a Hotel sector job support scheme, detailed in section 5 of this report, with the preferred option being Option 5, namely a level of grant contribution based on confirmation of retained full time equivalent (FTE) jobs.

2.11.

Should Option 5 be endorsed, proposed outline conditions for a Hotel sector job support scheme, as detailed in section 6.4 of this report.

2.12.

That, as of 10 October 2020, payments and commitments totalling £1,567,154 have been recorded against the Coronavirus Response Fund budget.

It is recommended:

2.13.

That Option 5, namely a level of grant contribution based on confirmation of retained full time equivalent (FTE) jobs, at an estimated total cost of £210,000, be approved as the basis for the Hotel job support scheme.

2.14.

That the Chief Executive, in consultation with the Chair and Vice Chair of the Development and Infrastructure Committee, the Executive Director of Development and Infrastructure and the Head of Finance, be authorised to finalise conditions and deliver a Hotel sector job support scheme.

3. Background

3.1.

On 16 April 2020, the Council established a Coronavirus Response Fund, with an opening balance of £5,000,000.

3.2.

Subsequent Council meetings have approved five financial support schemes drawing from the Coronavirus Response Fund during the response phase to the COVID-19 pandemic, as follows:

- Business Hardship Support Grant (BHSG), launched on 1 May 2020.
- Emergency Loan Scheme, launched 25 May 2020.
- COVID-19 response grant OIC 10% Top-up grant, launched 19 August 2020.
- Protective equipment grants, launched 19 August 2020.
- COVID-19 Recovery Development Grant, launched 19 August 2020.

3.3.

Since the start of the pandemic, the Scottish Government has launched a range of business support mechanisms with three specifically aimed at the Hospitality trade:

- Retail Hospitality and Leisure Grant.
- Pivotal Enterprise Resilience Fund.
- Creative, Hospitality and Leisure Hardship Grant.

3.4.

On 29 July 2020, the Scottish Government announced a Hotel Recovery Programme aiming to secure jobs at Scotland's larger hotels until the start of the summer 2021 tourism season. At time of writing it is not known if any of Orkney's larger hotels will be successful.

3.5.

The reasons for successful award or rejection and the actual grant amounts have varied widely, with some Hotels subsequently seeking and being awarded, where eligible, Council Business Hardship Support grant to help cover costs. Whilst on the whole these interventions have been welcomed, to assist working capital pressures as a result of lost summer turnover, many Hotel businesses are once again facing financial challenge when the current furlough support ends on 31 October 2020. Hotel managers are thus in the process of issuing redundancy notices.

3.6.

In the last week of September 2020, a representative subgroup of Hotelier members of Destination Orkney met to discuss the main and prioritised issues facing the Hotel trade in Orkney. This was convened following poorer than expected Summer and Autumn bookings and increased cancellations that have been assumed to be linked with concerns over a second wave of COVID-19. Indeed, on 14 October 2020, Northlink Ferries Limited announced the cancellation of coach group bookings into 2021, to which the Hotel trade has raised significant concerns as to the direct impact on Hotel revenues.

3.7.

The main issues from the Hotelier subgroup relayed to Officers were:

- The availability of enough cash to survive to spring 2021 remains high priority.
- The use of the UK Government's Job Support Scheme (JSS) generally was considered unaffordable due to the requirement of employers to contribute to non-productive time – however local Hotel representation has indicated that a local supplement could help retain key jobs and skills over winter.
- Seeking support for loyalty initiatives, local Eat Out to Help Out etc.
- Marketing remains hugely important to get right – the OIC/HIE supported Autumn visit campaign promotion is ongoing but mixed views on whether it is worthwhile right now. Expectation for big ambitious promotion to prepare for return of Spring trade.
- Boosting visitor and local confidence – proposing visible testing (e.g. temperature) measures have been suggested by industry representatives at points of entry and potentially at premises.
- Council Coronavirus Recovery Development Grants have been welcomed.
- Significant service interruption insurance claims require specialist advice.
- Skills issues: Digital, quality and product development are being explored.

3.8.

Discussion explored the potential for a local scheme to support or supplement measures to retain key posts and skills over winter. Now approaching the end of furlough several hotels are issuing redundancy notices to what would have ordinarily been Winter core staff and requested urgent consideration of an Orkney Hotel job support scheme.

3.9.

Hospitality businesses will benefit from a £40 million grant fund originally announced on 7 October 2020 to be provided by the Scottish Government. Hospitality businesses which are required to operate in a restricted way due to COVID-19 regulations will benefit from one-off hardship relief grants of £1,440 or £2,155 with the grants being administered by the Council. This new grant fund is the subject of a separate report on the agenda.

4. Proposal

4.1.

The Hotel sector has been particularly heavily hit by the lack of summer trading. After lockdown was relaxed it took several weeks for Hotels to get ready to welcome visitors along with from late August onwards being much less busy than anticipated (due to second wave and lower visitor and local confidence). Hotels also have high winter overhead costs that are generally covered by the profits from Summer months.

4.2.

Options described below would seek to retain key jobs in the hotel trade over winter. In addition to retaining a core team and avoiding redundancy costs, the proposal seeks to avoid the additional burden of recruiting and retraining in Spring when Hotels need to be primed and ready for the hoped-for return of the visitor season. This will also help sustain the quality of the Orkney hospitality offer with continuity of experienced and skilled employees. Helping to minimise the expected redundancies would enable hotels to still offer food services for the local community as well as the few guests still expected. By retaining furloughed staff in employment, employers will be eligible for the UK Government's Job Retention Bonus which is a £1,000 one-off taxable payment to the employer, payable for each eligible employee furloughed and kept continuously employed until 31 January 2021.

4.3.

Several small Hotels may already be down to self-employed staff only and may not qualify for the Job Support Scheme (JSS), and so a discretionary element could be explored where it would keep key local services in a particular area going (such as being the only Hotel on an Island where there is no competition).

5. Options

5.1.

With variation of circumstance there are a variety of options that can be considered:

5.1.1.

Option 1: Do nothing: would result in the loss of staff to the Hotel trade, payment of likely redundancy costs, requiring recruitment and training prior to reopening in Spring 2020.

5.1.2.

Option 2: Provide a contribution to the Job Support Scheme for example:

- Match the Government's percentage contribution in the JSS.
- Match the Employer's non-productive percentage payment contribution in the JSS.
- A specific percentage contribution to JSS.

5.1.2.1.

Several Hotels will not be able to justify and afford covering the costs on the non-productive element of the scheme. Whilst this reflects leverage of government funds it reflects a contribution to non-productive time and would be high on administration time (with full details as yet unpublished).

5.1.3.

Option 3: Contribute a fixed percentage towards key employee hours worked, with an appropriate payment schedule reflecting job retention. A figure of 25% was proposed at a recent discussion with Hoteliers. Whilst a simple approach the checks and administration could be relatively time consuming.

5.1.4.

Option 4: Award supplemental funding at a level of up to £2,000 per Full Time post retained, with an appropriate payment schedule reflecting job retention. Administering for a wide range of Part Time staff hours contracts would be time consuming.

5.1.5.

Option 5: Consider a level of grant contribution based on confirmation of retained full time equivalent (FTE) jobs (50% up front following by 50% for retained staff after 5 months) conditional on retaining services as open for business. Relatively straightforward to administer based on confirmed payroll details. Costed examples are offered in Appendix 1 with £2,000 per FTE suggested for consideration.

5.1.6.

Option 6: Match the Government's Job Retention Bonus, as a sum payable on jobs retained (See Appendix 1). Whilst supporting job retention and relatively simple to administer, the delayed payment will not assist cash flow pressures.

5.1.7.

Option 7: Offer grant equivalent of a month's wages for the FTEs retained under the scheme. Effectively a 20% grant over 5 months.

5.2.

The Hotel trade is varied across Orkney with large hotels employing over 30 full-time and part-time staff during winter to small Island establishments providing accommodation and additional local services far more exposed to the short visitor season. With the urgency of the request there has not been sufficient time to fully assess the potential uptake of the options outlined. It is, however, known that some owners will not use the UK Government's JSS as staff have already been issued pay cuts to retain jobs, but additional contributions would help minimise further job losses.

5.3.

Consideration of the options needs to recognise the variation in circumstances, with some Hotels furloughing staff and others not. Likewise, the Government's Job Support Scheme is not going to be taken up by several hotels as the contribution to non-productive time is regarded as unaffordable. In addition, it is understood that JSS will not be considered by some Hotels as pay rates have already been cut to a minimum to retain existing jobs under the circumstances and JSS would risk pushing employee pay below the living wage.

5.4.

Recognising the urgency to support jobs at risk of imminent redundancy and the need for a simple yet flexible approach, Option 5 at an intervention of up to £2,000 per retained post is recommended for expediency.

6. Costs

6.1.

A survey of Hotels facilitated by Destination Orkney (Limited) to better understand numbers suggests approximately two thirds, a maximum of 19 out of 31 across Orkney, are considering staying open with some level of service retained. Further details submitted by 9 representative Hotels, although not comprehensive, enabled a partial cost analysis of options as summarised in Appendix 2.

6.2.

Estimates of funding options range from £1,450 to £2,100 per retained job over 5 months. Whilst it is not yet possible to assess the full uptake of the scheme, and the Hotel Recovery Programme awards are still to be determined by HIE, an informed estimate, using the recommended Option 5 above, would expect to cost between £250,000 and £300,000 as a probable maximum budget required to retain 150 key Hotel jobs.

6.3.

Despite the rough estimates it is however hoped that one or two large hotels will be successful in securing Hotel Recovery Programme funding that is being administered by Highlands and Islands Enterprise. This scheme, if applicants are successful, would cover staff retention costs of potentially 50 employees.

6.4.

Some outline conditions are proposed as:

- Payment terms would be 50% up front on demonstration of aggregate FTEs on payroll, with 50% payable during March on demonstration of retained posts.
- Any proposed scheme should include conditions that ensure employees are kept on and local services remain deliverable with Hotels remaining open.
- Hotels successful in the Hotel Recovery Programme are expected to get sufficient working capital support and assistance to retain jobs and would thus be excluded from the proposed Council scheme as any award made locally would displace Government funding.

7. Corporate Governance

This report relates to the Council's response to the economic challenges arising from the Covid-19 pandemic. Efforts to support the Orkney Economy through the pandemic are considered in line with the Council Plan priorities.

8. Financial Implications

8.1.

The financial implications are largely contained in the body of the report. Based on some industry projections and additional rough estimates the required budget to cover Option 5 at £2,000 per FTE would be approximately £210,000. This is based on the assumption that two of the larger hotels will be successful in the new Hotel Recovery programme that should support an additional 50 jobs, but this remains to be confirmed.

8.2.

The Council has established a Coronavirus Response Fund with an opening balance of £5,000,000.

8.3.

As of 10 October 2020, a total of £1,567,154 has been paid or committed for grant funded projects from the fund. There have currently been no Emergency Loans approved.

9. Legal Aspects

9.1.

Section 95 of the Local Government (Scotland) Act 1973, as amended, obliges the Council to make arrangements for the proper administration of its financial affairs.

9.2.

In terms of Section 20 of the Local Government in Scotland Act 2003, the Council has power to do anything which it considers is likely to promote or improve the well-being of its area and persons within it, or either of these. This includes power to give financial assistance.

10. Contact Officers

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11. Appendices

Appendix 1 - Job Support Scheme Fact sheet.

Appendix 2 - Estimated cost comparison.

Job Support Scheme Factsheet

1. What is it?

The Job Support Scheme is designed to protect viable jobs in businesses who are facing lower demand over the winter months due to Covid-19, to help keep their employees attached to the workforce. The company will continue to pay its employee for time worked, but the burden of hours not worked will be split between the employer and the Government (through wage support) and the employee (through a wage reduction), and the employee will keep their job.

Now the economy is opening up, we should target support on those businesses that need it most: focusing on those that are being impacted by Coronavirus and who can support their employees doing some work, but that need more time for demand to recover.

The Government will pay a third of hours not worked up to a cap, with the employer also contributing a third. This will ensure employees earn a minimum of 77% of their normal wages, where the Government contribution has not been capped.

Employers using the Job Support Scheme will also be able to claim the Job Retention Bonus if they meet the eligibility criteria.

The scheme will open on 1 November 2020 and run for 6 months, until April 2021.

2. Who is eligible?

2.1. Employers

All employers with a UK bank account and UK PAYE schemes can claim the grant. Neither the employer nor the employee needs to have previously used the Coronavirus Job Retention Scheme.

Large businesses will have to meet a financial assessment test, so the scheme is only available to those whose turnover is lower now than before experiencing difficulties from Covid-19. There will be no financial assessment test for small and medium enterprises (SMEs).

Our expectation is that large employers using the Job Support Scheme will not be making capital distributions, such as dividend payments or share buybacks, whilst accessing the grant. Further details will be set out in guidance.

2.2. Employees

Employees must be on an employer's PAYE payroll on or before 23 September 2020. This means a Real Time Information (RTI) submission notifying payment to that employee to HMRC must have been made on or before 23 September 2020.

In order to support viable jobs, for the first three months of the scheme the employee must work at least 33% of their usual hours. After 3 months, the Government will consider whether to increase this minimum hours threshold.

Employees will be able to cycle on and off the scheme and do not have to be working the same pattern each month, but each short-time working arrangement must cover a minimum period of seven days.

3. What does the grant cover?

For every hour not worked by the employee, both the Government and employer will pay a third each of the usual hourly wage for that employee. The Government contribution will be capped at £697.92 a month.

Grant payments will be made in arrears, reimbursing the employer for the Government's contribution. The grant will not cover Class 1 employer NICs or pension contributions, although these contributions will remain payable by the employer.

"Usual wages" calculations will follow a similar methodology as for the Coronavirus Job Retention Scheme. Full details will be set out in guidance shortly. Employees who have previously been furloughed, will have their underlying usual pay and/or hours used to calculate usual wages, not the amount they were paid whilst on furlough.

Grant payments will be made in arrears, reimbursing the employer for the Government's contribution. The grant will not cover Class 1 employer NICs or pension contributions, although these contributions will. Employers must pay employees their contracted wages for hours worked, and the Government and employer contributions for hours not worked. Our expectation is that employers cannot top up their employees' wages above the two-thirds contribution to hours not worked at their own expense.

4. What does it mean to be on reduced hours?

The employee must be working at least 33% of their usual hours.

For the time worked, employees must be paid their normal contracted wage.

For time not worked, the employee will be paid up to two-thirds of their usual wage.

Employees cannot be made redundant or put on notice of redundancy during the period within which their employer is claiming the grant for that employee.

5. How can I claim?

The scheme will be open from 1 November 2020 to the end of April 2021. Employers will be able to make a claim online through Gov.uk from December 2020. They will be paid on a monthly basis.

Grants will be payable in arrears meaning that a claim can only be submitted in respect of a given pay period, after payment to the employee has been made and that payment has been reported to HMRC via an RTI return.

6. HMRC checks

HMRC will check claims. Payments may be withheld or need to be paid back if a claim is found to be fraudulent or based on incorrect information. Grants can only be used as reimbursement for wage costs actually incurred.

Employers must agree the new short-time working arrangements with their staff, make any changes to the employment contract by agreement, and notify the employee in writing. This agreement must be made available to HMRC on request.

Our intention is that employees will be informed by HMRC directly of full details of the claim.

7. Examples

Beth normally works 5 days a week and earns £350 a week. Her company is suffering reduced sales due to coronavirus. Rather than making Beth redundant, the company puts Beth on the Job Support Scheme, working 2 days a week (40% of her usual hours).

Her employer pays Beth £140 for the days she works.

And for the time she is not working (3 days or 60%, worth £210), she will also earn 2/3, or £140, bringing her total earnings to £280, 80% of her normal wage.

The Government will give a grant worth £70 (1/3 of hours not worked, equivalent to 20% of her normal wages) to Beth's employer to support them in keeping Beth's job.

Hours Employee Worked	33%	40%	50%	60%	70%
Hours Employee Not Working	67%	60%	50%	40%	30%
Employee Earnings (% of normal)	78%	80%	83%	87%	90%
Government Grant (% of normal wages)	22%	20%	17%	13%	10%
Employer Cost (% normal wages)	55%	60%	67%	73%	80%

Estimated cost comparison

Representatives from 9 Orkney Hotels offered staff and cost data for an anticipated winter monthly trading (subject to sufficient support) - enabling a very rough set of estimates from aggregated data to be calculated based on funding options shown below.

Data From 9 Hotels
Aggregate Monthly wage bill: £114,073
Aggregate hours worked: 10,602
Average hourly wage: £10.76
Average monthly staff salary: £1,660
Staff complement: 59 Full Time and upwards of 28 Part-time* Aggregate FTE estimated at 73

Calculations have assumed 35 hour working week.

*Part-time calculations based on 0.5 FTE – this is however caveated due to significant variation on the part-time hours contracted across the trade.

Costed options based on aggregate data*

20% of hours based on hourly rate	25% of hours based on hourly rate	£1800 per FT/£900 per PT	£2k per FT/£1k per PT*	£90 per post per week for 21 weeks	£100 per post per week for 21 weeks
£110,563	£138,204	£131,400	£146,000	£137,970	£153,300
Cost of per retained job based on an estimated 73 FTEs over 9 hotels					
£1,515	£1,893	£1,800	£2,000	£1,890	£2,100

To indicate potential budget implication in lieu of more accurate estimates the following table provides

Costed options based on aggregate data*

20% of hours based on hourly rate	25% of hours based on hourly rate	£1800 per FT/£900 per PT	£2k per FT/£1k per PT*	£90 per post per week for 21 weeks	£100 per post per week for 21 weeks
100 jobs					
£151,500	£189,300	£180,000	£200,000	£189,000	£210,000

20% of hours based on hourly rate	25% of hours based on hourly rate	£1800 per FT/£900 per PT	£2k per FT/£1k per PT*	£90 per post per week for 21 weeks	£100 per post per week for 21 weeks
150 jobs					
£227,250	£283,950	£270,000	£300,000	£283,500	£315,000
200 jobs					
£303,000	£378,600	£360,000	£400,000	£378,000	£420,000

From the details submitted by the 9 Hotels there would be approximately 73 FTEs projected over winter with a further 82 FTEs estimated by officers for the other 12 Hotels considering staying open. This gives a total of 155 FTEs and with the possibility of 50 FTEs being covered by Hotel Recovery Programme and so a maximum of 105 FTEs that could be supported is reasonable. The following table offers comparison of a block grant option categorized by scale of employees as follows.

	Grant	Number of Hotels	Total	minus potential HRP of 2 large hotels
up to 5 FTE	£6,000	8	£48,000	£48,000
6 to 10 FTE	£15,000	7	£105,000	£105,000
11 to 20FTE	£25,000	3	£75,000	£50,000
21 FTE and above	£30,000	1	£30,000	£0
		19	£258,000	£203,000

Grant to cover one month of winter wages per retained staff FTE

A simple a calculation of the average monthly wage multiplied by the estimated retained FTE's projects the following cost

Retained Jobs	100	150	200
Average Monthly wage £1660	£166,000	£249,000	£332,000