

Tourism Alliance

The Voice of Tourism

Submission to the House of Commons Culture, Media and Sport Select Committee Inquiry B -Tourism after September 11

Preamble

- 1 The creation of the Tourism Alliance was announced by the Culture Secretary in October 2001. The Alliance brings together key private sector representative organisations as well as other industry stakeholders in tourism and travel, hospitality and leisure. Together they represent some 250,000 businesses. The Chairman is Digby Jones, Director-General of the CBI. (A current membership list is attached).
- 2 The primary purpose of the Alliance is to create a united voice for tourism at the national level. It also seeks to identify and develop policies and strategies to raise standards and promote quality within the industry; and to work with government, both in Britain and in Brussels, on key issues relevant to the growth and development of tourism. Whilst individual trade associations will be submitting comments on sector specific issues this response covers a range of broader national issues.

Question 1: What is the current and likely future performance of the British tourist industry following foot and mouth disease and the events in New York on September 11 2001?

The macro picture

- 3 Tourism was worth £73.6bn to the UK economy in 2001. This includes £59bn spent within the domestic market. It earned some £14bn in foreign exchange of and contributes some 5% of GDP. An estimated 2.1 million people of all skills and ages work in tourism and because it can offer flexible working conditions, it provides employment to full-time, part-time and seasonal workers of all abilities. A significant part of the income generated by tourism flows back to the Government through a range of taxes both direct and indirect. The inbound market alone pays some £2bn.

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- 4 Domestic tourism continues to be a significant component of Britain's tourism profile. England's domestic market generated £20.3bn of the total £26bn of UK residents overnights stays in 2001.
- 5 As a counter-balance to this, the number of residents going abroad continues to increase at a rate that outstrips that of visitors to the UK. An increase in travellers from Europe helped somewhat to close this gap. We note from data provided by the International Passenger Survey (IPS) that the outturn on the tourism export account and Balance of Payments was £-11.4bn in 2000, £-14.6bn in 2001 and to August 2002 stands at £-15.2bn. This deepening trend continues to be a worry to the Alliance and the sector.

Snapshot of the UK post 2001

- 6 Tourism's socio-economic benefits are closely interwoven. Indeed, the Foot and Mouth epidemic of 2001 highlighted the importance of tourism to countless individuals and communities across the country. Overall, analysts now acknowledge that FMD represented a crisis for the countryside and many rural communities whereas September 11 was a crisis for our urban communities and especially key cities.
- 7 During 2001, the outbreak of FMD and the events of September 11 seriously damaged international travel to and from the UK. The IPS reveals that between 2000 and 2001, the total number of visits by overseas residents fell 9 per cent from 25.2m to 22.8m. Spending by these visitors also fell from £12.8bn to £11.3bn.
- 8 More specifically, the number of American leisure visitors fell by 14% for the first eight months of this year despite key prompts such as a major advertising campaign by the British Tourist Authority, and major events including the Queen's Golden Jubilee and the Commonwealth Games.
- 9 The European market had already slowed during 2000/01. European travellers were deterred by FMD and September 11 served to depress this activity further. Once FMD was eradicated, their confidence and visitor numbers returned. The IPS shows that Europe was down by -8% by visits and -18% by spend. Recent analysis of IPS data by London Economics into the effect of the events of September 11 reveals that total overseas visitors to the UK (especially from North America) declined by visits by some 13% in 2001 compared to 2000, and by -19% by spend.
- 10 The September 11 terror attacks in the US, and the ramifications of this continue to be felt primarily by London and other key overseas tourist destinations including York, Bath, Oxford, Edinburgh, Bristol and Wales. Those businesses and/or destinations with a significant percentage of North American business have been seriously affected. US nationals do not make intrepid travellers and September 11 and the fear of a repeat event has only served to make them more nervous. The bomb attack in Bali on 12 October 2002 will further fuel this fear. Together, and including the loss of potential as well as actual revenue, these two events have been calculated to cost Britain's tourism industry some £8bn.

London and its gateway role

- 11 The fact that September 11 impacted upon the confidence of so many overseas travellers meant that London suffered an immediate downturn of over £1bn. Tourism is London's second largest industry after Financial Services. It is valued conservatively at £10bn and represents 8% of London's GDP.
- 12 London's critical gateway role has also meant that with fewer tourists arriving, fewer tourists have sought to visit other parts of the country. This downturn is becoming increasingly evident as the 'war on terrorism' and the increasing likelihood of a military engagement with Iraq looms large. It also highlights the need for investment in regional gateways alongside London in order to enhance regional development and to enable and encourage value-added tourist movement in other parts of the country.

Likely future performance

- 13 Uncertainty is the watchword of the current times especially as the possibility of a war in 2003 continues. This situation makes it difficult to forecast likely future performance. Tourism operates within parameters not of its own determination. This makes the task of forecasting highly speculative. As evinced by for example September 11, the industry can plan and invest for growth but at the same time can easily be blown off course. The strength and vibrancy of the sector means that it will make every effort to bounce back but because of its structure, it needs help and strategic direction. It also needs to be able to attract continued investment to ensure that its product remains innovative and competitive.
- 14 If military engagement were to take place, international travel can be expected to bear the brunt of any downturn, as was the case in 1991/92 during the Gulf War. London as both a capital and World City, could well be in the front line of any terrorist attack, as well as being affected by the ramifications of an attack on any other World City, as happened after the New York events.
- 15 FMD was a countryside disaster, but it is worth noting that the US is still refusing blood products (such as blood transfusions) from any citizen who has lived in the UK for three months for fear of 'mad cows disease'. This apparent refusal is coupled with the persistent and still reported misconception that FMD still exists in Britain and that it is contagious. Such events and persistent misconceptions can all impact on the likely future performance of tourism.
- 16 For employers, and particularly for many SMEs, one of the current outcomes and concerns of September 11 is the steep increase in Employers Liability Insurance (ELI) premia. The market has been unsteady by the falling stock market, and low bond yields have put pressure on insurance companies to improve their underwriting performance and to strengthen their reserves. The result is that this insurance against the risk of an employee being injured or killed whilst at work is now being increased in perceived higher risk activities. Tourism is one such activity and many operators in all facets of the industry are facing premia increases of several hundred per cent. This situation is causing serious business concerns

and is having a major adverse impact particularly on SMEs where the operating margins are already constrained.

Question 2: Does Government have a role in promoting and/or supporting the industry?

Question 3 : What should that role be?

- 17 (Q2): This question is raised on a regular basis. It is often couched within the premise that since Government does not seek to have a role in the promotion and support of most other sectors, why should it be expected to support tourism? The Tourism Alliance argues that Government does have a strategic role to play in both supporting and promoting tourism.
- 18 Tourism in the UK has the potential to create wealth and employment. It is a labour intensive industry that has the potential to grow its employment opportunities at a pace that can outstrip that of the economy as a whole. One in seven new jobs is within the hospitality sector alone. In addition, its revenues could grow sustainably and at a faster rate than GDP. However, the increase in competition from overseas; the loss of world market share; the pressure on the domestic spend; and the on-going need for private sector investment in quality, skills and innovation, means that UK tourism can no longer afford to rest on its laurels. It needs to respond not only to market forces, but must also be visionary, proactive and strategic in its approach to future development.
- 19 The industry has benefited greatly from recent economic stability but the crises of 2001 - FMD and September 11 - showed that it is subject to events well beyond its control. Indeed, to redress these, positive Government intervention was necessary. The situation is further complicated by the continued 'market failure' that remains an inherent structural feature of tourism in the UK. All of these issues require positive action both by Government and by the private sector.
- 20 Tourism suffers from being 'fragmented'. As such, due regard also needs to be given by Government to the structure of the industry. There are some 127,000 businesses registered for VAT, alongside several thousands of businesses that operate at the small and micro-business level. These are often overlaid with a 'life-style' business approach. Nonetheless, they all contribute to the diverse nature of Britain's tourism offering.
- 21 Because of their size, sector and geographic spread, these businesses rarely work in concert and need overarching strategic leadership in order to operate within a coherent and consistent framework. Moreover, the abundance of Small, Medium and Micro Enterprises (SMMEs) means that the financial burden of any public-private sector partnership approach will fall on only a few, and potentially the same 'partners'. This is not a sustainable option and will very quickly become a critical issue given the Government's current approach to funding tourism matters.
- 22 Clearly tourism is at the mercy of factors well beyond its control, be it the economy, FMD or international events such as war or terrorism. For all of these reasons, and because the Government plays a key role in its delivery – from

regulation to taxation, from infrastructure to the public realm – the Tourism Alliance remains concerned that the burden of ensuring a dynamic and growing sector cannot be shouldered solely by the private sector. Rather, the private sector is willing to play its part, but with Government providing active leadership and leverage. What is apparent is that neither party can work in isolation.

- 23 As part of its vision for the industry over the next five years, the Alliance seeks to create 300,000 new jobs and to increase the sector's contribution to GDP to 6%. However these targets will be severely hampered if the government fails to take a clear and authoritative role in the delivery of tourism particularly against the potential backdrop of adverse international events.

(Q3) The Government's role

- 24 The tourism marketplace needs to work efficiently if it is to remain competitive both within the domestic and international arenas. The Government's role should include

- Seeking to ensure that the growth in tourism is sustainable and operates within a strategic visionary framework (especially in environment terms)
- Enabling the industry to attract funding in order to boost investment in the product and in sector specific craft and skills training
- Ensuring that nationally-driven marketing and promotion are delivered widely and strategically, both at home and abroad, where they can make a real difference to current trends.
- Recognising that a 'tourism advantage' lies within much Government planning, infrastructure development, and national investment over a range of areas and seizing this accordingly.

- 25 The Alliance considers that the Government's strategic role should, taken at its highest, focus on the need to ensure that tourism has both a strong and positive profile (and for all the right reasons) and that it is driven with clear vision and strategic leadership. The sponsoring department's target audiences should include policy-makers in all Government departments, sub-national government; the industry; the City and other financial institutions. Throughout, its aim should be to build deeper confidence that will, in turn, both underpin risk-taking and encourage further innovation and investment.

- 26 The Alliance therefore calls for 'tourism' and its importance to the country as a whole to be recognised. Adding tourism to the title of its sponsoring Department would be a positive first step but more importantly, and given the precedent set in several of our competitor destinations including France and Spain, taking responsibility for tourism, and tourism alone, to the Cabinet table.

Question 4: Do current arrangements for supporting, promoting and/or regulating the industry:

- a) **meet the need adequately**
- b) **reflect the devolution settlement appropriately**
- c) **promote the quality of provision effectively; and**
- d) **encourage productivity within the industry?**

4a ...meet the need adequately

27 The Tourism Alliance concluded in its recent report *Tourism Spending Priorities*, April 02 (copy attached), that there remain a number of areas where current arrangements fail to meet the needs of the industry adequately. These include:

28 **Marketing and promotion:** We raised concerns that the marketing and co-ordination of marketing for England should be allocated additional public funding. Analysis by the English Tourism Council concluded that an additional £20m (achieved through delivery on a £1 for £1 matched-funding basis) was needed to redress the loss since FMD and September 11. The report considers that such an investment should yield 'a significant payback in terms of increased tourism revenues and justify this additional investment in a bid to deliver on aggressive growth targets'. Instead the government appears to be considering a public financial allocation well short of £10m. Such a retrograde step would serve only to de-motivate key operators and send the wrong message to potential investors.

29 **Regulation:** The ever-increasing volume and complexity of legislation, regulation and 'guidance' that has emerged over the years remains a problem for many operators, and especially SMEs. The adverse impact of bad legislation and/or 'red tape' continues to cost business both time and money with a disproportionately heavy burden of regulatory compliance falling on smaller businesses (when measured by turnover). The Alliance remains to be convinced of the Government's commitment to deregulation in practice.

30 The Better Regulation Task Force was established, September 1997 but headway remains slow. The Task Force's report on hotels and restaurants was accepted by Government, yet between May 1997 and December 2001, some 101 pieces of legislation have had an impact on the hospitality sector with a further 27 pieces of legislation, regulation or statutory instruments in the pipeline. In addition, the Alcohol and Entertainment Licensing Bill is expected in the Autumn 2002 Queen's Speech. This will have a major impact on the sector.

31 Data

"It is difficult to set targets when the data on the industry is unreliable, unconvincing, non-compatible, buried, late and does nothing to encourage business investment. ... Too often tourism and its related activities are side-lined as marginal to economic policy"

Tourism Spending Priorities: p33, 2002

The lack of reliable data continues to hamstring the industry. It hampers for example, economic evaluation, strategic planning and growth, sustainable

development, marketing, communication and profile development. There is no overall national policy regarding the collection, dissemination and application of tourism data. This is particularly apparent to the private sector. Without credible data it is in turn unable to substantiate either business investment projects applications or to highlight negative issues (such as inadequate transport access) that can strangle a destination or blight expansion. The DCMS has yet to address this matter with the vigour and determination it requires.

4b ...reflect the devolution settlement

32 The 1998 Devolution Acts (for Scotland, Wales and Northern Ireland) have served to raise the profile and importance of tourism within the devolved nations. The national tourist boards are able to play a critical role in its promotion and product development. In addition, the British Tourist Authority acts as an overarching, coordinating organisation for overseas promotion. It is the sole avenue of overseas promotion for England, although some Local Authorities and/or marketing partnerships are choosing to 'go it alone' overseas, to little but costly effect. This restriction is a remnant from the Development of Tourism Act, 1969. It is a restriction that was ill-advised in 1969; its continuance puts England at a competitive disadvantage.

33 The powers granted to the devolved institutions have helped to raise the profile and funding of tourism within the devolved nations. It has also resulted in stronger core funding for tourism activities. Core funding 2002-2003: Wales Tourist Board £22.7m; VisitScotland £22.8m; English Tourism Council £11.6m; NI Tourist Board £9.4m (with further funds being allocated to outsourced functions including the cross-border 'Tourism Ireland' marketing body). We note that the BTA receives £35.5m, and that Local Authorities in England and Wales spend some £90m on activities that benefit tourism.

34 The devolution settlements have served to empower the institutions that deliver tourism. Our concern is that, as arrangements currently stand, the resultant fragmentation has brought little empowerment to the consumer. They remain bewildered at the differences that exist as they travel around the whole country.

35 **England:** In this regard, from April 2003, Regional Development Agencies will take over the delivery role for tourism at the regional level so placing the English regions (through the RDAs and their delivery partners – the Regional Tourist Boards) at the centre of implementing tourism delivery. This is a new departure for tourism. The aim must be to bring growth and vibrancy to each region without unnecessary bureaucracy, confusion, inconsistency and muddling the consumer. The Alliance waits to see how this new arrangement will work in practice.

4c ...promote the quality of provision effectively

36 The industry would have to agree that the overall quality of the tourism provision still remains muddled and highly variable. That said, it acknowledges that it needs to continue diligently to work to raise standards and quality. The English Tourism Council, Regional Tourist Boards and other policy shapers have worked hard to

promote the need for quality across the industry as a whole and especially amongst the myriad number of small businesses.

37 Much highly impressive investment has taken place most visibly at the top end of the market. However, credit should be given to all sectors where operators, both large and small have looked to improve their standards immeasurably. Such improvements however have resulted in pockets where persistent problems with the product are to the detriment of the industry. Britain's seaside resorts are a prime example.

38 In response to concerns that accommodation remains the most cited area of visitor dissatisfaction, the industry has worked closely with the public sector to raise and promote quality. Quality issues include continuing concerns about variable standards of accommodation, value for money, and standards that truly reflect the product sold. Possible measures to address this include the proposed and now being piloted Fitness for Purpose standard; a compulsory inspection scheme and/or membership of preferably a harmonised national quality grading scheme.

39 As part of the quest to drive up quality, five of the six (England) national quality schemes cover aspects of accommodation:

- Hotels and guest accommodation
- Holiday parks
- Hostels
- Self catering
- Accessible accommodation

A separate scheme has been established to cover visitor attractions.

40 On the business front, too often poor or failing businesses remain in tourism and in the process they drag down the reputation of other businesses in their sphere. There is a need to attract greater investment across all aspects of the tourism offering especially the investment in skills training and where businesses are failing, to allow them to exit the market painlessly.

4d ...encourage productivity within the industry?

41 Productivity cannot be divorced from investment and, in turn, investment cannot be divorced from the fiscal framework in which the industry operates. In comparison with many of our European competitors tourism continues to be hamstrung by the number of tourism-specific taxes that collectively hamper the industry's competitiveness and growth.

42 In many other industries such as manufacturing and production, increased productivity is linked to the ratio of input between demand and supply and often measured in output per man hours. Tourism is a labour-intensive activity where its value-added is in the extra supply of labour and staff support, not in its reduction. Too often UK tourism is accused of not paying enough attention to productivity as compared to our European competitors. Yet a CBI study *World Hosts*, 1995

showed that Britain compared favourably regarding productivity levels, particularly in the hospitality sector. These positive trends have continued.

- 43 Tourism has looked closely at better working practices, and engaged techniques such as benchmarking to highlight where improvement can continue to be made. The sector has embraced the National Minimum Wage for those staff with limited skills and has looked to introduce pay incentive schemes as part of the remuneration packages for those higher up the career ladder. New technology has been incorporated wherever possible to help streamline the product; many budget hotels lead the way in this regard. The bid to reduce costs whilst driving up quality is a key business imperative. The DTI Best Practice Forum for the industry, 'Profit through Productivity' continues to harness and promote benchmarking and other best practice activities in the bid to drive up standards across the industry.

Other key drivers of tourism productivity: The Alliance has identified four key drivers of tourism productivity:

- 44 **Fiscal environment:** the government has repeatedly been challenged and continues to side-step the issue of VAT and the discretionary lower levels that are applied to tourism in many of our European competitor destinations, as afforded under the 6th VAT Directive (see Exhibit 5 (p20) *Tourism Spending Priorities*). Rather the Treasury counters that it is waiting for EU VAT harmonisation – a reality that remains a long way off. What is evident is that lower VAT rates on hotel prices and admission tickets have stimulated investment in many of our competitor countries. Such Member State actions have put the UK at a competitive disadvantage. Indeed, the World Travel and Tourism Council Tax Barometer confirms that Britain remains an expensive tourism destination. The industry needs action by Government to address this issue.
- 45 **Product innovation:** Part of the stimulation and attraction of tourism is the innovative approach that it can take to product innovation, investment and demand. Not everything development can be from new build with the result that building repairs play a key role in refreshing the product. A VAT reduction on the cost of building repairs in general, and on listed building repairs in particular would give the sector a significant boost. The industry needs action by Government to address this issue.
- 46 **Investment in skill/training:** The Alliance supports the creation of a Sector Skills Council as part of the industry's aim to raise the level of investment in skills training for those working in the industry – be it tourism, travel, hospitality or leisure. Small businesses cannot shoulder the total burden of training, and too often the issue of poaching of staff is a problem. We welcome the Chancellor's announcement in Budget 2002 that additional funding of £30m will be given to the Learning and Skills Council to encourage small organisations to reach IiP standard.
- 47 In addition, the industry continues to look to train and develop its staff, but many of those with poor literacy and numeracy skills are hampered in their training by these lack of basic skills. Again, we welcome the Chancellor's Budget announcement and are looking to see how the new Employer Training Pilots (launched September

2002) and designed to help train low-skilled staff can work to the benefit of tourism businesses.

Labour shortages

48 Tourism employment follows but at the same time magnifies national demographic trends. Some 17% of its workforce are below the age of 20 years compared to 5% of the total national workforce and it continues to suffer from labour shortages. Older workers and job returnees, particularly under the New Deal, are encouraged to work in tourism. Following the publication of the Home Office White Paper, 'Secure Borders, Safe Havens' the hotel and catering industry in particular welcomes the opportunity to recruit short-term workers from abroad to help ease recruitment difficulties. It will be working with Government to reap the benefits of this scheme.

In Conclusion

49 Researches by the CBI and by other organisations have all come to the same conclusion: there is a strong inter-relationship between government recognition of tourism as an economic generator, tourism's position within the overall governance structure, and the level of public leverage and direction given to support the industry. Given the structural deficiencies inherent within tourism as a diverse economic activity, we remain convinced that tourism needs clear, strong and overt support by Government.

50 Proactive Government support will also serve to raise both the profile and understanding of the industry, the lack of which was much in evidence during the Foot and Mouth crisis. Overall, tourism needs direction and strategic input to help

- increase the number of visitors to the UK;
- maximise the opportunities for the domestic market to compete on a more equitable level with many of the UK's competitor destinations; and for the outbound market,
- ensure that it is not disadvantaged in its operations abroad.

51 The task for tourism is to claw back the losses of 2001 within all these sectors, and to reverse the downward trends that were already evident before 2001.

