

Tourism Alliance DMO Review Submission

1 Introduction

The Tourism Alliance was established in 2001 as the voice of the UK tourism industry. It comprises 65 tourism industry associations that together represent some 200,000 business of all sizes throughout the UK. 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 and is responding to the DMO review in that capacity.

A list of member organisations is included as Appendix B.

2. Background

Tourism is one of the UK's largest and most successful industries. It is the UK's third largest employer, providing jobs for 3.3m people and contributing £145bn to the UK economy. In international terms, the UK tourism industry is the sixth largest in the world based on value, contributing over £30bn pa in export earnings making it the UK's 3rd largest export earner. It is worth noting that foreign visitors spend more on food and drink in the UK than the UK earns from food and drink exports, highlighting that tourism provides a shop window for the country's food producers and suppliers as well as ensuring that we have good community amenities for domestic visitors and residents and supporting other sectors like retail, arts & entertainment and general office businesses.

However, it has a number of unique features compared to other sectors of the UK economy than need to be recognised in the context of this review.

First, tourism is the amalgam of a very large number of diverse businesses. There are over 240,000 business in the tourism sector ranging from accommodation, restaurants and pubs and attractions through to transport and tour operators, outdoor activities, intermediary agencies as well as diverse supply chains made up of many SMEs and artisan producers. All these businesses are integrally linked to one another, often utilising the same infrastructure, consumer base and regulatory framework. Rather than tourism being a single type of business, it is a diverse ecosystem of businesses where each business type depends on the others for its survival and well-being. In the context of this review, DMOs are an integral component of this ecosystem that need to operate effectively for the ecosystem to flourish.

Another unique feature of the tourism industry is that almost 90% of the businesses employee less than 25 people. That the industry is dominated by SMEs and micro-

businesses provides considerable opportunities for growth but also significant challenges in terms of co-ordination.

Finally, the tourism industry is relatively evenly spread around the country with no region in England having less than 100,000 tourism-related employees. In addition, tourism provides over £20bn per annum and almost 350,000 jobs for rural economies and £14bn per annum and 250,000 jobs for seaside destinations. The combined £34bn spend in rural and seaside destinations makes tourism the largest non-governmental mechanism for transferring wealth from urban to rural/seaside destinations and an essential component of the Government's levelling-up agenda.

3. Impact of Coronavirus on the Tourism industry

Tourism and hospitality businesses have been severely impacted by the Coronavirus outbreak. VisitBritain has estimated that, in total, tourism revenue decreased by almost £80bn in 2020. This could well be an underestimate as figures from UK hospitality indicated that in the 2020/21 financial year, the hospitality sector alone lost £80.3bn in revenue. With the marginal cost of a FTE position in the UK tourism industry being approximately £60,000, this means that around 1.3m jobs (40% of all employment in the sector) would have been at risk of being lost without Government support.

The impact of coronavirus on the tourism sector has highlighted the considerable weaknesses that arise from an important industry comprising a large number of diverse small businesses that are dispersed across the country when it comes to providing these businesses with the support needed to ensure they survive and recover from major crises.

The Destination Management Organisations, which are designed to support their local tourism economy, have themselves been shown to be inadequately resourced to be able to undertake this role with many having to cut staff and reduce expenditure just at the time that they should have been coming to the fore. This is not the fault of these organisations but a result of changes in Government policy over many years and an environment of benign neglect under which Government tourism policy has focused on inbound tourism having inexplicably deemed domestic tourism marketing to be of no additional value to the UK economy. This is despite joint research by VisitEngland and the Tourism Alliance which shows that 21% of the revenue generated through domestic tourism marketing is additional to the UK economy due to people not taking holidays overseas.

We therefore look forward to the DMO review rectifying this situation and putting in place a structure that will allow the tourism sector to better realise its potential.

4. Functions of a DMO

The primary purpose of a DMO is to maximise the economic benefits of tourism to their local economy through increased tourism revenue and associated job creation.

To fulfil this purpose, the core functions of DMOs are essentially the same as those of a National Tourism Board such as VisitBritain – to market their area to people outside that area and to undertake research that informs that marketing.

Aside from these core functions, DMOs also have a range of important functions which include:

- Implementing national tourism policies and initiatives at the sub-national level – this includes the new Tourism Recovery Plan
- Supporting wider government policies such as productivity and the levelling up agenda
- Developing tourism product for VisitBritain to market overseas
- Partnering with VisitEngland on national domestic tourism campaigns
- Supporting the improvement of the local tourism offering in order to compete effectively with national and international destinations
- Providing support to businesses to help them grow and survive in times of crisis.
- Monitoring performance, gathering and sharing market intelligence

However, it needs to be acknowledged that DMOs also have a wider “place-making” role in local communities. The provision of better, more joined up experiences and events improves the lives of residents, makes destinations better places to live and increases productivity.

DMOs also have a key role in ensuring that tourism growth and development is responsible and sustainable, and in protecting the natural and historic resources of a destination from inappropriate development. In this way they have an important role in protecting, shaping, improving and evolving local society, land use and culture.

5. Market Failure and the Free Rider Effect

Having set out the functions of DMOs, one of the central questions for this review is, “Who should pay for these functions?”. In addressing this question, it is important to recognise that tourism is fundamentally different to other sectors of the economy in that, with a few exceptions, the success of a particular business is primarily driven by the attractiveness of the destination in which it is located. This is because the majority of tourists choose a destination to visit rather than a specific hotel to stay at or a particular attraction to visit. As such, the marketing of the destination is more important to the growth of tourism in an area than the marketing of specific businesses within that destination.

For most businesses, it is the product or service that they provide that is of prime importance rather than where they are located. Therefore, their marketing is concentrated on their own products and services in the knowledge that they are able to capture all the benefit that derives from the sale of that product or service.

With tourism destinations, Government’s expectation is that because destination marketing benefits all tourism businesses, all tourism businesses should be willing to contribute to this marketing and, therefore, there should be no need for public sector involvement.

However, the reality is very different as there are two main problems associated with relying on a private sector solution for destination marketing. The main difficulty with expecting tourism businesses to voluntarily come together to fund destination marketing is that individual businesses within a destination are unable to capture all the benefit derived from their contribution to that marketing. A business contributing to destination marketing will find that a large percentage of the additional revenue generated by that marketing will go to rival businesses as the visitor will stay at someone else's accommodation or visit someone else's attraction, restaurant or activity.

Many businesses that benefit directly from tourist footfall, most notably the retail sector, have long resisted invitations to contribute to the costs of promoting the destination.

This leads to two significant problems. The first is that the return on investment for any business that contributes to destination marketing will be lower than if they focus their marketing solely on the sale of their products and services. This is a key disincentive for businesses to contribute to destination marketing. The second problem is that, because those contributing to marketing the destination cannot capture all the benefit of that marketing, those businesses that do not contribute anything will benefit from the expenditure of those that do. This incentivises businesses not to contribute to destination market because they will receive a greater return on investment for not participating than if they do – the Free Rider Effect.

Governments around the world recognise this issue and resolve it by funding their National Tourism Office from general taxation. The argument being that because tourism is a benefit to the national economy and to many hundreds of thousands of different businesses, the most efficient mechanism for collecting and allocating funding for marketing activity is through taxation.

6. The Case for Public Funding

As the benefits of destination marketing fall to the destination, then there is a strong case that Local Authorities should resolve the market failure problem through local taxation. To a large extent, this has been the case in England with Local Authorities funding tourism development and promotion either in-house or through an arms-length DMO.

However, this model has come under extreme pressure over the last 12 years. In 2008, Local Authorities in England allocated a total of £122m to tourism development and promotion. Today, this figure is just £57m for two reasons, First, tourism is not a statutory responsibility of Local Authorities, meaning that as Local Authority budgets have come under increasing pressure, funding has had to be diverted from non-statutory functions to maintain statutory functions.

The second problem for local authorities is that they receive little benefit from investing in tourism promotion. The Formula Grant Distribution System means that almost all revenue derived by Local Authorities is collected centrally and redistributed back to Local Authorities on the basis of a set formula that takes little

account of the costs of tourism (an issue that has risen to the fore during the pandemic as councils has faced increased covid related tourism costs). As a result, the link between investment and return is weak, which acts as a disincentive for funding tourism promotion. Instead, without receiving the financial benefit of tourism growth, councils can sometimes see tourism promotion as adding to their financial problems as any promotional activity simply increases the cost of maintaining the public realm (eg., increased rubbish collection, public toilet provision and the maintenance of parks and gardens).

There have been attempts to rectify this problem through the development of Business Improvement Districts (BIDs) and Tourism Business Improvement Districts (TBIDs). While BIDs have proved to be effective in some areas, the number of tourism-related BIDs in England is very small and, in the 10 years since they were introduced, there is yet to be a single TBID – a sign that this is not a viable solution.

7. Future DMO Structure and Funding

With it being estimated that there are up to 170 DMOs in England, one of the main outcomes of this review must be the development of a mechanism that provides structure to this extremely fragmented DMO landscape. At the moment these organisations tend to be in competition with each other as there is very little incentive for them to work together. As a result of this very fragmented landscape, there is:

- No organisation for tourism businesses to work with on marketing opportunities that span DMO boundaries.
- No organisation for VisitEngland to work with on the development and roll-out of national campaigns.
- No person or body that the Tourism Minister can speak to who represents DMOs.

This is a key problem in relation to rebuilding the UK tourism economy in the wake of the Covid pandemic where a mechanism is urgently needed to ensure co-ordination and co-operation on recovery marketing and to move visitors around where demand and supply are out of step.

What is needed, therefore, is for DMOs to be incentivised to work together for the benefit of English domestic tourism both during the covid recovery and in the future. Incentives generally take two forms – regulatory or financial.

Introducing regulation either limiting the number of DMOs or forcing them to amalgamate into a small number of regional bodies is not feasible considering that the majority of DMOs are local authority bodies.

This leaves funding as the only viable mechanism for effecting change. In this context it is important to note that the funding for tourism from Westminster is at an historic low, having been reduced almost 40% from £66m to £40m over the last five years, with VisitEngland receiving just £7m in core funding to support an industry that generates £92bn for the English economy and directly supports 1.7m jobs. These funding levels are being dwarfed by the expenditure of covid recovery marketing that is being planned by many competitor destinations

As shown above, there is a strong case for the use of public funding to support DMOs to counter the problem of market failure. This funding can be provided in a number of ways:

- By allowing Local Authorities to retain a percentage of business rates that is predicated for use on tourism development and promotion
- Through funding from central Government that is allocated via Local Authorities or LEPs
- Through funding from Government allocated via DCMS or VisitEngland

Allowing local authorities to retain a percentage of their business rate income for tourism development and promotion fits with Government policy to devolve greater financial control and would re-establish the link between investment and return, thereby incentivising local authorities to allocate resources to tourism promotion. Similarly, the distribution of funding from pots such as the Shared Prosperity Fund or the Levelling Up Fund would provide funding for DMOs to undertake their primary purpose of increasing the local economic benefits derived from tourism.

However, using these funding mechanisms does not address the problems associated with the current fragmented nature of DMOs. It does not incentivise DMOs to develop a structure that helps liaison with the industry, VisitEngland and DCMS. Nor does it encourage DMOs to work together for the benefit of the national tourism economy or incentivise DMOs to become involved in national tourism programmes and initiatives. Indeed, having a strong local funding stream could even prove to be a disincentive to working collaboratively.

The alternative is for Government to provide funding centrally as a way of both providing support and incentivising DMOs to come together and work collaboratively. A good example of this approach is the Discovery England Fund, which has brought together DMOs, provided benefits to local businesses and supported the international marketing work of VisitBritain.

But instead of being a challenge fund, this approach would provide guaranteed central funding for strategic activity delivered locally in order to provide DMOs with income surety. It would include a number of conditions aimed at resolving the fragmented nature of the DMO landscape. These caveats would:

- Require DMOs to come together to form geographical consortia.
- These consortia would then be required to develop a tourism plan for their area in order to receive funding.
- This plan would be required to include the delivery of core services and support for national campaigns and initiatives.

The Government could set a limit on the number of consortia that it was willing to fund and require all DMOs to be part of a consortium so that there are no holes on the England DMO landscape. Rather than specifying which DMOs were in each consortium, a grass-roots up approach would leave it to DMOs to form consortia that make sense in terms of destination marketing.

Funding for each consortium could vary depending on a number of factors including current tourism levels, future potential or need, but it should include some resource to provide administrative co-ordination and implementation of national strategic

priorities. It should be noted that the purpose of these consortia would be simply to liaise with DCMS and VisitEngland on the delivery of national initiatives, programmes and priorities, while local tourism development activities would remain at the DMO level.

Having a limited number of consortia provides the opportunity to then form a national board of DMO consortia that would liaise with VisitBritain/VisitEngland and DCMS and provide a point of contact for tourism businesses wanting to work with DMOs on national campaigns. It would also provide a much stronger political voice for DMOs, enabling them to better engage with Government on issues impacting local and regional tourism development.

There are two possible sources for the funding required to incentivise DMOs to form consortia – creating a new funding pot within DCMS's departmental allocation that is overseen by either DCMS or VisitEngland, or top-slicing an existing fund for distribution through DCMS or VisitEngland.

Over the last two years, the Government has announced a wide range of funds including the UK Community Renewal Fund, the Towns Fund, the Levelling Up Fund and the Shared Prosperity Fund. Of these, the Shared Prosperity Fund would seem the most likely candidate to top-slice for tourism as it is an ongoing fund and the Government's flagship policy for delivering the levelling up agenda. It will target people and places most in need across the UK, focusing on domestic priorities that help local communities build back better from the COVID-19 pandemic and will be aligned to the Government's net zero objectives.

Top-slicing this fund to support tourism consortia is warranted as domestic tourism development is a key means for the Government to achieve its objectives of helping regional economic levelling-up, supporting the redevelopment of local communities and increases in domestic tourism will help the Government meet its net zero targets.

Tourism represents 7.2% of UK GDP. As such, it would be appropriate for 7% of the Shared Prosperity Fund to be allocated to the consortia through DCMS or VisitEngland.

This would equate to the distribution of £100m per annum. When the Regional Development Agencies had statutory responsibility for sub-national tourism development and promotion, they allocated approximately £65m per annum to the sector. Adjusted for inflation, this equates to just over £90m today, meaning that the allocation of £100m in Shared Prosperity Funding to tourism would be consistent with both the economic contribution of the sector and the level of central Government funding that has historically been allocated to sub-national tourism development in England.

The allocation of central government funding for the DMO consortia would not mean that DMO's were solely funded by central Government. They would continue to have a range of other funding streams including their members, local authorities and commercial partners. What the central government funding would do is provide a stable funding stream that would augment more variable sources of funding. This would make DMOs more financially resilient in future and better able to fulfil their

function of providing local business support in times of crisis rather than having to seek additional funding themselves.

8. Reviewing VisitEngland's Remit

The provision of a sustainable funding stream and a coherent structure for support sub-national tourism development cannot occur within a policy vacuum. With the increased recognition of the importance of domestic tourism to the Government's levelling-up agenda and the rebuilding of communities post Covid, the resolution of the issues facing DMOs must be accompanied by the refocusing of the role and remit of VisitEngland.

VisitEngland was established in 2010 as the Government body responsible for domestic tourism development and promotion. However, in 2015, the Government decided that VisitEngland should no longer undertake domestic tourism marketing and that its role should be restricted to business support and product development to support inbound tourism.

While there has been some movement from Government which has allowed certain domestic marketing campaigns in recent years, there needs to be a thorough re-examination of the role and remit of VisitEngland in the growth and development of domestic tourism.

Associated with this is the need to develop a tourism strategy for England. The effective demise of the Industrial Strategy, and with it the Tourism Sector Deal, will mean that there is a policy void for the growth and development of tourism in England. With the domestic tourism being such a large and important component of England's economy, generating £92bn for the economy and directly supporting 1.7m jobs, it is important that DCMS develop a strategy for its development and growth. This strategy will identify opportunities, needs and priorities and provide the basis for VisitEngland to negotiate funding agreements with the DMO consortia.

While DCMS's forthcoming Tourism Recovery Plan will set-out the Government's response to rebuilding the tourism industry, the England Tourism Strategy would operationalise this plan for the domestic tourism sector. At its heart must be a clear vision of how tourism should be developed to the benefit of the economic, social and cultural life of England and its natural and cultural heritage, clearly identifying and evaluating the target markets and understanding the actions required to realise those markets. The strategy must have a clear spatial dimension, recognising the different opportunities that exist in different parts of the country and setting out the strategic, multi-regional and thematic initiatives to realise those opportunities.

9. Two Further Issues

Finally, there are two separate policy issues that the DMO Review should make recommendations on in order to strengthen DMOs and enhance their ability to provide growth for their local economy – Statutory Registration and the Package Travel Regulations.

One of the main learnings from the Coronavirus outbreak is that there needs to be better communication between DMOs and tourism businesses in their area in order for DMOs to provide the support that tourism SMEs need. Communication is currently limited to businesses that are members of the DMO which leaves many businesses unable to access the information and support they need. This can easily be resolved by introducing statutory registrations which, along with providing benefits for businesses and Local Authorities, would also provide DMOs with more ability to engage with businesses and shape tourism locally.

The second issue is the Package Travel Regulations. These regulations are an unnecessary burden on the ability of small domestic tourism businesses to work together to provide Value Added deals to incentivise people to start travelling. They are also a barrier for DMOs wanting to work with their members to develop local tourism products to support marketing campaigns and sell these products on their website. The Tourism Alliance has calculated that amending the regulations would generate £2.2bn in additional domestic tourism revenue and generate 40,000 additional jobs.

Further details related to both these issues are contained in Appendix A

The Tourism Alliance would once again like to express its support for the DMO Review. This review comes at a critical time for the industry and provides a significant opportunity to rectify sub-national tourism structures and funding within England in order to maximise the ability for the tourism industry to play a leading role in the recovery of the UK economy from the coronavirus epidemic. The tourism industry has always shown that it has this ability. After the Global Economic Crisis, ONS research showed that the tourism industry provided a third of all new jobs between 2010 and 2013. We are confident that we can similarly lead this recovery if provided with the right support. The DMO review is central to this ambition – with the right structure and a sustainable funding stream in place, the industry is well posed to deliver on both the recovery and on the Government's wider levelling up agenda.

If there are any aspects of this submission that you would like further clarification or detail, please let me know.



Kurt Janson
Director

President: Sir David Michels
Chairman: Kate Nicholls
Director: Kurt Janson

Appendix A

Statutory Registration

One of the key functions of DMOs is to support local tourism businesses in times of crisis. This support includes making the operators of the many micro-businesses that comprise the local tourism economy aware of:

- the impacts of the crisis on the industry and their business.
- the changing rules and regulations that apply to their business.
- what operators need to do to operate in a safe and secure manner.
- what support is available to businesses.
- what opportunities are available.

For DMOs to be able to undertake this function, they need to have an extensive communication system to relay information to all businesses in their area. The coronavirus pandemic has highlighted the fact that current communication systems are inadequate as membership of a DMO is voluntary, and neither DMOs nor Local Authorities have a database of all tourism businesses in their area.

The way to resolve this is to introduce a low -cost statutory registration scheme based on implied consent akin to the requirement to register businesses that sell food and drink (implied consent means that the act of registering a business provides permission for the business to operate – so it cannot be used to restrict business). The legislation to do this is already available within the Development of Tourism Act 1969 and simply needs the Minister to develop and implement a suitable scheme.

Introducing statutory registration automatically provides DMOs with an effective and efficient communications channel. It also resolves a number of other problems such as the illegal operation of businesses, while giving both DMOS and LAs a much better understanding of the size and nature of the tourism industry in their area and a greater ability to engage with businesses and develop local tourism products and services. It also provides regulators with a full list of businesses in their area so that they can prioritise their inspection regimes more effectively.

Package Travel Regulations

The Package Travel Regulations is EU based legislation designed to protect consumers who are taken on holiday by tour operators. The legislation provides these consumers with two main protections:

1. Repatriation

Travel agents and tour operators are required to be bonded so that if the company goes bankrupt, customers are not stranded overseas

2. Liability

Travel agents and tour operators are made legally responsible for the satisfactory performance of all aspects of the package they provide so customers do not have to pursue foreign businesses through foreign courts.

These are very important protections. However, the way that the Package Travel Regulations are written means that small domestic tourism businesses are deemed to be tour operators when they work together to provide customers with Value Added products. For example, a B&B advertising a weekend stay with tickets to a local attraction, a meal in a local pub or an activity such as a round of golf or watercolour lessons, is deemed to be selling "Package Travel". As such, the B&B operator is held to be legally responsible for all aspects of this "package" meaning that if the customer is injured while visiting the local attraction, pub or golf course, the customer can sue the B&B operator. This severely restricts the ability of local businesses to work together to provide customers with better value deals.

Where this impacts DMOs is that the PTRs severely restrict the ability of DMOs to sell their members' products and services through their websites. Even if a customer books accommodation and activities in the area separately on the website, the PTRs can still deem that a Package has been formed and the DMOs then becomes legally responsible. This risk both removes a significant potential income stream for DMOs, but also restricts their ability to work with their members to develop marketing campaigns that include offers and deals that drive sales.

The Tourism Alliance has calculated that amending the Package Travel Regulations by simply changing the definition of a package so that it must include travel, would retain the current benefits while boosting domestic tourism by £2.2bn per annum and generating around 40,000 additional jobs.

Now that the UK has left the EU, the government is free to amend the PTR in this way. BEIS has undertaken to review the legislation this year, giving the opportunity for the amendment to be part of the outcome of the Tourism Recovery Plan and the DMO review.

Appendix B.

Tourism Alliance Membership

ABTA - The Travel Association
Airport Operators Association
AIPO
ALVA
ANTOR
Association of Group Travel Organisers
ASAP
ATHE
BACTA
BIAZA
Bed & Breakfast Association
British Beer & Pub Association
British Destinations
British Educational Travel Association
British Holiday & Home Parks Association
British Marine Federation
Business Visits & Events Partnership
Camping & Caravanning Club
Caravan and Motorhome Club
Churches Visitor and Tourism Association
Coach Tourism Association
Confederation of Passenger Transport
Country Land and Business Association
Cumbria Tourism
English UK
European Holiday Home Association
European Tour Operators Association
Experience Oxfordshire
Family Holiday Association
Go New Forest
Group Travel Business Forum
Heritage Railway Association
Heritage Alliance
Historic Houses
Holiday Home Association
Institute of Tourist Guiding
Liverpool City Region LEP
Marketing Cheshire
Marketing Manchester
National Caravan Council
National Coastal Tourism Academy
National Trust
Outdoor Industries Association
Professional Self Caterers Association
Premier Cottages
Resort Development Organisation
Road Haulage Association
South West Tourism Alliance
The Tourism Society
Tourism For All
Tourism Management Institute
Tourism Consultants Network

Tourism South East
UKHospitality
UKinbound
Visit Brighton
Visit Cornwall
Visit Greenwich
Visit Kent
Visit Northumberland
Visit Wiltshire
YHA

Observers

Local Government Association
VisitBritain
VisitEngland