*Tourism*Alliance

Annual Report
2006

Priorities

Removing Barriers

There is a range of fiscal and regulatory barriers that increase the cost of doing business and reduce the competitiveness of the UK as a destination. These barriers include imposed regulation that adds little to consumer protection and a taxation regime whereby tourists in the UK pay 50% more tax on products and services than they do on the same products and services purchased in continental Europe.

Improving Quality

For tourism to prosper, businesses must provide the high quality visitor experience that consumers want, at a price they are prepared to pay. The tourism industry requires Government to take a proactive approach to planning and regulation that fosters enterprise and investment in new and innovative products, while ensuring appropriate environmental protection.

Developing Skills

One of the greatest challenges facing the tourism industry is gaining and retaining skilled staff. Staff turnover within the industry is high, especially at junior levels and, with a shortage of skilled and qualified staff, recruitment can be difficult. Further Government initiatives that promote learning and utilising the skills and creativity of everyone in society is crucial to a globally competitive tourism industry.

Increasing Investment

There is a need for increased Government investment in areas such as marketing and the provision of high quality statistical information essential for investment decisions within the industry. Policies are also required that encourage tourism businesses to invest in the UK's historic and cultural assets so that they are preserved and continually improved as a driver for both inbound and domestic tourism.

Chairman's Report

It has been a challenging year for the UK tourism industry; highlighting our strengths and our weaknesses.

It is now some eighteen months since I took over as Chairman of the Tourism Alliance and, with Kurt Janson as our Policy Director, I do believe that the Tourism Alliance has made considerable progress. We now have some 47 trade associations and other organisations in membership who together represent over 200,000 businesses across the leisure and hospitality industry.
We continue to enjoy the support of VisitBritain, the Local Government Association and the Regional Development Agencies who now have responsibility for tourism. Seven out of the nine regions are now in membership through their local delivery agencies, which have taken over in many regions from Regional Tourist Boards.

The Tourism Alliance fulfils a number of roles. One of the most important is communication so that all members know what issues need to be tackled and can support many of our initiatives, particularly on the lobbying front.
A monthly newsletter and early alerts on issues of importance are sent to all members. We hold monthly meetings with DCMS officials and engage them as our sponsor Department in helping resolve issues from other Government Departments, which so often impose legislation and regulation on our sector.

Working with our members, we aim to host one breakfast meeting a month either with a Minister, a shadow minister or a senior parliamentarian to ensure they are well briefed on our concerns. This encourages our members to work together on issues that are often of as great a concern to one trade association as they are to another and which affect our ability to provide for overseas and domestic tourists. We have made progress, with the support of DCMS, on increased visa charges (although they have certainly not reduced), the proposed accommodation tax from the Lyons Inquiry, and on the Good Practice Guide to Planning for Tourism. I have also sat on Ministerial Groups on liquor licensing, better regulation and the tourism opportunities provided by London 2012.

Both the London bombings last July and, more recently, concerns over avian flu have tested the TIER (Tourism Industry Emergency Response) group, on which the Tourism Alliance plays an important role. When times are hard it is essential that messages to the media and the public are thought through and owned across Government. As we learnt from Foot and Mouth, detrimental images can be repeated across the world and have a dramatic affect on our ability to attract tourists. The participation of the Tourism Alliance in TIER and its communication both upwards and downwards are vital to the success of the UK tourism industry.

Finally, I must thank the Board of the Tourism Alliance for all their support. In particular, our new Treasurer, Stephen Dowd, who has taken over the management of the Tourism Alliance accounts and Company Secretary, Tony Millns, who ensures the smooth running of the organisation. I must also thank Kurt Janson for his impeccable briefings and well-written, persuasive papers, submissions and research. I would also like, on behalf of the all Tourism Alliance members, to thank Sir Digby Jones, Director-General of the CBI, who has been an extremely supportive and active Tourism Alliance President. We wish him well as he moves on and look forward to working with his successor on such a vital part of the UK economy.

Whilst I will be handing over my chairmanship of the Tourism Alliance at the AGM, I will continue to support all it is doing and attend meetings to represent the organisation as and when I can add value.

Brigid Simmonds

Chairman

Status of the UK Tourism Industry

The last 10 years have seen significant changes in the global market, and its attitude towards the UK as a destination of choice.

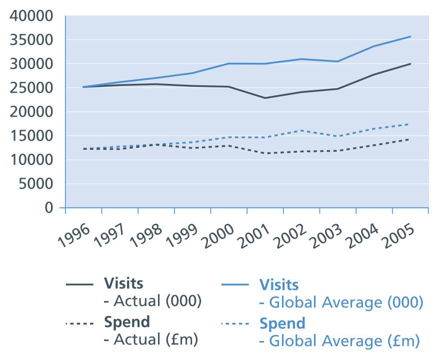
The 2005 year was difficult for the UK tourism industry. Inbound tourism started the year strongly with visitor numbers 12% ahead of 2004 by June. Then came the suicide bombings the day after London had won the right to stage the 2012 Olympics and visitor numbers began to fall markedly. Econometric modelling that the Tourism Alliance, the LDA, VisitBritain and Visit London commissioned from Oxford Economic Forecasting indicated that, as a result of the bombings, the overall results for 2005 would be up only 4% over 2004 and that the industry would take two years to recover.

However, by the end of the year, International Passenger Survey figures showed that despite the London bombings, the number of visitors to the UK had risen by 8.0% to a record 30.0m and visitor expenditure had risen by 9.3% to a record £14.3bn. This is not to say that it was a good year for all sectors of the industry – many London attractions saw visitor numbers remain 20-30% down at the end of the year as parents decided not to risk bringing their children into the city. Particularly affected was the important domestic day-visitor sector, which represents a third of the whole market.

But while 2005 ended as generally a good year for tourism, the record inbound tourism figures mask two fundamental problems that affect the UK tourism industry – the UK's under-performance in the international tourism market and a further increase in the UK's tourism deficit.

Although inbound tourism has increased significantly in the past two years, it has considerably under-performed the average global growth rate over the last 10 years. If the growth in inbound tourism to the UK had matched the global average over this period, in 2005 the UK would have received an additional 5.7m visitors who would have spent an additional £3.2bn in the country.

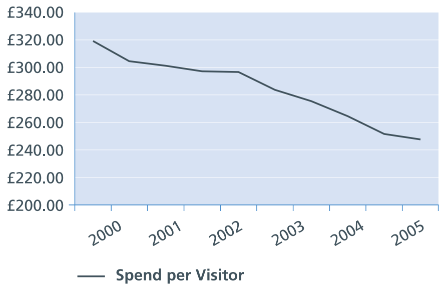
UK v Global Tourism Growth



This additional expenditure would have generated a further 75,000 Full Time Equivalent jobs in the tourism sector. So although inbound tourism has increased significantly over the last two years, it remains considerably lower than it should be. Indeed, it will take another five years of 8% growth in order for visitor numbers to reach the level they would have been had the UK achieved the average global growth rate over the last decade.

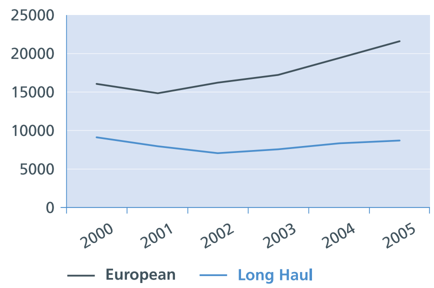
One of the main reasons for the UK's underperformance is the fact that the real level of expenditure by overseas visitors to the UK has been declining. The graph of spend per visitor indicates that, in 1996, visitors to the UK spent an average of £320 per visit. By 2005, when adjusted for inflation, the average expenditure per visit had fallen 22% to £250 per visit.

The Level of Spend per Visitor to the UK, 1996 - 2005



Some of this decrease is caused by improved transport links to the UK – especially the boom in budget airlines – allowing move visitors to undertake shorter weekend breaks. However, this alone does not account for all of the decrease. The main problem has been that the number of longer staying, higher spending visitors from long-haul markets has stagnated while the growth has come from shorter staying, lower spending short-haul markets. Indeed, from 2000 to 2005 the number of visitors from long-haul markets actually fell 8% from 9.1m to 8.4m while the number of visitors from Europe rose 34% from 16.1m to 21.6m over the same period. As long-haul visitors spend an average of £786 per visit compared to an average of £356 per visit for short-haul visitors, the impact of the UK's under-performance in the long-haul markets is obvious.

Visitor Numbers: European v Long Haul



Also of considerable concern is that, although inbound tourism revenue grew by £1.2bn in 2005, the number of UK residents travelling overseas rose by 2.3m and their expenditure rose by £1.9bn. This means that the UK's tourism deficit grew by a further £700m during 2005 to £17.9bn. At this level, the tourism deficit now represents 40% of the UK's total trade deficit.

The growth in the tourism trade deficit is a good indicator of the international competitiveness of the domestic tourism industry. If outbound tourism increases at a greater rate than inbound tourism, this indicates that the UK's competitiveness is decreasing in comparison to the rest of the world.

The reason for this lack of competitiveness is easy to spot – the UK has one of the highest levels of taxation on visitors of any country in the world. The World Travel and Tourism Council's taxation barometer lists the UK as imposing the second highest rate of taxation on visitors of any country in the world. This is supported by VisitBritain's tourism taxation research which found that visitors to the UK pay an average of 50% more in tax than they do in other major European destinations. Many of these competitor destinations have implemented reduced rates of VAT on accommodation and restaurants in order to boost their tourism earnings.

The Tourism Alliance is committed to working with Government to increase the competitiveness of the UK tourism industry. There is a real need however, for cross-departmental working. Too often Government departments impose costs on the sector with little thought of the consequences. For example, in 2005, visa charges for foreign nationals entering the country increased by between 39% and 136% without any prior consultation and the cost of alcohol licences increased substantially with many owners of small guesthouses now paying the same fee for their premises licence as pub and night-club operators.

Unless the fiscal barriers under which the UK tourism industry operates are reduced, UK businesses will struggle to compete in the international market. And if the UK tourism industry is uncompetitive in the international market, it is going to be almost impossible for the Government to achieve its target of generating £100bn in tourism revenue by 2010.

The Year in Review

A challenging future lies ahead, but major opportunities can be found in new markets.

Four key issues that the Tourism Alliance has tackled point the way.

While 2005 was highlighted by two events occurring on consecutive days that would have significant impacts on the tourism industry – winning the 2012 Olympics and the terrorist bombings in London – there was a wide range of new legislation and Government initiatives that made the year particularly important for the tourism industry.

There was also the General Election in May, which saw the Labour Government returned for an unprecedented third term. For the election, the Tourism Alliance produced a manifesto of key policy issues that needed to be addressed by the incoming Government if the UK tourism industry was to remain globally competitive and achieve the Government's target of growing to a £100bn per annum industry by 2010.

The main issue identified in the manifesto was the need to resolve the structural and funding problems caused by the devolved political environment in which the industry operates. As part of finding a solution, the Tourism Alliance supported the efforts of VisitBritain and the Regional Development Agencies in their 'Partners for England' initiative to foster a closer working relationship between industry, RDAs and VisitBritain.

In addition, the manifesto identified a range of regulatory and fiscal barriers that increase the cost of doing business and reduce the competitiveness of Britain as a destination. These barriers include regulation that adds little to consumer protection but either significantly increases the costs associated with running a business or reduces the flexibility of businesses to respond to changes in the business environment. The impact of burdensome regulation, which has grown considerably in recent years, is particularly damaging for the SMEs that represent the majority of the UK's tourism businesses.

There are also significant fiscal barriers to the UK remaining internationally competitive. Tourists in the UK pay an average of 50% more tax on the products and services that they purchase in Britain than they do on the same products and services purchased in continental Europe. To counter this the tourism industry requires an enlightened tax regime that fosters enterprise and growth, and encourages investment in the key historic and cultural assets on which the industry is based.

Third, there remains a need for the Government to increase its investment in areas such as international and domestic marketing and the provision of high quality data essential for investment decisions within the industry. Indeed, a review of tourism statistics undertaken by DCMS's Tourism Statistics Improvement Initiative Working Group found that both the quality and quantity of official tourism statistics are currently inadequate to meet either the needs of the industry or the UK's international commitments.

These issues formed the basis of the Tourism Alliance's discussions with DCMS and the new tourism minister, James Purnell, throughout the rest of 2005.

Within the Tourism Alliance, 2005 saw the restructure of the organisation continue with the aim of increasing the effectiveness of Tourism Alliance communications and returning the organisation to a balanced budget by the end of the year. Both these targets were achieved; registrations on the website increased by over 50%, recipients of the monthly newsletter increased by 150% and daily downloads from the website increased by over 100%, while the organisation realised a balanced budget at the end of the year with a projected surplus for 2006.

Main Policy Issues

Planning Guidance

In July 2005, the ODPM (now the Department for Communities and Local Government) produced a draft Good Practice Guide for Tourism Planning aimed at ensuring that planners understood the importance of tourism and took this fully into account when preparing development plans and taking planning decisions.

The Guide, first drafted by consultants in 2004, and later developed within ODPM, was poor. Tourism was treated as simply another business and there was none of the essential sector-specific guidance currently provided in Annexes A to C of PPG21. Under considerable pressure from the Tourism Alliance and DCMS, ODPM agreed to redraft the Guide with a small group of industry experts drawn from the BH&HPA, LGA, DCMS and regional tourism representatives and chaired by Brigid Simmonds of Business In Sport and Leisure (Chairman of the Tourism Alliance).

The resulting Good Practice Guide was launched in May 2006 and was deemed by many to be an excellent example of what can be achieved by Government Departments and interest groups working together on policy development. Indeed, it was praised by Humbert Leisure as being the best thing that had happened in tourism planning for 25 years.

The key elements of the Guidance are:

- The Guide adopts the World Tourism Organisation definition of tourism, which makes it clear that it covers business tourists and day visitors as well as overseas and domestic tourists.
- The Guide recognises the crucial importance of tourism to this country in that it contributes £74 billion to GDP; is the UK's third largest foreign exchange earner after oil and vehicles; contributes £11.8 million to the national exchequer in terms of the tax paid by tourists on goods and services; and that 2.2 million people (7.7% of the UK workforce) work in tourism.
- The Guide addresses the promotion of more sustainable transport but recognises this may be particularly difficult for some types of tourism development or in areas that are poorly served by public transport, and that some developments (e.g. touring sites for caravans) are car dependant.
- The Guide acknowledges that tourism can bring broader benefits by being the focus of regeneration in urban and rural areas. It can offer social and economic benefits, bring derelict land and buildings back into use, and effectively utilise historic buildings, archaeological sites and rural landscapes. It can be the mainstay of local economies and provide valuable benefits for local communities with the provision of jobs and facilities.
- Specific annexes on Tourism Accommodation and Seasonal and Holiday Occupancy Conditions complement the current guidance in PPG 21 (Tourism) and are hugely important to these sectors.
  The Accommodation Annex also recognises the importance of budget hotels and staff accommodation.

The Tourism Alliance is now working with DCLG and DCMS to help ensure that the new Guide is promoted to local authority planning departments so that it can be used to inform tourism planning decisions as soon as possible.

Lyons Inquiry

The Lyons Inquiry was established by Government to determine how local authority funding could best be reformed and what other sources could be used to raise supplementary revenue. In its consultation document, the Inquiry asked for views on how visitors could pay for their usage of services and facilities providing by councils.

The Tourism Alliance highlighted the fact that the UK is already a highly taxed destination, with visitors paying 50% more in tax than they do when purchasing the same products and services in other major European destinations. It is estimated that tourists in the UK pay approximately £12bn per year in VAT receipts alone. The problem therefore, is not that tourist do not "pay their way" but, rather, that the taxes they pay are not being directed toward funding the maintenance and development of the public services and facilities that they use.

Despite warnings from the tourism industry about the impact of increasing the tax burden of tourists, in December 2005 the Lyons Inquiry interim report stated that they were still interested in exploring the use of a tourism tax to provide additional funding for local authorities. In essence, this would probably be a bed tax as this is the easiest way of targeting visitors to a destination and is used in a number of overseas countries.

The Tourism Alliance has therefore joined with BHA, Travelodge, VisitBritain, Visit London and the Bed and Breakfast Association to lobby on this issue, pointing out that it is a blunt instrument that would only target 5% of visitors and yet, if introduced at a rate of 10%, would reduce £1.3bn in tourism revenue and cause the loss of 32,000 jobs in the industry.

Considerable effort has been put into raising awareness of the issue within the industry and briefing ministers and officials about the detrimental impact that an additional tax would have on both the inbound and domestic industries. Support in opposing the introduction of a bed tax has come from across the House with all main parties opposing the introduction of such a tax.

Work on opposing the introduction of a bed tax will continue until the final Lyons Inquiry report and recommendations are published at the end of 2006 and, if it remains a recommendation, the lobbying will continue to ensure that the recommendation is not implemented.

Main Policy Issues continued

Licensing Fees

The licensing fee regulations came into effect in February 2005, giving businesses until 6 August 2005 to apply for a new licence under a grandfather rights scheme before existing licences ceased to be valid on 24 November 2005.

While the Tourism Alliance supported the change to a new licensing scheme and a cost-based approach to licensing fees, there continue to be three categories of business where the new fees are out of all proportion to alcohol sales and the cost of licensing assessment. These being;

1. Businesses with low alcohol sales

Typically, revenue from alcohol sales at many B&Bs and guesthouses is less than £1000 per annum. With the cost of a licence having increased from £30 for three years to around £300 per annum, it is now uneconomic for many small businesses to provide alcohol to customers. As a result, these businesses have either not applied for a new licence or have had to bear the cost with little prospect of recovering their outlay.

2. Businesses with disproportionately high rateable values

There are many businesses such as holiday parks where there is a small shop or clubhouse that sells essentials to visitors or members. Sales are low and occur in a very small part of the property, which itself is large and has a high rateable value. Thus, because the fees are based on the rateable value of the entire property, they are out of keeping with the level of sales generated by the business.

3. Businesses that hold temporary large-scale events

Many historic houses and estates hold large events over the summer period that generate much needed revenue to maintain the property. These events range from horse trials and agricultural shows through to classical music and rock concerts. The new fees for licensing these events are up to £64,000 which adds considerably to the cost of an event and puts these businesses at a competitive disadvantage when competing for events against purpose built venues.

The Tourism Alliance spent 2005 lobbying DCMS and the Independent Licensing Fees Review Panel to amend the licensing fees schedule to include a new nominal fee level for businesses with low alcohol turnovers and for the costs associated with licensing Temporary Large Scale Events to be reduced. These changes need to be introduced if the consumer choice offered by small businesses is not to be reduced for the sake of a “one-size-fits-all” fees structure and if the ability of historic estates to continue to be self-funding is not to be restricted.

The Independent Licensing Fees Review Panel’s report is due out in Autumn 2006.

Visa Charges

On 1 July 2005, UKvisas increased the cost of visas to the UK with a standard six month multiple entry visa increasing by almost 40% from £36 to £50 and a student visa increasing by over 130% from £36 to £85. These increases were undertaken as part of the Government's requirement for UKvisas to be self-funding and were implemented without the tourism industry, or other government departments, being consulted.

Three months after the implementation, UKvisas reported that, while there had been an 18.1% fall in the number of visa applications, this decrease was attributable to the London bombings of 7 July and the increased cost of travel resulting from airlines introducing fuel surcharges causing a decline in travel to the UK.

However, the Tourism Alliance's analysis indicated a different story. International Passenger Survey data showed that although the London bombings had slowed the growth in inbound visitor numbers from 13.1% to 5.4% (a decrease of 7.7%), inbound tourism was still growing after the London bombings. The 7.7% decrease in the rate of growth of visitor numbers due to the London bombings did not, therefore, fully account for the 18.1% decrease in the growth of visa applications experienced by UKvisas. Also, an analysis of inbound visitors from all long-haul destinations showed that visitor numbers where still rising in the second half of 2005. As long-haul visitors would be expected to be most affected by a fuel surcharge, this tended to discount fuel surcharges as an explanation for the decrease.

Overall, therefore, 10% of the decrease in visa applications that occurred after 1 July 2005 could not be explained other than being caused by the increased charges. This finding was supported by an econometric model developed by VisitBritain that predicted that the increased visa costs would reduce the UK's tourism earnings by at least £100m per annum.

In addition, outbound tour operators in the affected markets stated that the increased charges were causing their customers to switch to other destinations and creating a feeling of bad-will toward the UK. This, in turn, is supported by a Home Office study that states that increasing the cost of obtaining visas also increases overseas visitors' perceptions of the UK as being an unwelcoming country.

To determine more accurately the impact of the increased visa charges, the Tourism Alliance, VisitBritain, ETOA and UKinbound undertook an econometric analysis of the China and India markets. This study indicated that the increased charges have resulted in the UK loosing in the order of £160m in overseas revenue from these markets alone.

This study is being used to brief Home Office officials and Ministers on the impact of the current visa fees structure on inbound tourism. It is hoped that an agreement can be reached to ensure that UKvisas adopts a price-competitive visa fee structure so that the UK can effectively compete in the international tourism market.

Tourism Alliance Financial Report

For the period 1st January 2005 to 31st December 2005. All figures exclude VAT.

	£	£
Balance B/Fwd – 1st Jan 2005		**(£23,197.38)**
Subscription – 2005		
9 members @ £350 each	3,150.00	
1 member @ £500 each	500.00	
7 members @ £555.56 each	3,888.92	
6 member @ £1.000 each	6,000.00	
1 members @ £1,200 each	1,200.00	
3 members @ £1,500 each	4,500.00	
2 members @ £2,500 each	5,000.00	
1 members @ £3,000 each	3,000.00	
7 members @ £5,000 each	35,000.00	
		62,238.92
		£39,041.54
Cash Call – 2005		
2 members @ £70.00 each	140.00	
7 members @ £179.00 each	1,253.00	
1 members @ £300.00 each	300.00	
2 members @ £500.00 each	1,000.00	
1 members @ £600.00 each	600.00	
6 members @ £1,000.00 each	6,000.00	
		9,293.00
All Party Tourism Dinner – 6th Dec 2005		
17 tickets @ £117.40 each		**1,995.82**
Expenses – 2005		
K Janson – Jan to Dec – Fees	39,499.96	
K Janson – Jan to Nov – Expenses	1,239.65	
		(40,739.61)
Wordsmith – Press Release & Postage		(95.24)
Annual Rtn Fee for TA Ltd		(15.00)
Office Administrative Expenses		(162.30)
Auditors Fee for Y/End 31/12/04		(420.00)
Brochure & Business Card Print		(1,036.00)
Carrington Griffin Design		(1,249.01)
Cost of Dinner – All Party Tourism Dinner		(2,113.20)
Novacaster – Annual Maint for Website		(1,500.00)
Book-Keeping Recharge – Jan to Dec		(3,000.00)
Cash Balance as at 31st Dec 2005		**£0.00**

Tourism Alliance Members

Full Members

Association for Tourism in Higher Education
Association of British Travel Agents
Association of Leading Visitor Attractions
Association of Licensed Multiple Retailers
British Amusement Catering Trade Association
British Association of Leisure Parks, Piers & Attractions
British Beer & Pub Association
British Educational Travel Association
British Hospitality Association
British Holiday & Home Parks Association
British Institute of Innkeeping
British Resorts and Destinations Association
Business In Sport and Leisure
Business Tourism Partnership
Camping and Caravanning Club
Confederation of British Industry
Confederation of Passenger Transport UK
Country Land and Business Association
Cumbria Tourist Board
Destination Performance UK
East of England Tourist Board
English Historic Towns Forum
English UK
European Tour Operators Association
Heart of England Tourist Board
Heritage Railway Association
Historic Houses Association
Historic Royal Palaces
Holiday Centres Association
ILAM
National Caravan Council
National Trust
Outdoor Industries Association
South West Tourism
The Bed and Breakfast Association
The Caravan Club
The Tourism Society
Tourism for All
Tourism Management Institute
Tourism South East
UKinbound
Visit London
Visitor Attractions Forum
Yorkshire Tourist Board

Associate Members

Local Government Association
SouthWest RDA
VisitBritain

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