

# ***Tourism Alliance***

*The Voice of Tourism*

## **TOURISM SPENDING PRIORITIES**

**Recommendations of the Tourism Alliance**

**Tourism Alliance  
Centre Point  
103 New Oxford Street  
London WC1A 1DU**

**T: +44(0)20 7395 8238**

**F: +44 0)20 7395 8178**

**Email: [tourismalliance@cbi.org.uk](mailto:tourismalliance@cbi.org.uk)**

**W: [www.cbi.org.uk/tourismalliance](http://www.cbi.org.uk/tourismalliance)**

**April 2002**

## **THE TOURISM ALLIANCE**

This paper is submitted by the newly created Tourism Alliance 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. It represents some 250,000 businesses. In addition, its work is acknowledged and supported by leading national tourism bodies. The Chairman is Digby Jones, Director-General of the CBI.

The Alliance seeks to:

- Create a united voice for tourism at the national level and work towards industry-wide cohesion on a number of issues.
- Identify and develop policies and strategies to raise standards and promote quality within the industry.
- Work with and lobby government, both in Britain and in Brussels, on key issues relevant to the growth and development of tourism.
- Liaise with the media on issues of common concern facing the tourism industry.

## Contents

Chairman's foreword	3
Executive outline summary	9
Introduction	11
Section 1: <b>Public Expenditure</b>	16
Section 2: <b>Creating an effective tax environment for tourism</b>	19
Section 3: <b>Stimulating SME activity to raise quality</b>	24
Section 4: <b>Marketing and promotion: drivers of investment</b>	31
Section 5: <b>London as the major gateway</b>	35
Conclusion	41
Annex 1: Pre-Budget 2002 letter to the Chancellor of the Exchequer	43
Annex 2: Raising the quality of accommodation	47
Annex 3: The case for domestic marketing of England	53
Annex 4: The Tourism Alliance Executive Group	55

## TOURISM SPENDING PRIORITIES

## CHAIRMAN'S FOREWORD

### A FIVE YEAR VISION FOR TOURISM

The Tourism Alliance has been formed by the industry to create a voice for the industry. The Alliance will work with key stakeholders and the Government to raise the profile and recognition of the importance of tourism to the economy. It will also work to raise the quality of the tourism product and to liaise with all key players regarding important issues of concern.

The starting point for this report is the recognition that reform and modernisation are now urgently needed to improve the shape, product, quality and operational environment for the enhanced delivery of tourism<sup>§</sup> in England today.

Tourism is a devolved power yet it continues to be affected by measures delivered through a number of Government Departments. We note that issues such as taxation and training will impact on all the national administrations.

The aim and purpose of this report is to identify longer-term strategic spending proposals and priorities for tourism that will assist the industry with its determination to achieve within five years, renewed growth, competitiveness and overall sustainability. We seek to increase the return on investment that Government currently makes in this area. The Tourism Alliance has set down some challenging but deliverable targets. It is confident that combined with strong and timely Government support, tourism and related industries can achieve the following targets and goals (see overleaf).

Tourism is worth over £73 billion to the UK economy and earns some £14 billion in foreign exchange. Alone it contributes more than 5% of GDP. It employs an estimated 2.1 million people of all skills and age ranges and it offers flexible working conditions that enable many people, available perhaps only for part-time or seasonal work, to find employment.

---

§ Tourism comprises a number of inter-linked activities ranging from and including travel, hospitality and tourist accommodation to visitor attractions, business tourism, culture, leisure and retail. It is therefore an economic activity and not an industry *per se*. However, for ease of reference, and to be inclusive of the sub-sectors involved, the terms 'industry' and 'sector' are deemed to be inter-changeable as used in this report.

### Targets

Given the events of 2001, all strategic targets and goals are set down with the overarching caveat that they are subject to *world events, economic stability and industry growth permitting*.

Over the next five years, the industry aims to:

- grow the value of domestic tourism by at least 1% over the growth in consumer expenditure as a whole
- increase the sector contribution to GDP to 6%.
- match the world average annual growth rate forecast of 4.1% in international tourism arrivals & 6.5% in international tourism receipts<sup>+</sup>; and
- create 300,000 new jobs

---

<sup>+</sup> Long-term forecast to 2020 as set by the World Tourism Organisation (WTO)

The value of tourism to the nation is underscored by its value to countless individuals and communities in all regions of the country. Tourism can contribute markedly to the economic, social and environmental well-being of an area. The industry is driven by many thousands of businesses. Many are small and micro operations, yet together they have all contributed to the industry's success hitherto.

Our vision for the industry recognises that increased Government assistance is also needed to support and strengthen regional development. The Alliance notes that there are strong links between tourism and regional regeneration – each can drive the other. Both should be supported by effective and adequately resourced regional economic strategies. These strategies should include amongst other modes of transport development, the expansion of regional airports. This would help to accommodate the growth in aviation.

There are opportunities for many areas outside London and the South East to welcome tourists. Such areas should be able to grow their tourism offering within a structured regional development programme, particularly in view of the fact that 48% of international visitors enter the country through regional gateways. The development of this regional agenda would help both the regions affected and London and the South East, by relieving some of the current pressures.

The nature of a successful national tourism product is that its fame is often driven by headline attractions – the so-called 'must sees' at the destination. On the negative side, national image can be damaged irrevocably through failings in the supporting infrastructure especially where such failings mar the enjoyment of the tourist experience. The issues in this report are targeted at central Government, but we recognise fully that on-the-ground delivery will often be the responsibility of local government. Furthermore, we recognise that in many areas, a coalition approach by government and the industry will be necessary.

The industry continues to strive to widen access to, and ensure sustainability of the tourism product, especially for those with disabilities. The challenge to achieve accessibility for all continues unabated as does the industry's support for the 'Tourism for All' initiative.

### **Delivering tourism at the local level**

Local authorities provide the links and continuity of policy between essential services such as planning, environmental health and highways. They also provide a strategic operational role in maintaining a high quality physical infrastructure and environment – the public realm. We acknowledge that local authorities invest over £90m *per annum* in local services that also benefit tourism.

As part of the attempt to modernise tourism delivery, we see continuing opportunities for local authorities to take a partnership approach to ensure the sustainable delivery of tourism at the local level. This should not be confused with their need to provide an infrastructure that benefits local residents and communities. Throughout the country, the quality of the public realm is of concern. We therefore call for local authorities to be able to deliver a quality public infrastructure at a level capable of sustaining, where necessary, significant levels of tourism.

### **Creating a vision for the industry**

To achieve our strategic vision for the industry, the Alliance has identified five key areas where action is now imperative. In tandem with the industry, Government should now take positive measures to effect lasting change. However in several areas, there are external factors beyond industry control, that continue to impact adversely on tourism's performance and potential growth. We urge Government to address these as a matter of priority.

We consider the following headline issues to be the most critical, where Government action is required if these strategic goals are to be accomplished. London has an undeniable gateway role although some 48% of international visitors enter the country through other regional gateways. As part of a strategic regional development programme, public investment in towns and cities throughout the UK can help develop such gateways and, in the process, benefit both the area and tourism businesses.

Many of the challenges facing government are national. Problems with for example, the transport infrastructure, and social issues such as crime and social exclusion, know no boundaries. The Alliance urges government to focus on the following key issues as a matter of urgency:

- Public expenditure
- The tax environment for tourism
- SME activity and the delivery of quality
- Marketing and promotion particularly of England
- London - its role as part of the wider gateway issue

## TOURISM SPENDING PRIORITIES

**Public expenditure:** Capital public expenditure is outside the control of tourism and its related activities. Yet the successful performance of tourism is dependent on factors including investment in the provision and state of national services, and the ongoing state of the public environment. Tourism needs to be part of the Government's strategic equation and a considered focus within its spending activity. One area of particular concern is transport infrastructure. The Government has committed to spend £180bn by 2010 on transport infrastructure development, delivered through public-private partnership. Yet, the tourism industry remains concerned as wrangling and politics are already conspiring to guarantee delay.

**Strategic goal:**

- The industry to work with Government to enhance the development of public services.

**Taxation:** The Alliance considers that the case for reducing VAT on tourism services, and especially on tourist accommodation (as taken up by twelve of the fifteen EU Member States) remains compelling and we call on government to examine this further. In addition, the opportunity to reinvest a portion of the Air Passenger Duty back into air transport security and wider tourism activities should be explored.

**Strategic goals:**

Through a reduction of VAT on tourism services, especially tourist accommodation

- To see tourism placed on a competitive fiscal footing comparable with the sector in other EU Member States including market leaders, France, Spain and Italy.
- Government to use the Air Passenger Duty for tourism infrastructure investment and development.

**SME activity and the delivery of quality:** Quality lies at the heart of the tourism product. Its delivery is a key benchmark for the sector yet the industry still fails in many areas to offer best practice standards, consistency and value for money. The industry looks to invest in and work closely with the Sector Skills Council, once established, to achieve greater investment in skills and career development.

One spur to achieving quality is the implementation of good regulation. Regulation should follow five key principles: it should be transparent, accountable, targeted, consistent and proportionate. Good regulation can enhance quality. Outmoded, ambiguous or unnecessarily burdensome regulation has the opposite effect. It also acts as a disincentive to many smaller operators and places a disproportionate burden on small businesses. We call on Government to recognise the burden that regulation can place on business and to act judiciously in considering further measures and the better management of the existing regulatory burden.

Specifically on accommodation, we call on Government to help bolster the industry in its bid to raise standards. The Alliance supports the goal of the English Tourism Council to raise participation in the National Quality Assurance Standards schemes by an increase of over 40% over the next three years.

### **Strategic goal:**

- To develop, strengthen and grow the workforce, ideally by 300,000 jobs over the next five years.  
In addition, active government support is needed to ensure that those entering the job market have attained a minimum standard of education that then allows the industry to train and up-skill as necessary. For those already in the workplace, we seek to raise skill levels further by demonstrating the benefits of training and good practice, particularly to SMEs.

***Marketing and promotion:*** The British Tourist Authority is structured to promote overseas tourism to the UK. However neither the British Tourist Authority nor the English Tourism Council has a domestic marketing role. The coherent marketing of England to the domestic market remains a major omission in the current support framework. We note that many of Britain's competitors have taken a proactive leadership approach, especially where domestic marketing is concerned.

### **Strategic goals:**

- To achieve effective marketing of England within an appropriately resourced national marketing framework.
- To grow the value of domestic tourism over the next five years by at least 1% over the growth in consumer expenditure as a whole (currently 6.3%, not adjusted for inflation).
- To increase the sector contribution to GDP to 6%.

***Gateway London:*** London is the economic powerhouse of the nation. Over 52% of all overseas visitors enter the UK via London; it is the starting point for many tourists – both overseas and domestic. Typically London attracts some 180 million domestic, overseas and day visitors, a year. This places enormous strains on the Capital's funding streams. The cost implications and pressures on this expenditure should be addressed as a matter of priority.

London is a flagship asset. It is still the jewel in Britain's crown and it should be recognised as such. However, concerns in all quarters persist about its transport systems, the level of policing, crime, issues around safety, cleanliness, quality and more. *All* of these need to be addressed as a matter of urgency and we set out the case for improving standards in London. This is not at the expense of regional gateways or other areas of the country, but rather additional to enhanced regional development.

## TOURISM SPENDING PRIORITIES

London's importance as ever is because of its undeniable gateway role. This was thrown into relief in 2001 when the Capital lost over £1.0 billion in tourism earnings arising from the terror attacks in the US and subsequent fears that arose both at home and abroad.

London remains vulnerable to the ramifications of external events. Its competitive world position can no longer be taken for granted. London must be able to justify its status as a World City by offering an experience that tourists, be they business or leisure, domestic or international, will wish to repeat while at the same time wishing to experience other parts of the country.

***Strategic goal:***

- To consolidate London's gateway role and ensure that it both heralds and reflects the quality of investment to be found in the tourism infrastructure throughout the country.

***In conclusion,*** we recognise that this report sets some challenging strategic targets. Tourism is committed to reform and we look to work with the Government to create the environment in which it can flourish and operate effectively.

**Digby Jones**  
**Chairman, Tourism Alliance**  
**Director-General, CBI**

## Executive outline summary

### INTRODUCTION

- Overview
- The value of tourism to the domestic market
- Outbound tourism

## 1 PUBLIC EXPENDITURE

### Key concerns

- **Transport infrastructure:** Needs to be safe, efficient, affordable, integrated
- **Social environment:** Reflects adversely on the nation and the industry, it needs to be improved
- **National lottery:** Continues to present opportunity for tourism investment. Government should now use it judiciously and quickly
- **Land-use planning:** Timely opportunity to review the overall approach and specifically that for tourism

## 2 CREATING AN EFFECTIVE TAX ENVIRONMENT FOR TOURISM

### Key calls

- **VAT:** Reduce VAT on tourist accommodation and services
- **APD:** Use revenues to invest in air transport environment and the wider industry in general
- **Excise duty:** Review excise duties on alcohol and tobacco
- **Licensing/gaming:** Make progress on reform
- **Heritage:** Reduce VAT on listed building repairs and address issue of maintenance of historic properties
- **Museums/ galleries:** Consider investment proposals for England's major regional museums and galleries
- **Inheritance Tax:** Ensure the trading nature of all tourism business is recognised to ensure relief is fairly received from inheritance tax

### 3 STIMULATING SME ACTIVITY TO RAISE QUALITY

#### Key concerns

- **Skills and Training:** The industry is determined to train its way out of skill shortages. Demography and poor core skills of employees remain outside of its control
- **Regulation:** The volume continues to rise with serious impacts on business
- **Business rates:** The current method of calculation disadvantages SMEs, particularly those in rural areas - we call for a review.
- **Quality:** This remains an industry issue – one it seeks to tackle

### 4 MARKETING AND PROMOTION: DRIVERS OF INVESTMENT

#### Key concerns

- **Funding:** - DCMS - BTA - ETC
- **Marketing England:** The crises of 2001 showed the need to have a national strategy to address domestic marketing. We call for this to be established
- **Data:** Poor data hampers growth; stifles investment. We call on Government to address and to consider adopting a Tourism Satellite Accounting system
- **Clarity of delivery:** DCMS should be given a co-ordinating role for the delivery of tourism, including reflecting the fact in its name.

### 5 LONDON AS THE MAJOR GATEWAY

#### Key concerns

- **Recognise London's gateway role – ‘The Jewel in the Crown’** - and the added pressures this brings: support/invest in developing other regional gateways to ease the pressure on London
- **London's environment** underpins its tourism activity. This is a call for critically enhanced investment in the public realm
- **London's transport:** Public and private sectors to work in partnership to deliver a modern, fully integrated, pan-capital transport system that moves tourists effectively in and around the city. Keep the capital on the move
- **National Transport:** Invest in transport services that enable tourists to move safely, efficiently and cost effectively out from London to other parts of the UK and from other regional gateways into London
- **Tourism delivery:** Ensure London has a strong brand development and a delivery structure that is clear, efficient, responsive, workable and effective
- **Business tourism:** London lacks a large volume (5000+ delegates) purpose-built convention and exhibition space. Seek to remedy through public/private sector partnership.

## INTRODUCTION

### Exhibit 1: Key Tourism Facts

(based on data for 2001)

- ◆ Tourism is worth £73.6 billion to the United Kingdom economy – more than 5% of GDP
- ◆ Tourism is worth some £59bn to England alone
- ◆ It generated over £14.1bn of foreign exchange earnings - £10.9bn from overseas visitors<sup>1</sup> and £3.2bn paid to UK carriers<sup>2</sup>
- ◆ An estimated 2.14m, 7% of the workforce, are employed in tourism<sup>3</sup> – many by SMEs
- ◆ BoP deficit on tourism account 2001 was £-14.6bn (compared to £-11.4bn in 2000)

1 International passenger survey

2 Digest of Tourism Statistics

3 The definition here of tourism includes hotels and other tourist accommodation, restaurants, pubs, clubs, cafés, travel agencies, tour operators, visitor attractions, cultural activities, business tourism, sports and other recreational activities

1.1 The Tourism Alliance has been formed by the industry to create a voice for the industry. The Alliance will work with key stakeholders and the Government to raise the profile and recognition of the importance of tourism to the economy. It will also work to raise the quality of the tourism product and to liaise with all key players regarding important issues of concern.

1.2 We recognise that structural reforms will be necessary if the industry is to move forward, and the private sector will look to play its part in delivering strong investment in the sector. Global competition and the diverse nature of tourism<sup>1</sup> do require Government policy and involvement to ensure that tourism's potential is realised.

1.3 The Alliance welcomes the framework for planned spending introduced by the Chancellor in 1998. The spending totals for 2001/02 to 2003/04 have already been announced. Our aim is to identify key spending proposals and priorities for tourism and we look to the current Spending Review to help provide much needed stability for tourism.

---

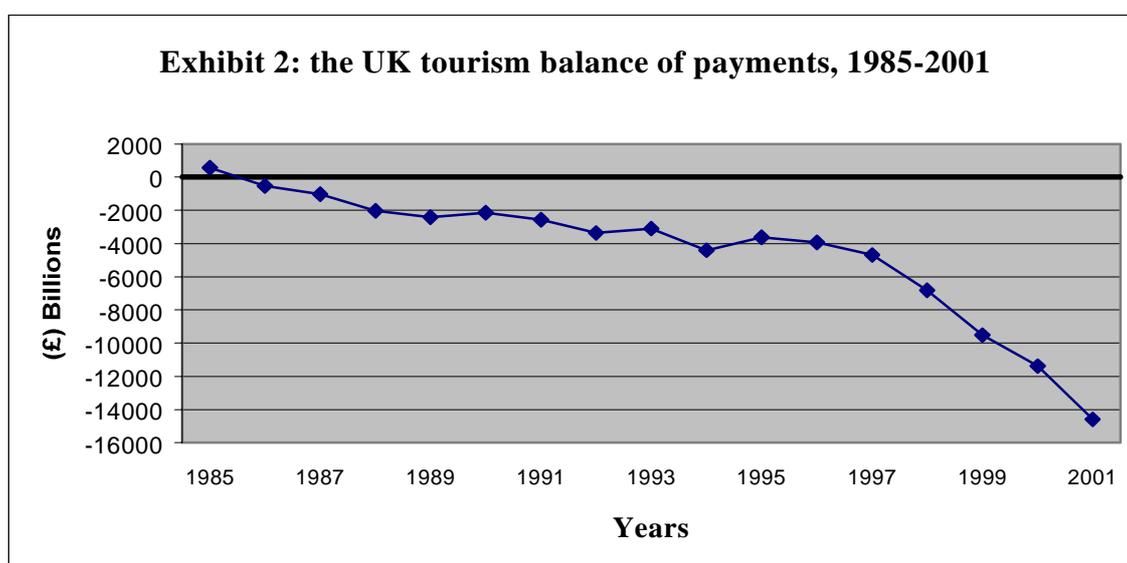
1 Tourism comprises a number of inter-linked activities ranging from and including travel, hospitality and tourist accommodation to visitor attractions, business tourism, culture, leisure and retail. It is therefore an economic activity and not an industry *per se*. However, for ease of reference, and to be inclusive of the sub-sectors involved, the terms 'industry' and 'sector' are deemed to be inter-changeable as used in this report.

## TOURISM SPENDING PRIORITIES

1.4 The aim and purpose of this submission is to consider some longer-term tourism issues that require government sponsorship and/or support funding. The Tourism Alliance maintains a positive outlook for the industry. It recognises that the industry needs to seize the challenge that now lies before it and to reassert its self-confidence. However the context of the current operational climate cannot be divorced from pre-existing downward trends, exacerbated by the world economic downturn as well as the crises of 2001 – the Foot and Mouth outbreak and the terror attacks in the US. Both had a serious impact on the UK as a whole: FMD devastated the operating ability of the countryside, while the terror attacks caused major cities, and especially London, to come to a near standstill in terms of tourism.

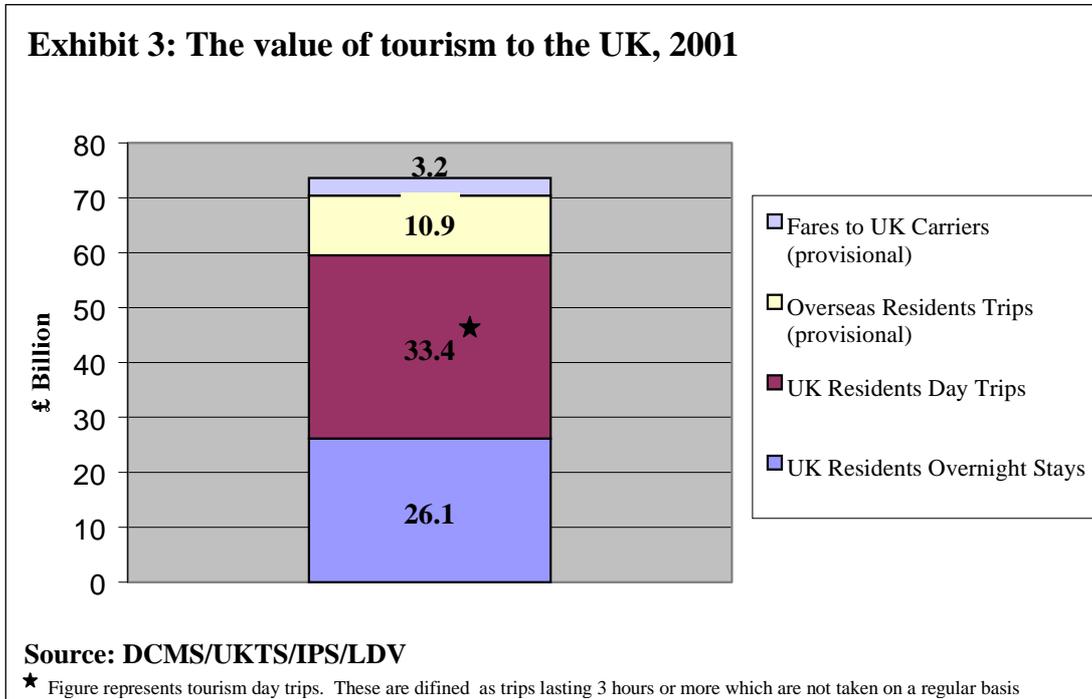
1.5 Our priorities identify key areas where the level of public spending on tourism can enhance the sector's competitiveness. We seek to increase the return on investment that government currently makes in this area. The Alliance believes that the priorities set out below would be readily affordable and we are confident that all our proposals will fit within the Chancellor's plans for future growth.

1.6 Overall, and notwithstanding the additional spend that arose in 2001, central government's expenditure on tourism has continued to decline at a time when the industry has been under significant pressure. Factors include the continued strength of sterling (which many financial commentators now expect to be long lasting), coupled with a weak Euro and recessionary trends in many EU countries. This has resulted in the deepening deficit on our tourism export account and Balance of Payments. The outturn in 2000 was £-11.4bn. This trend has deepened with an outturn of £-14.6bn in 2001 – see Exhibit 2.

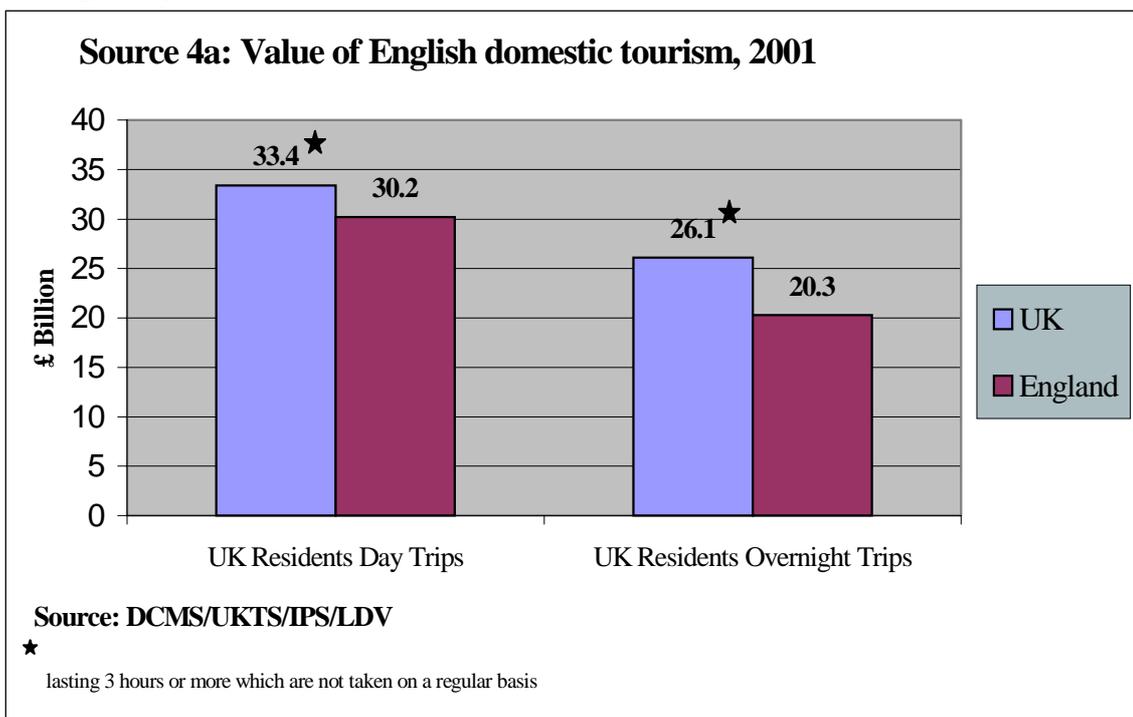


**The value of tourism to the domestic market**

1.7 Tourism was worth £73.6bn to the UK economy in 2001 and earned £14.1bn in foreign exchange. See Exhibit 3.



1.8 Domestic tourism remains a significant component of Britain’s tourism product. In 2001, UK residents spent over £59 billion within the domestic market. England’s domestic market generated £20.3bn of the total £26.1bn of UK residents overnight stays.



## TOURISM SPENDING PRIORITIES

1.9 Sustaining the domestic market is central to ensure product availability for overseas visitors and the export component of the tourism economy. Domestic tourism is the foundation of the UK's tourism economy with 4 out of 5 bednights. Exhibit 4b gives a breakdown *by purpose* of the key elements of UK overnight tourism.

<b>Exhibit 4b: Purpose of tourism trips lasting one night or more in the UK: 2001</b>				
	UK Residents		Overseas Tourists	
	Residents trips (m)	Spending £bn	Visits	Spending £m
Holiday	101.2	17.0	n/a	n/a
Business	22.8	5.7	n/a	n/a
Visiting Family/ Friends	36.5	3.0	n/a	n/a
Other	2.6	0.4	n/a	n/a
<b>All purposes</b>	<b>163.1</b>	<b>26.1</b>	<b>23.3<sup>1</sup></b>	<b>10.9<sup>1</sup></b>
<p><b>Source:</b> United Kingdom Tourism Survey (UKTS), International Passenger Survey (IPS)</p> <p><sup>1</sup> Please note that the IPS figures are provisional. Final results will be released September 2002. Results for trip purposes are not available at this time.</p>				

1.10 The events of 2001 marred expected growth. The English Tourism Council estimates that the loss to domestic tourism arising from foot and mouth disease, the effects of 11 September and the consequent opportunity cost was £8.8 billion.

1.11 Rural tourism businesses suffered significant financial loss as people stayed away from the countryside. Some displacement arose as domestic tourists opted instead to visit seaside resorts, holiday parks and historic cities, although by September London was also considered unsafe, and subsequently shunned. Whilst the volume of tourist activity staged a recovery, vitally the spend per head was reduced as many visits undertaken were day trips rather than short breaks.

1.12 At the regional level, the importance of tourism can vary markedly. There has traditionally been a dependency on tourism in many seaside resorts, coastal and rural areas. Now, with the decline in old manufacturing industries, tourism can provide the opportunity for new economic stimulus, whilst also providing mainstay employment within the countryside.

1.13 The economic and social impact of tourism is both direct and indirect. In addition to the employment within the tourism accommodation and attraction businesses, the custom brought to the local area also safeguards other jobs and local services. For instance, it is often the additional business generated by customers of such facilities that ensure the survival of the village shop, post office or pub – essential local services and employment.

1.14 Tourism can have both positive and negative impacts on a vast array of citizens and communities. It also plays a fundamental role in maintaining the economy in rural areas. This was particularly evident when FMD showed the high degree of interdependence between land management and tourism. The Tourism Alliance welcomes the Government “Your Countryside, Your Welcome” campaign to encourage visitors back to the countryside.

### **Outbound tourism**

1.15 The outbound sector has also been hit hard by the terrorist events in the US. At the end of September bookings were down by over 40 per cent compared with the same period a year earlier. Although there has been some recovery since then, at the end of December bookings for summer 2002 were still down by 23 per cent and for winter 2001/02 by 12 per cent. Accordingly tour operators have reduced capacity by between 10 and 15 per cent which means that there will be 1.5 million fewer holidays for sale this year. Fortunately, there has been an increase of about 10 per cent in the number of domestic holidays booked through travel agencies.

1.16 Like the domestic industry, travel agents and tour operators have seen their cash flow severely squeezed since September. This is in a sector where profit margins for retailers are typically less than one per cent of turnover. This has led to significant redundancies and an increase in business closures and failures. A healthy outbound tourism industry is also vital for employment and regional development across the UK.

1.17 Both the inbound and outbound sectors have been hit by sharp increases in the cost of air travel since the September 2001. The need to step up security at airports and on board aircraft is feeding through into the cost of air tickets. This, and the downturn in international travel, has already forced the closure of several scheduled carriers. In turn, this has exposed the lack of financial protection for travellers who have made bookings with these airlines. The travel industry has previously asked the Government to support a scheduled airline protection scheme for passengers. This need not be difficult to administer and could be structured along the lines of the existing ATOL scheme which holds protection funds in a central account. The Alliance reiterates this call and would welcome, through the travel industry, further discussions on this matter.

1.18 In the medium term, the cost of aviation insurance will also rise steeply. The industry recognises the support that the Government has already given in this area by agreeing to act as insurer of last resort but airlines will need more than short-term measures. UK carriers are already contributing some £1bn a year to the Exchequer in Air Passenger Duty. If some of this resource is not ploughed back into support for air passenger safety in particular, and the tourism industry in general, the cost of travel both to and from the UK will need to increase significantly, and will further damage competitiveness.

## PUBLIC EXPENDITURE

### Key concerns

- **Transport infrastructure:** Needs to be safe, efficient, affordable, integrated
- **Social environment:** Reflects adversely on the nation and the industry. It needs to be improved
- **National lottery:** Continues to present opportunity for tourism investment. Government should now use it judiciously and quickly
- **Land-use planning:** Timely opportunity to review the overall approach and specifically that for tourism

### Spending wisely for sustained growth - transport

2.1 Despite the many short-term immediate calls, public expenditure needs to give sufficient attention to long-term investment. Creating the right infrastructure is a priority for the well-being of the nation and also, for the development of tourism.

2.2 Britain needs a transport system that is efficient, safe, integrated, straightforward to negotiate, able to accommodate mass volume use and is affordable to both the provider and consumers. We welcome the Government's 10-year transport plan worth £180bn of public and private investment. Like other parts of business, tourism needs access to an efficient and up-to-date transport system. Indisputably, several parts of the current system have already reached saturation bordering on stagnation. The Tourism Alliance calls on Government to liaise with, and listen to all parts of the industry when considering future plans and usage.

2.3 Our key international airports must serve as gateways to a high quality tourism destination. Despite the current downturn, passenger numbers in the UK are still expected to double by 2015. In the immediate term this forecast may be off target but the current period of industry realignment and retrenchment does provide a timely opportunity to review air transport development. This necessarily must include the role regional airports should play in growing Britain's tourism markets by providing additional regional routes both into and around the country. We need to see political will at central and local level creating more runways and airports with greater capacity.

2.4 Buses and coaches, as well as light rail travel, play a key role in public transport journeys. The provision and quality of car and coach parking facilities is a critical component in the reduction of congestion and can help ensure a sustainable environment that will benefit both residents and visitors. The Alliance recognises that many local authorities, which together spend over £90m *per annum* on tourism, actively subsidise local transport and other essential facilities. We welcome their role and urge central government to ensure that they are funded adequately to continue delivery of these responsibilities.

2.5 Rail transport provision must be comprehensive, affordable, reliable and safe. The tourism industry throws its support behind the call for prompt improvements to this system.

2.6 However, the vast majority of domestic tourists travel by car and often in family rather than single units. Car tourism is key to sustaining rural tourism, thereby underpinning the economic and social fabric of many regions. The Government's transport policy does not address the purpose of car journeys and the central importance of car tourism to the rural economy. The effective management of tourist flows is essential to ensure that rural areas continue to receive the benefits derived from tourist business. It is also important to ensure that car-based travel does not damage the quality of the tourism experience for others. Plans by local authorities to introduce congestion charging are of great concern. Shoppers and tourists are discretionary car users; business users are not. Congestion charging will be absorbed by business and avoided by tourists.

### **Social environment**

2.7 The social environment in which tourism operates is of increasing concern. Public services in general have become noticeably inadequate. Both citizens and visitors have a right to expect and enjoy a safe and clean environment. London is of particular concern. Central and local government need to ensure that adequate resources are allocated to these core, essential services. Local authorities play a key strategic and operational role in maintaining a high quality physical environment. They need to be adequately resourced to ensure that this responsibility is rigorously executed. The quality of the public realm is an important issue that must be addressed.

2.8 Furthermore, the Alliance supports additional funding for the work of the DETR Homelessness Directorate to address social and environmental blights of begging, vagrancy and homeless street sleepers. This battle has not yet been won.

### **National Lottery**

2.9 We welcome the support and spend that Government has put through the industry via the National Lottery and the work in particular of the Millennium Commission and the Heritage Lottery Fund. As an on-going issue, the Alliance cannot stress enough the job creation potential of tourism. At least 1in5 of all new jobs in the UK is created in tourism and it provides a clear opportunity for job creation countrywide. Tourism is a major UK wealth generator.

2.10 Much has been made of the millennium failures but we wish to stress some of the successes that have helped to add to the distinctiveness of the Britain's tourism product:

- the creation of the Tate Modern out of the Bankside Power Station
- Millennium Point, Birmingham
- the Lowry Centre, Manchester; and
- the Eden Project in Cornwall (where the ecological project has generated over £120m for the local economy and provided 400 full-time jobs for the South West economy).

## TOURISM SPENDING PRIORITIES

2.11 All of these are successes that demonstrate the positive impact that Government-supported capital investment projects can have on behalf of the nation, the industry and local communities. They play an important role in regional regeneration. We applaud such support whilst recognising that any future projects will need to demonstrate yet further sustainable distinctiveness with added-value economic benefits. We urge that the new national sports stadium, as one such project, is progressed urgently wherever it is built.

2.12 In addition to the National Lottery and other domestic tourism funding streams such as English Heritage, we note that funding for tourism-related projects including the infrastructure can be secured via the EU. To maximise this financial avenue, the government should look to reclassify certain major projects to enable access to funding that will benefit tourism and enhance the government's investment capability.

### **Land-use planning for tourism**

2.13 Land-use planning for tourism is now a strategic imperative. To date, the system has shown itself to be slow, unwieldy, inconsistently applied, and subject to differing spheres of influence. Unnecessary delays in planning are costly to all parts of British business. The planning system needs to provide timely, efficient and clear decisions on tourism-related development and to protect the environmental qualities on which so much tourism in urban and rural areas depends.

2.14 Tourism, leisure and hospitality are influenced by consumer trends. The pace of such change is accelerating and needs to be effectively addressed in smarter forward planning, including adequate resourcing and revised procedures for plan preparation and review.

2.15 Planning policies for tourism are less well developed than in other areas (eg manufacturing) and can fail to recognise the employment generated by tourism business. Too often tourism businesses are told that they cannot develop on sites zoned for 'employment' despite the fact that they will provide more employment for local people (both directly and indirectly) than any light industrial use. Moreover, such employment will often cover a range of employment skills and ability levels.

2.16 Tourism provides one solution to help regenerate the economy of rural areas. The planning system should be a positive influence on the diversification of rural tourism business and allow sustained, long-term recovery post FMD. This could be achieved through funding facilitation and business advice for farmers engaged with local planning authorities. The system needs to be made more efficient yet remain consistent and transparent.

2.17 The Tourism Alliance shares the view that it is essential to provide more resources for the planning system as a whole. Local planning authorities are often unable to deal effectively with development proposals simply because they are under-resourced.

## CREATING AN EFFECTIVE TAX ENVIRONMENT FOR TOURISM

### Key calls

- **VAT:** Reduce VAT on tourist accommodation and services
- **APD:** Use revenues to invest in air transport environment and the wider industry in general
- **Excise duty:** Review excise duties on alcohol and tobacco
- **Licensing/gaming:** Make progress on reform
- **Heritage:** Reduce VAT on listed building repairs and address issue of maintenance of historic properties
- **Museums/ galleries:** Consider investment proposals for England's major regional museums and galleries.
- **Inheritance Tax:** Ensure the trading nature of all tourism business is recognised to ensure relief is fairly received from inheritance tax.

3.1 Tourism in the UK is subject to a number of tourism-specific taxes that cumulatively hamper the industry's growth. One area where we seek to draw Government attention concerns VAT.

### VAT

3.2 The Alliance remains concerned that the fall in the UK's market share is partly attributable to a fall in its price competitiveness relative to other countries. This we contend is to some degree due to the high levels of taxation. We support the Government's overall stance that taxation where possible should be imposed on the end-user rather than through direct central taxation. However, we note that the impact of the VAT regime, combined with rising employment costs, adds further to the distortion and competitive pressures on the industry.

3.3 The EC 6<sup>th</sup> VAT Directive sets down as one of its goals the harmonisation of VAT rates across the European Union. When achieved this will decrease distortions within the EU's tourism markets and should encourage fairer competition. However, this goal will take time to achieve. In the meantime, the majority of Member State governments have chosen to apply differing rates to tourism services.

3.4 The VAT rate on tourism services is higher in the UK than in all but one of the 15 EU Member States (see Exhibit 5). Reports by the BTA and other organisations<sup>2</sup> found that European states with higher rates of VAT on visitor accommodation experience significantly slower growth in their international tourism receipts than those that levy a lower rate.

---

2 *The Economic Effect of Changing VAT rates on Tourism*, (Deloitte and Touche for) BTA: 1995, 1997  
*Tourism Taxation in the UK*, (Christel deHaan Tourism and Travel Research Institute, University of Nottingham: 2001)  
*The Taxation of Overseas visitors to Britain*, (BTA: 2001)

## TOURISM SPENDING PRIORITIES

<b>Exhibit 5: Standard EU VAT rates and the rate applied to hotel and tourist accommodation<sup>1</sup></b>			
<b>Country</b>	<b>Standard VAT rates on Goods and Services</b>	<b>Rates as applied to hotel &amp; tourist accommodation</b>	<b>% Reduction applied</b>
Austria	20	10	50
Belgium	21	6	71
Denmark	25	25	<b>0</b>
Finland	22	8	64
France	19.6	5.5 <sup>2</sup>	71.9
Germany	16	16	<b>0</b>
Greece	18	8	56
Ireland	20	12.5	37.5
Italy	20	10	50
Luxembourg	15	3	80
Netherlands	19.0	6	68.5
Portugal	17	5	70.6
Spain	16	7	56.3
Sweden	25	12	52
<b>UK</b>	<b>17.5</b>	<b>17.5</b>	<b>0</b>

1 Primary Source: EC DOC/2905/2001; HOTREC  
2 The standard rate was previously applied to top grade hotels. This has now been removed leaving the lower rate.

3.5 The UK's high rate disadvantages its tourism businesses relative to most of our EU competitors. The Alliance calls for a VAT reduction on, in the first instance, tourist accommodation to help boost price competitiveness (assuming no changes in other EU destinations).

3.6 Any such change in the tax burden would have to be passed to the consumer and not drawn into an operator's profit margin and we acknowledge that the industry would have to commit to real lower prices.

### **Air Passenger Duty (APD)**

3.7 The Air Passenger Duty is a tourism-specific tax that, coupled with the current strength of sterling and the weakness of the Euro, serves to add another degree of competitive pressure on Britain's tourism product.

3.8 The Air Passenger Duty was introduced in November 1995 purportedly as a source of revenue to help environment investment needs arising from air transport. It provides some £1bn to the Exchequer, with no industry return. APD has proved to be an income generator for Government but is contentious from an industry point of view. We note that most, if not all, businesses are subject to this tax as a result of engaging in their business activity. Yet unlike VAT on bought-in supplies, these payments cannot be reclaimed.

3.9 We ask Government to consider the pressures particularly on the air travel industry arising from the terror attacks in the US. These have imposed new financial burdens on the industry including security costs and the cost of aircraft insurance. The Alliance calls on Government to plough revenues from the Air Passenger Duty back into the industry. (See also **Annex 1** attached: copy of a letter to the Chancellor of the Exchequer).

**Heritage buildings**

3.10 Two-thirds of Britain’s heritage is in private ownership. The buildings from which many tourism businesses operate also represent part of our heritage. In some cases these are listed. The Alliance calls on Government to recognise the role that these buildings play in helping to maintain the distinctiveness of Britain’s tourism product. Such properties attract around 15m visitors per annum, contribute some £1.2bn to the national economy, and employ over 10,000 people - many in rural areas.

3.11 We call on Government to reduce the rate of VAT on listed building repairs and to provide fiscal relief for the maintenance of historic properties that provide public access. We note that such a provision already occurs in 10 European Union countries - see Exhibit 6. The current full rate acts as a deterrent to many operators who need to upgrade and refurbish businesses sited in older and/or listed buildings. Such buildings should reflect their age but not signs of neglect or decay.

<b>Exhibit 6: Tax deductibility for historic property maintenance costs in Europe</b>	
<b>Country</b>	<b>% allowable</b>
Austria	Up to 50% if showing a positive annual balance
Belgium	50% deductible if open to the public and authorised
Denmark	100% if within agreed annual limits – major projects need approval
France	50% if house closed; 100% if open
Germany	Costs deductible over 10 years if owner occupied
Ireland	Deductible if certified and open to the public
Italy	19% of cost deductible if approved
Netherlands	Deductible. Amount varies according to degree of owner occupation
Spain	15% deductible up to 10% of owner’s taxable income
Sweden	Costs and interests deductible
<i>Source:</i> Union of European Historic Houses Association: Extract from van Rechteren Limpurg survey, January 2000	

## TOURISM SPENDING PRIORITIES

### **Museums and galleries**

3.12 Museums and galleries are a vital part of our tourism industry. They attract 100m visits a year and a third of overseas visitors cite museums and galleries as a major reason for their visit. They are also a stimulus for much domestic tourism. Aside from the tourist spend they often provide the basis for cultural regeneration, providing a region or town with a tangible historical footprint. Museums and galleries have huge potential for fulfilling the government's agendas on access, learning and social inclusion, thus widening citizen contact with the cultural bedrock of the nation.

3.13 Continual under-funding restricts much of the work of the major regional museums and galleries in England. The Tourism Alliance welcomes the recent report 'Renaissance in the Regions: a new vision for England's museums' published by Resource, The Council for Museums Archives and Libraries. The report identifies several structural failings and calls for a new framework for regional museums. In addition, it concludes that the museum and gallery community needs to assess issues of rationalisation and must bring forward a national strategy to help it meet the needs and demands of the 21<sup>st</sup> century. To assist this challenge, the report urges government to consider its proposals for a three year investment in England's major regional museums and galleries to help them increase their capacity and thereby to make a greater contribution to attracting domestic and overseas tourists.

### **Excise duty**

3.14 We note that the current levels of excise duty on alcohol and tobacco hinder international competitiveness, particularly in the context of the Single Market and encourage smuggling. Beer sales are now the lowest for 30 years. Twenty breweries have closed since 1997 and there have been well-advertised sales of the leading companies. The Alliance supports calls for fundamental reviews to be carried out in order to minimise the loss of trade in many coastal areas.

### **Licensing and Gaming**

3.15 Following the publication in April 2001 of the Government White Paper 'Time for Reform: Proposals for the Modernising of our Licensing Laws', the spirits, brewing and pub sectors were disappointed that the Liquor Licensing Bill did not feature in the Queen's Speech last June. We look to see this issue included in the next Queen's Speech.

3.16 The Gambling Review Body, chaired by Sir Alan Budd, published its report on gambling, July 2001. While the report recommends liberalising some elements of gambling, the proposed restrictions or cessation of other forms of gambling is inconsistent with other parts of the report. This needs to be addressed if the sector is to attract private sector investment. The Alliance notes the publication of a White Paper and welcomes, through the specialist sector consultees, further discussion of this issue.

**Inheritance tax (IHT)**

3.17 One issue to hinder the growth of SME's concerns inheritance tax. There are over 127,000 tourism businesses alone registered for VAT. Many more are small or micro businesses but are nevertheless entrepreneurial in outlook and purpose. A number of businesses have already raised the issue with the Alliance concerning their failure to receive relief from inheritance tax.

3.18 The Capital Taxes Office (CTO) challenges this on the basis that the business "*consists wholly or mainly of making or holding investments*" and thus does not qualify under the Business Property Relief (BPR) legislation. In particular the CTO has challenged the relief in respect of some holiday parks and in certain instances, holiday cottages.

3.19 The CTO looks at these issues on a case-by-case basis, thereby creating uncertainty as to the tax treatment of the capital invested in the business. Such uncertainty also acts as a deterrent to further investment and can serve as the catalyst in looking to sell the business rather than risk trying to pass it on to the next generation. Again in the wake of FMD, the matter of inheritance tax is also a potential problem for those now being encouraged to pursue on-farm diversification.

3.20 Inheritance tax legislation should be unambiguous and should recognise the trading nature of all tourism activity. The current case-by-case approach pursued by the CTO puts at risk current and future investment in the tourist sector in rural communities. It also adds to the "red tape" faced by the owners of these businesses. The Tourism Alliance calls on Government to amend the current BPR legislation to make it clear that such tourism businesses do qualify for relief and we look to liaise further with Government on this issue.

## STIMULATING SME ACTIVITY TO RAISE QUALITY

### Key concerns

- **Skills and Training:** The industry is determined to train its way out of skill shortages. Demography and poor core skills of employees remain outside of its control
- **Regulation:** the volume continues to rise with serious impacts on business
- **Business rates:** current method of calculation disadvantages SMEs, particularly those in rural areas - we call for a review
- **Quality:** This remains an industry issue – one it is seeking to confront

4.1 The SME sector as a whole accounts for some three-fifths of the total UK business sector employment. This profile holds true for tourism with self-employment alone accounting for over 160,000 tourism jobs. Many of these small or micro businesses are located in rural areas.

### Skills

4.2 Quality in the industry is determined not only by the product, but by the workforce that serves it. Recruitment, retention and skills shortages remain key challenges. Tourism and related sectors offer jobs across the full skills spectrum. The Alliance welcomes the Government's proposal to raise the status of vocational education subjects such as Travel and Tourism by awarding an 'A' level qualification. However good core skills are an essential component of employability.

4.3 We note that skills shortages such as chefs and cooks, wine, bar and waiting staff remain critical within the industry. The Alliance welcomes the two pilot regional Centres of Vocational Excellence (CoVEs) to help address sectoral needs, and the recent announcement by the Learning and Skills Council (February 02) that six more colleges offering relevant vocational specialisation have been identified. We look to work with government to establish more such centres.

4.4 Tourism is a people-led, market driven activity. In line with the UK at large, it suffers from skills shortages exacerbated by demographic changes that have resulted in a fall in the number of 16-24 year olds – down by one-third in the past 10 years. Typically, many in this age range help to provide the pool of labour that the sector relies upon to fill a number of its starter-level jobs. Some 17% of the tourism workforce are below the age of 20 years compared to 5% of the total national workforce. Older workers and job returnees, particularly under the New Deal, can be encouraged to take up such jobs.

4.5 Labour market flexibility is essential if it is to respond to both peaks and troughs in demand, without damaging the businesses that supply these jobs. The Government must resist any European Directive that will erode workforce flexibility, be it flexible working patterns, employee mobility, employment rights, or skills.

4.6 The Alliance supports the Government target to raise the basic literacy and numeracy skills of 750,000 adults by 2004, although a more ambitious target could have been set. Nationally some 20% of adults, 3.5m of whom are in employment, are classed as having poor literacy and numeracy skills. This too has an impact on labour market flexibility and quality.

### **Training for opportunity**

4.7 Low skilled employees receive less training than highly skilled employees and many businesses, particularly small and micro businesses are reluctant to train, citing as chief constraints time, costs and the impact on the remaining staff. The result is that the industry lacks an on-going source of well-trained staff, able to look forward to structured career development. Those businesses that do wish to invest in their staff through training continue to find that many of their competitors prefer simply to poach their staff instead.

4.8 The Alliance welcomes the support in Budget 2002 for the iIP standard. This should help small firms to achieve the standard and experience the benefits of training. In the recent joint productivity report, the CBI and the TUC both recognised the need to tackle low levels of numeracy and literacy and that there should be financial support for this. The Alliance fully supports this recommendation.

4.9 Tourism, hospitality and leisure as a whole wish to help enhance the employability of those with low levels of qualifications. This is shown by industry-led best practice initiatives such as the British Hospitality Association's 'Excellence through People' Award Scheme. Socially-inclusive wealth creation is naturally achieved every day in this sector. It is well placed to help the Government deliver on its social inclusion agenda.

4.10 The industry has responded positively to the Government's call to create a Sector Skills Council for Hospitality, Leisure, Travel and Tourism. It is bidding to form a Sector Skills Council to provide a central, over-arching view of workforce development needs throughout the UK. Collectively our aim is to reduce the skills gap and shortages in the industry and to increase productivity and workforce development.

## TOURISM SPENDING PRIORITIES

### **Regulation**

4.11 SMEs in particular continue to be weighed down by the ever-increasing volume and complexity of legislation, regulation and 'guidance' that has built up over the years. We welcome the 'Think Small First' framework published by the Small Business Service (January 01). This acknowledges that 'regulations impose a disproportionate burden on the smallest firms and it is usually the proprietor who has to find valuable time to comply with them'.

4.12 Government established the Better Regulation Task Force in September 1997 to advise on improving the quality of its regulation. Five key principles have been identified: transparency, accountability, targeted, consistency, proportionality.

4.13 Particularly where people are concerned, the relationship between risk and protection must be clear. However, the economic impact of increased regulation is of on-going concern to business.

4.14 We note that the Task Force report 'Tackling the Impact of Increasing Regulation: A case study of Hotels and Restaurants' was accepted by the Government. Seventeen Recommendations were made to Government, specifically involving the DCMS, DTI, DTLR, the Home Office, the Cabinet Office and also English Heritage. Recommendation 15 calls for 'officials from across Government to identify overlaps in existing regulatory regimes and to develop an integrated user focused approach as set out in this report'. Work continues on implementation of the Recommendations but headway is slow.

4.15 In tandem, between May 1997 and December 2001, 101 pieces of legislation have had an impact on the hospitality sector. These include such measures as the Climate Change Levy (CCL). This was conceived originally for the manufacturing sector and sought to set energy saving targets in exchange for climate change discounts on the levy. By limiting negotiated agreements to companies eligible under the Integrated Pollution and Prevention Control (IPPC) Directive, the levy has resulted in competitive distortions between and indeed within sectors.

4.16 The levy is now impacting on the service sector and is particularly disadvantageous to companies in tourism that employ large numbers of part-time workers. Part-time workers, many of whom are female, are often below the threshold for National Insurance contributions and so it is impossible for employers to claim a rebate. The levy is not therefore fiscally neutral. This has impacted on jobs and the competitiveness of the sector. The flawed implementation of CCL has led to unintended consequences that are damaging the tourism industry, which was surely not in the legislators' sights.

4.17 There are currently a further 27 pieces of legislation, regulation or statutory instruments in the pipeline. The industry is not claiming that all will have an adverse effect. Rather that the need to understand the ramifications of such legislation is bewildering to many SME operators. Implementation is yet another matter.

4.18 ‘Red tape’ and bad legislation continue to cost business both time, and money. A 2001 study of the impact of regulation on the holiday parks sector has proved revealing – see Exhibit 7: Holiday parks – a case study in regulatory impact.

4.19 The burden of regulation can also encourage small businesses in desperation, and overwhelmed by the volume, to misinterpret the elements of compliance. This is bad for business and bad for the consumer. The Government’s positive approach to better regulation is welcome and we await the findings of the Cabinet Office Regulatory Impact Unit review of the Regulatory Impact Assessment (RIA) process due to take place across the summer.

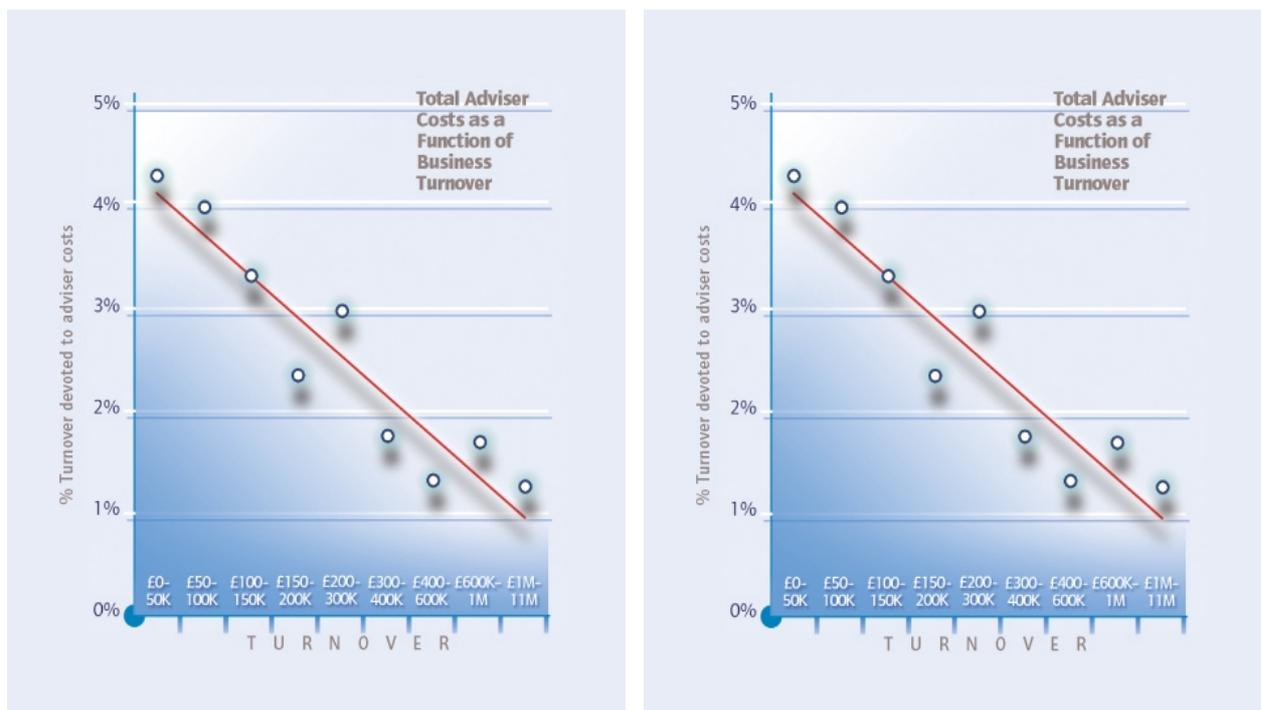
4.20 For many businesses, regulation implementation seems to be a merry-go-round where as soon as one piece of regulation falls off, new ones jump on. The issue of ‘Red tape’ needs to be addressed further and the industry needs to be convinced of the Government’s commitment to deregulation in practice.

**Exhibit 7: Holiday parks – a case study in regulatory impact**

A study of the impact of regulation on holiday park business illustrates the disproportionate burden of red tape on small business. The downward slope of both graphs below highlights the increased burden of regulation on small business, a burden that decreases in percentage terms as the size of the business (measured by turnover) increases.

Holiday park business with a turnover less than £100,000 expend some 4% of their turnover in meeting adviser costs to assist with compliance and some 6% of available staff time is deployed in meeting Government edicts, rather than customer-facing, profitable activity. These proportions reduce to under 2% for businesses with a turnover in excess of £1m. 81% of the same study’s respondents were concerned that they could not keep pace with regulatory change and 57% found the law to be contradictory and difficult to understand.

**Source:** Pritchard, R (2001) ‘Investigating the Impact of Regulatory Compliance: The case of the UK Holiday Parks Industry. Masters Dissertation, Henley Management Centre



## TOURISM SPENDING PRIORITIES

### **Business Rates**

4.21 The Government took welcome measures to help many smaller rural businesses to overcome the downturn arising from FMD. We also applaud the Government's decision early in 2001 to abandon the proposal to allow councils to levy a supplementary business rate. The problems arising from the Foot and Mouth outbreak have served to highlight the issue of the rating of guest houses and bed and breakfast accommodation.

4.22 Determining the rateable value is a key factor in the calculation of the eventual business rate. We note that in arriving at the rateable value, factors such as the type, size, location, quality of accommodation and the income potential (often determined by turnover) are taken into consideration. The turnover component is often misleading. Many such businesses may have a relatively high turnover but low profitability. This is due to the labour intensive nature of the product as well as high staff turnover coupled with training and other on-costs.

4.23 The Government is now encouraging farming businesses to diversify out of farming into tourism-related activities. The method of calculation that includes a turnover figure to determine the Business Rate calculation will leave such ventures severely disadvantaged and will hamper the development of sustainable tourism businesses within the rural economy. The Alliance urges the government to review this issue.

### **Quality**

4.24 Britain, as a tourist destination of variable cost and wide variety, can enhance its enduring appeal to a diverse range of visitors. Yet, its tourism product is often criticised for being inconsistent, of variable quality and, on occasions, offering poor value for money. It is muddled in the messages and structure that tourists - both domestic and inbound - can and do encounter when seeking to sample the British tourist experience. Seaside resorts suffer from a 'variable' quality image. See Exhibit 8 – Seaside resorts case study.

4.25 Quality, especially in the accommodation sector, continues to be an issue. The industry recognises that particularly in London, quality and value for money are variable and open to censure. The Alliance does not favour the blanket introduction of compulsory regulation. However, it does acknowledge that poor quality accommodation, especially in the Capital, is damaging to the image of both the country and the industry. Remedial measures may therefore be inevitable if the industry is to reform. The Alliance welcomes the opportunity to take this issue forward urgently.

4.26 We note the Government's initiative to explore whether the 'Fitness for Purpose' approach to better regulation of hotels and restaurants should be developed. The aim is to bring together the many regulatory controls that affect the industry in order to establish one easily identifiable minimum standard rating. The industry will work with central Government, local government through the Local Government Association, and leading business organisations, to explore what can be achieved quickly.

4.27 The industry is keen to play its part in raising standards. At the top end of the market, the major hotel groups are working with the English Tourism Council to develop a quality assurance scheme for the major international brands. This will demonstrate a substantial commitment to quality assurance by the private sector.

4.28 Notwithstanding this, the majority of accommodation providers in Britain remain outside any quality assurance scheme. The Alliance believes that targeted support to businesses in the form of a subsidy of the cost of quality assurance, coupled with promotion of the importance of a 'kitemark' to the consumer is essential. We note that such a subsidy has produced a very high level of quality assured accommodation in Scotland. A phased subsidy would be a modest cost (£8m) and would reap huge rewards in raising standards. Further details are supplied in **Annex 2**.

### **Exhibit 8: Seaside resorts - a case study**

In 2000, the English seaside accounted for 28m trips out of a total of 140m domestic trips taken. Its contribution to GDP is some £4.6bn. Resorts remain strategically important for English tourism and have a sustainable and important role to play.

The Resort Regeneration Task Force published *Sea Changes* (ETC, February 2001). Its analysis and recommendations concluded that Britain's seaside resorts have been in slow, long-term decline for several decades as affordable, trend-setting travel has drawn overseas increasing numbers of domestic tourists. The drop in market share since the 1970s is over 50%. Realistically the decline in some resorts is terminal, but for many others regeneration measures can still be successfully undertaken.

There are many challenges facing seaside resorts and tourism cannot be the regeneration solution for all of them. Nor can the level of regeneration that is needed be delivered solely through tourism. Nevertheless, in many areas it should be a key component of a broader, sustainable economic base.

The *Indices of Deprivation*, 2000 shows that several major resorts are ranked in the top one third of most deprived areas. The challenges for resorts include:

- lack of investment, vision, planning, partnership
- high unemployment, low GDP; weak skills base; low education aspirations
- deprivation arising from a variety of social problems (distorted demography; deep-rooted benefit-culture; drugs; vandalism, pockets of poor housing)
- environmental decline and infrastructure decay
- peripherality issues, including public transport access
- seasonality blight

Many decisions emanating from a range of government departments impact on seaside resorts. Departments include DCMS, DTLR, DEFRA, Home Office, as well as a range of agencies such as RDAs, the Countryside Agency, the Environment Agency, and the Small Business Service. Government departments should seek to make greater use of measures including the European Structural Funds (Objective 2).

Regional Development Agencies (RDAs) are now in charge of the successor to the Single Regeneration Budget (and the funds allocated to Coastal Areas). Now schemes, whether regional or local, will have to contribute to the delivery of the RDA's regional strategy and be linked to its wider strategic approach.

Local authorities have a continued key role to play through existing and emerging Local Strategic Partnerships. The Government and RDAs need to monitor the effectiveness of these measures and consider the flow-through benefits for tourism. Following the publication of the Urban White Paper, local authorities in conjunction with RDAs and English Partnerships should examine further opportunities to set up Urban Regeneration Companies (URCs) for resorts.

Tourism will play its part to raise quality and standards in resorts through such standards as the accommodation National Quality Assurance Scheme. It will also look to participate in public-private partnership investment. Central Government however, needs to ensure that funding for local authorities is sufficient to ensure that they can fulfil their role in ensuring the highest standards and facilities for the public realm. All stakeholders need to act in a concerted effort if an effective, holistic approach is to be taken to the regeneration of England's seaside resorts.

## MARKETING AND PROMOTION: DRIVERS OF INVESTMENT

### Key concerns

- **Funding:** - DCMS - BTA - ETC
- **Marketing England:** The crises of 2001 showed the need to have a national strategy to address marketing England. We call for this to be established
- **Data:** Poor data hampers growth; stifles investment. We call on Government to address and to consider adopting a Tourism Satellite Accounting system
- **Clarity of delivery:** DCMS should be given a co-ordinating role for the delivery of tourism, including reflecting the fact in its name

5.1 The Tourism Alliance considers that the diverse and fragmented nature of the tourism industry, and its deep-rooted structural and market failures, mean that the need for Government sponsorship and support remains on-going. Recent analysis confirms that compared to some of our key competitors, Government spending on tourism falls well short.

### Funding

5.2 We acknowledge that funding for tourism is complex, reflecting the fact that tourism is an economic activity that results in a large but diverse ‘industry’. It needs to be dealt with cross-Departmentally. The breakdown of tourism funding for the UK for 2001/02 is as follows – see Exhibit 9.

<b>Exhibit 9: National tourist board funding figures</b>			
	<b>2001-2002</b>		<b>2002-2003</b>
<b>Body</b>	<b>Core Funding (m)</b>	<b>Additional funding (£m)</b>	<b>Core Funding (m)</b>
Wales Tourist Board	20.0	8.83	22.7
VisitScotland	24.8	15.85	22.8
English Tourism Council	9.6 <sup>1</sup>	4.40	11.6
British Tourist Authority	35.5	14.2/19+1 <sup>2</sup>	35.5
<b>Total</b>	<b>89.9</b>	<b>62.68</b>	<b>92.6</b>
Northern Ireland Tourist Board <sup>3</sup>	13.9		

1 The ETC provides direct funding to the regional English Tourist Boards. Funding for London is granted direct by DCMS (£400k in 2001/02 and 2002/03) to the Greater London Authority.

2 Additional funding of up to £19m (plus £1m for ETC) has been granted to the BTA.

3 NITB is a non-departmental body funded through the Department of Enterprise, Trade and Investment. The NITB allocation of grant- in-aid for development of tourism infrastructure is to be reviewed April 2002.

## TOURISM SPENDING PRIORITIES

### **British Tourist Authority (BTA)**

5.3 The Alliance welcomes the support given to the British Tourist Authority to carry out its marketing of the UK as a key world destination. In particular, we welcome the recent announcement that it will receive up to £20m from the Treasury to be matched by industry (£5m cash, £15m in kind) for the new Million Visitor Campaign.

5.4 Grant-in-Aid from the DCMS for 2001/2 was £35.5m plus an extra £14.2m from Reserve to counter the effects of Foot and Mouth. This includes £5m for the *UKOK* Campaign. The Grant-in-Aid figure is due to be the same for 2002/3 although we would urge the Government to review this in an upwards direction, the light of marketing and promotion activities much needed to redress the problems of 2001.

5.5 Detailed analysis has demonstrated that in 2000 every £1 invested in the BTA generated an additional £27 of tourism revenue (and an additional £4 for the Treasury). This ratio was on target to be increased to £31:1 for 2001/02 but will now be lowered to £22:1 due to the combined effects of FMD and 11 September. BTA revenue is supplemented by support from partners such as airlines, hotels, car rental companies, national and regional tourist boards and local authorities to the value of £15m.

### **English Tourism Council (ETC)**

5.6 The amount of funding set aside for England is disproportionately low compared to the amount of tourism revenue that England alone generates. Government funding now distorts the market, and places English tourism at a competitive disadvantage. We consider the case compelling for the UK Government to raise the level of funding for England to one that is more commensurate with that for Wales and Scotland.

5.7 The Alliance recognises that whereas overseas marketing is carried out effectively by the BTA, the domestic product is left to an array of bodies. The organisation and funding framework for marketing England remains muddled and fragmented.

5.8 The English Tourism Council was established in 1999 to act as a strategic body for tourism policy issues. Its Grant-in-Aid in 2001 was £9.6m, of which £5.5m was delegated to Regional Tourist Boards. As part of its strategic programme it received some £600k from the Capital Modernisation Fund for IT investment in Tourism Information Centres.

5.9 The Alliance welcomes the recent announcement (March 2002) of £3.6m from the Treasury's Invest to Save Budget for 2002/03. This represents a significant investment in the EnglandNet tourism project designed to drive forward through an on-line tourism network, the industry's programme of reform and regeneration.

5.10 There is no national organisation in England responsible for growing the domestic market through promotion. Neither is any body charged with co-ordinating the marketing activity of the various actors at the regional level including RDAs, RTBs and local authorities, to ensure maximum impact from public spending. The crises of 2001 demonstrated the need for a national marketing body and this role was taken on by the English Tourism Council during the foot and mouth crisis, supported by an additional grant of £3.8m from Treasury Reserve.

5.11 England needs a long term marketing strategy that will help to market England, particularly to the British. It needs to link overseas marketing with marketing at the regional and local domestic levels. This would assist the many small businesses that make up the sector but are unable to compete financially with the purchasing capability of large organisations or corporate business.

5.12 Domestic tourism contributes some £4 out of every £5 earned by the tourism industry (£59bn out of £73bn). The industry believes that national marketing of England is essential and that the English Tourism Council should take on responsibility for England marketing and co-ordination and be allocated additional public funding to deliver this responsibility. The cost is estimated to be £20m delivered on a £1for£1 matched funding basis – see also **Annex 3** attached.

5.13 To address these issues, the Alliance therefore urges that the annual level of DCMS spending on tourism should rise from £48m in 2000/01 (as reported in the DCMS Annual Report) to at least £93m *per annum* over the first three years of the Comprehensive Spending Review. This would be supplemented where possible with generated support funding from the industry. This investment should yield a significant payback in terms of increased tourist revenues and justify this additional investment in a bid to deliver on aggressive growth targets.

### **The need for reliable data**

5.14 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. For example, the figures for UK day visits almost certainly under values this important component of the domestic market. The last day visits survey was carried out in 1998. Since then, the expenditure figures have been adjusted by RPI (excluding mortgage interest payments).

5.15 This paucity of reliable baseline statistics also fails Government. Too often tourism and its related activities are sidelined as ‘marginal to economic policy’. The year 2001 proved this approach to be erroneous – evidence of ignorance on a grand scale.

5.16 Furthermore, reliable data provision needs to extend to both the regional and local level so that the true, comparative value of these can be confidently measured, and the full impact of tourism infrastructure provision and its economic competitiveness duly recognised and reflected in funding. The Local Spending

## TOURISM SPENDING PRIORITIES

Assessments carried out by Local Authorities fail to reflect these impacts in their settlements.

5.17 Reliable data would enable the sector to demonstrate the full activity and contribution tourism makes to the national economy. This would facilitate greater awareness and understanding of what role it plays in Britain's economy today.

5.18 The Tourism Alliance notes that Government has previously explored the possibility of adopting a Tourism Satellite Accounting system. The system is an international standard, ratified by the United Nations. It is designed to provide the sector with a full set of economic accounts that measure its complete economic impact. The TSA measures not only the size of the industry but aspects such as travel-related expenditures and the impact across the full economy. It also enables international comparisons to be made. We urge the Government to discuss with the industry the option of it adopting a Tourism Satellite Accounting system, in line with many of our competitors.

### **Achieving clarity of delivery**

5.19 We note that whilst the DCMS is the sponsoring department for tourism, other Departments including DTI, DTLR, DEFRA, DFES, Cabinet Office, FCO, Home Office, as well as agencies such as the Health and Safety Executive, OFT, Ofgem and Ofwat, all play a role in its delivery.

5.20 The Alliance calls for the DCMS to be designated the co-ordinating Government Department for the industry. Where necessary, other Departments should be required to consult with the DCMS on all matters material to the effective delivery of tourism. We consider that it would also help to raise the profile of tourism and acknowledge its economic role within the economy if 'Tourism' appears in the title of the sponsoring Department. A £73bn industry deserves recognition by the Department that promotes it. The Department of Culture, Media, Sport and Tourism should be a reality without delay.

## LONDON AS THE MAJOR GATEWAY

### Key concerns

- **Recognise London's gateway role** – ‘The Jewel in the Crown’ - and the added pressures this brings: support and invest in developing other regional gateways to ease the pressure on London
- **London's environment** underpins its tourism activity: This is a call for critically enhanced investment in the public realm
- **London's transport:** Public and private sectors to work in partnership to deliver a modern, fully integrated, pan-capital transport system that moves tourists effectively in and around the city. Keep the capital on the move
- **National Transport:** Invest in transport services that enable tourists to move safely, efficiently and cost effectively out from London to other parts of the UK and from other regional gateways into London
- **Tourism delivery:** Ensure London has a strong brand development and a delivery structure that is clear, efficient, responsive, workable and effective
- **Business tourism:** London lacks a large volume (5000+ delegates) purpose-built convention and exhibition space. Seek to remedy through public/private sector partnership

### Context

6.1 Since 1999, strategic regional development falls to Regional Development Agencies (RDAs) working in partnership with an array of organisations and agencies including key stakeholders involved in the delivery of tourism. These include regional tourist boards, local authorities, the Countryside Agency and English Heritage. The London Development Agency was established in 2000. It is responsible to the Greater London Authority for the strategic development of tourism in London.

6.2 Across the country, there is now a pressing need for public investment in transport infrastructure, capital development projects, and the public environment as a whole. RDA economic strategies need to be adequately resourced to ensure delivery. Regional gateways alongside London need to be developed in order both to enhance regional development and facilitate value-added tourist movement in other parts of the country.

6.3 This report acknowledges the important contribution that the English regions make to the economy and the role they play in drawing tourists into the heartland of the English tourist experience. However the Alliance recognises that London remains the pre-eminent jewel in the UK's crown. We focus here on the challenges faced by the capital whilst at the same continuing to acknowledge that support for London must not be at the expense of the regions but in addition to a national strategy for regional development as a whole. See also Exhibit 10.

## TOURISM SPENDING PRIORITIES

6.4 Overriding all the challenges identified below is the need to raise the quality of the total tourism experience. Given that the London Development Agency is currently carrying out a strategic review of tourism in London, this report focuses primarily on the structural framework and environment that underpins competitive tourism delivery. Raising the quality in all these areas is essential in order to achieve a world-class product.

### **Exhibit 10: London - Some key facts**

(2001)

- ◆ Tourism is London's second largest industry<sup>1,2</sup>
- ◆ Over 275,000 people are involved in the tourist industry – this figure grows to nearly 700,000 when the cultural and creative industries are included
- ◆ It is valued at nearly £10bn and represents 8% of London's GDP
- ◆ In 2001, London attracted an estimated 16.6m domestic visitors<sup>3</sup> and 12.2m overseas visitors
- ◆ 50% of tourism expenditure was by overseas visitors
- ◆ Business visitors account for 22% of all overseas visitors and 33% of expenditure
- ◆ London accounts for 75% of all international arrivals into the UK

1 London's largest industry is financial services; this generates £30bn, employs 300,000 people and accounts for around 40% of London's GDP

2 London's overall economy makes a net contribution to the Exchequer of up to £22.6bn a year

3 This figure does not include day visitors – some 154.5m

**Sources:** London Development Agency, British Tourist Authority, London Tourist Board

### **Gateway London**

6.5 For the vast majority of overseas first time travellers, the capital city visit is their first experience of the UK – see Exhibit 11. Some 52% of all visitors to the UK come through London. As such, London has a clear 'gateway' role for England – one stipulated in the Greater London Act. It also has a 'gateway marketing and packaging' relationship with Wales, Scotland and Northern Ireland. For such key reasons, London needs adequate resourcing as the capital destination.

6.6 The city receives 50% of the total overseas tourism expenditure yet receives just £1.9m in grant-in-aid to help with its marketing, brand development and promotion activities. We see a strong case for Government to increase this support and in particular the proportion allocated for the promotion of London to the domestic market. We therefore call on Government to increase this total grant-in-aid by a minimum of 25% *per annum* in real terms over the first three years of this Comprehensive Spending Review.

<b>Exhibit 11: Gateway London</b>	
Overseas tourist visits to England in 2000 <sup>1</sup>	
City/town	Visits <sup>2</sup> (000)
<b>London</b>	<b>13.100</b>
Manchester	560
Birmingham	520
Oxford	410
Cambridge	370
Bristol	360
York	310
Bath	300
Brighton/Hove	260

1 Source: Overseas Residents: International Passenger Survey  
 2 Interesting and conversely, this exhibit also shows that the success of visitor attractions such as eg Windermere Lake Cruises, Newby Bridge (1.17m visits); Chester Zoo (1.1m visits); or the Roman Bath, Bath (0.9m visits), and the value-added benefits they bring to their areas, is driven by domestic tourism.

6.7 The capital is overwhelmingly the starting point for many tourism routeways that link London to the UK Regions and Nations. The relationship that London has with the regions must be reciprocal with investment flowing out to the regions as well as back to the capital. This relationship needs to be developed further, and kept under constant review.

6.8 Particularly where tourism is concerned, London is a national asset and a ‘flagship’ product of the UK. As such its economy, infrastructure, environment, societal well-being, cultural life are all inter-linked and relevant to the overall tourism experience of its visitors. Increasingly ‘traditional’ tourism blurs into leisure; both are essential in maintaining the city’s vibrancy. Private sector investment can play a key role such as BA’s investment in developing the landmark London Eye.

**The London Environment**

6.9 London is not only the capital city of the UK, it is a World City with visitors that expect world-class standards. It is the powerhouse of UK plc but is also an expensive city in which to operate, live or work. London is now the most expensive city in Europe.

6.10 To illustrate, findings from a recent report<sup>3,4</sup> show that London office costs per square metre per annum average £1728 compared with €991 in Paris, and €851 in Frankfurt. Land pressures mean that hotels are costly to build and maintain, accommodation is expensive and coupled with persistent staff shortages and hard to fill vacancies, staff turnover remains high. Overall, London has the highest employment rates in the country. The overall London economy has been growing faster than the rest of the UK for most of the past 15 years. The result is that London currently makes a net contribution to the Exchequer of up to £22.6bn *per annum*.

3. *Business Space Across the World*, results of Healey and Baker survey, March 2002

4. Including property taxes and services charges

## TOURISM SPENDING PRIORITIES

6.10 It is a city of rising prosperity for some but for others deepening debt in an unsustainable social environment. The economy continues to grow yet 43% of children live below the Government's poverty threshold. When all of this spills over into the quality of the public realm, creating an ambience of disquiet and disaffection in some parts of the community, this affects the quality of London life and seriously diminishes the tourism experience.

6.12 Crime and policing are London-wide issues and the increase in violent crime is of concern to both residents and visitors. Latest figures show a 35% increase in general street crime and a 53% rise in robberies at gunpoint. The Government needs to reduce both the level of crime and the fear of crime.

6.13 The Homelessness Directorate (previously known as the Rough Sleepers Unit) was established in 1998. At this time, there were over 600 rough sleepers in London. This number has fallen and the Alliance calls on government now to pursue its target to reduce the number of rough sleepers to 'as near as zero as possible' and to maintain this target. We note that many of the destitute continue to roam the streets during the day and are the target of drug-dealers and other crime pedlars.

6.14 London lost an estimated £1bn as a result of the events in 2001. The Alliance welcomes the support that the capital has received (some £4m recovery package from the Mayor's Office through the London Development Agency) to help promote the city and boost its cultural and tourist activities but hopes this is a beginning of more sustained assistance<sup>5</sup>.

### **Moving in, out and round London**

6.15 The 10-year transport plan and the Mayor's Transport Strategy both identify many of the problems of London's transport system. A comprehensive range of measures to tackle them is proposed but these need to be prioritised. Overall £25bn - £10bn private capital, £8bn public sector investment, and £7bn public sector resource expenditure – is committed in the 10-year Plan. Priority projects include:

- Improving the quality of services on the London Underground
- Raising standards and the frequency of bus services
- Extending the Docklands Light Railway to London City Airport
- Establishing new East Thames river crossings for road and rail
- Advancing Thameslink 2000
- Extending the East London Line
- Cross Rail: Creating a new east-west rail link
- Completing the Channel Tunnel Rail link

---

5. The Mayor has a statutory responsibility to promote tourism under S.378 of the GLA Act, 1999. The Mayoral vision and the proposed strategy for tourism must also have regard to national tourism policy as set out in *Tomorrow's Tourism*, DCMS 1999.

6.16 The capital is bogged down with funding arguments, planning arguments, congestion charging scheme arguments, endless roadworks and projects that are already facing ballooning costs. London needs investment and delivery of significant improvements to keep it on the move. Political infighting over the past two years has let London down at the very time swift, decisive action has been required. In many areas affecting tourism, delivery has been in short supply.

6.17 There has been much debate and recognition regarding the need for improved transport facilities.

- Air transport: London's skies are congested. While the profile of Gatwick and Stansted are such that they are now recognised by visitors as additional major airport hubs, Heathrow remains ever popular and over pressured to the point where its ability to offer the highest levels of customer service are affected. It has finally received permission for a 5<sup>th</sup> Terminal. The Government has acknowledged that London and the South East already suffer from the lack of airport capacity. It must address this issue as a matter of priority through an air transport policy that facilitates sustainable growth in aviation, balancing the economic benefits it provides with the need to tackle environmental and social impacts.
- Rail: High-speed rail links to the capital are well overdue. Once delivered they will transform travel to and from London – one such project is the East Coast Mainline.
- Roads: London's roads are fast becoming gridlocked at pinchpoints during the day. The London Mayor has announced that he will proceed with a congestion charging scheme. We welcome the opportunity to discuss implementation of the scheme with him to ensure that it genuinely addresses current problems to the benefit of residents, business and visitors. If not implemented effectively, it could cause lasting damage to London's reputation.

Visitors expect a fully integrated transport system with clear information.

6.18 The city also needs a coach strategy for both public and private coach use. Coaches can move tourists quickly and efficiently but coach parking provisions need to be addressed. Any strategy for public coach travel should also review the central coach terminal provision based at Victoria. Edge of city coach terminals that interlink with a fully integrated transport system are now also needed.

6.19 Taxis and minicabs must provide a safe mode of transport for users. The work of the Public Carriage Office on licensing minicabs and regulating black cabs is critical and the office must be properly resourced, particularly in light of the additional workload with Private Hire Vehicle Licensing.

## TOURISM SPENDING PRIORITIES

### **Tourism delivery**

6.20 We recognise that the London Development Agency on behalf of the Greater London Authority is working with key players to increase the visibility of London as both a leading World City and a strong 'brand'. We welcome the proposed London Plan to facilitate investment, development and regeneration, and the forthcoming 3-year strategy arising out of the LDA's current Strategic Review of Tourism in London.

6.21 Without sufficient funds made available, London will fail to operate at the level of a 'super magnet'. Core structural changes are being planned for the delivery of tourism. The Alliance calls for the recommendations to be clear, efficient, workable and effective. They should deliver a strong organisational framework that can steer tourism in London, and England to renewed economic success.

### **Business tourism**

6.22 Business tourism – both domestic and overseas – is worth an estimated £3.0 billion per annum to London's economy. Yet its value has not increased appreciably over the past decade as it continues to lose out to other leading overseas business destinations. Business visitors account for 22% of all overseas visitors and 33% of expenditure. They are also potential inward investors and a positive experience can both support inward investment and job creation from overseas companies seeking to set up in the UK.

6.23 London is a major asset to business tourism yet it lacks a large volume (5000+ delegates) purpose-built convention and exhibition space, preferably coupled with a headquarters hotel. London has 240,000 (space in m<sup>2</sup>); in comparison, Paris has 580,000 (space in m<sup>2</sup>). The industry will work with stakeholders to address this shortfall and loss of opportunity.

6.24 The value of the Government's export promotion overseas scheme totals approximately £18m. By contrast, its Inward Mission Scheme is designed to assist overseas buyers to attend events in Britain. This amounts to some £0.5m in direct support. The Alliance considers that the potential to incentivise increased attendance by exhibitors at UK events could served to enhance both London and the UK as a leading trade exhibition destination.

## CONCLUSION

The Tourism Alliance recognises that raising quality in *all* parts of the tourist experience across the country is key to raising the overall competitiveness of the UK as an international tourism destination. The tourist experience is inextricably intertwined with national standards and national prosperity.

The industry seeks to enhance and ensure a sound return on any public investment it receives. As part of this commitment, it will endeavour to drive forward its twin goals of industry reform and regeneration, as well as pushing for the ongoing promotion of tourism as a national powerhouse of economic contribution.

The Tourism Alliance will review, at very regular intervals, development of Government policy in this area and its implementation. It will publish a review in twelve months' time.

**Tourism Alliance  
Centre Point  
April 2002**

**For further information please contact:**

**Dr June-Alison Sealy  
Tourism Alliance Secretariat  
Centre Point  
103 New Oxford Street  
London WC1A 1DU**

**T: 0207 395 8238  
F: 0207 395 8178  
E: [tourismalliance@cbi.org.uk](mailto:tourismalliance@cbi.org.uk)**



14 March 2002

The Rt Hon Gordon Brown, MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
London SW1P 3AG



**BUDGET 2002 - FISCAL PRIORITIES FOR TOURISM**

I chair the Tourism Alliance which brings together key private-sector representative organisations within travel and tourism, hospitality and leisure. It represents over 250,000 businesses. The purpose of this letter is to highlight some concerns within the industry in the light of the forthcoming Budget.

Tourism is a key sector of the economy worth over £75bn. It contributes some 5% of GDP and employs 2.1m people. As an over-arching economic sector it is a wealth and employment generator in both urban and rural areas. It creates 1 in 5 of all new jobs and up to December 2001, 9% of all jobs created by the New Deal were in tourism and hospitality. The sector is looking for positive measures to help it step up the quality of its product offering, the efficiency of its training initiative, productivity growth and employability.

The UK economy is currently in a welcome period of stability and low inflation. This has been beneficial to business and in particular to the development of tourism. However tourism, and many of its related activities, is an internationally-exposed sector. Its competitive stance has continued to decline and the deficit on the tourism account deepened to £14.6bn in 2001 compared to £11.4bn over the same annual period in 2000.

The Tourism Alliance is concerned that following the recent global economic slowdown – a slowdown exacerbated by recent terrorist attacks in the United States - the Government will seek to augment its revenues by boosting a range of specific taxes.

/2 . . .

Chairman: Digby Jones  
DL: +44 (0)20 7395 8246 DF: +44 (0)20 7395 8178 E: [tourismalliance@cbi.org.uk](mailto:tourismalliance@cbi.org.uk)

CBI Centre Point 103 New Oxford Street London WC1A 1DU  
T: +44 (0)20 7395 8238 F: +44 (0)20 7395 8178 E: [enquiry.desk@cbi.org.uk](mailto:enquiry.desk@cbi.org.uk) W: [www.cbi.org.uk/tourismalliance](http://www.cbi.org.uk/tourismalliance)

Spending on core services and the infrastructure remain a priority and there are a number of public service areas where improvements in the quality and delivery area is urgently called for. However, we hope you will not be attracted to the idea of increasing the tax burden on the sector in order to fund any increase in spending that may be deemed necessary. This, in our estimation and from a range and number of analyses, will stifle rather than stimulate growth at a time when there is a pressing need to build confidence, increase investment and deliver increased productivity.

I would like in particular to focus on three potential sources of revenue, where it is especially important that the temptation to raise tax is avoided. Indeed there is a strong case for looking to reduce these taxes in order to move towards a level playing field on the international stage.

### **VAT on tourism services**

Specifically, we note from the experiences of our European competitor destinations that the application of the standard rate of VAT on tourist accommodation does not assist the competitiveness of the sector. The 6<sup>th</sup> EC VAT Directive does permit a Member State to apply a lower rate of VAT on a number of tourism services. Twelve of the 15 states have now taken up this option, thereby demonstrating their recognition of the beneficial role government can play in stimulating a sector, where such investment costs are far outweighed by the returns.

The Tourism Alliance, as well as its representative role, also works with the sector to increase both investment and quality. However, it can only work within the current fiscal regime. Research by the World Travel and Tourism Council Tax Barometer Records (December 2001) show that on a country-by-country basis, taxes on tourists in city destinations ranked London the 50<sup>th</sup> most expensive out of the 52 cities monitored. UK tourists can expect to pay the highest tax, both in terms of the actual amounts, and as a percentage of the total cost of a trip.

In addressing the whole issue of VAT reduction on tourism services, we have identified a reduction on tourist accommodation as one area where government intervention can make a positive impact to help increase revenues overall and national competitiveness. In line with the CBI, the Tourism Alliance calls for a VAT reduction on tourist accommodation, with savings passed to the consumer.

### **Air Passenger Duty**

The second area concerns Air Passenger Duty (APD). This was introduced in November 1994 to broaden the tax base of the sector. It was not introduced as an environmental measure; the revenue generated is channelled direct to the Treasury. The outturn for 2000-01 was £1bn. Whilst we recognise that it is not in the best interest of the industry to have a hypothecated tax, we do call for increased spending on linked infrastructure and environment measures to help maintain the competitiveness and growth of the industry.

We note that in all but one (Denmark) of the EU Member States other than the UK, the monies collected by airlines from their passengers is payable either direct to the airport or civil aviation authority. Where such monies are collected through the country's fiscal regime, it is hypothecated to a relevant body such as the civil aviation authority, air traffic control body, airport authority, as appropriate. The money is directed to such areas as airport security (France, Netherlands, Sweden), airport development (Finland, Greece, Portugal, Italy), or a combination of these including airport development, customs, security and immigration (Austria, Germany, Luxembourg).

The travel industry remains hard hit by the consequences of 11 September, not least the requirement for on-going, heightened security measures. The Tourism Alliance sees a clear opportunity for the Government to support the industry by increasing its spend to underpin the infrastructure necessary to maintain internationally competitive standards expected by today's travellers.

### **VAT on property refurbishment**

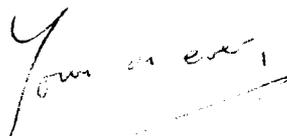
The third and final area of concern relates to the issue of VAT on property refurbishment in general and on repairs to historic properties in particular. We support the idea of reducing the rate to 5% to decrease the differential between the refurbishment of older properties and new buildings, and between VAT-registered and unregistered businesses.

We also see an opportunity to reduce the rate of VAT on listed building repairs. Two-thirds of Britain's heritage is in private ownership; they contribute £1.2bn to the national economy. The provision of fiscal relief for the maintenance of historic properties that provide public access would help stimulate much needed investment.

We further note that many potential buildings, and not necessarily historic, that could assist the Government's wish to widen social access to tourism and leisure, face prohibitive costs arising from the need to make reasonable adjustments for disabled access. The introduction of such a relief would therefore not only benefit existing open stock, but could help to increase this base.

Tourism has for too long, failed to register on the consciousness of politics and the public as the vital and large wealth and job creating sector that it obviously is. Other less competitive sectors have enjoyed more favourable fiscal and spending treatment over many years. It is time to redress the balance.

I would of course be happy to discuss these proposals with you in greater detail. I am also copying this letter to amongst others, the Culture Secretary and the Chief Secretary of the Treasury.

  
  
**Digby Jones**  
**Chairman, Tourism Alliance**



## **ANNEX 2**

### **RAISING THE QUALITY OF ACCOMMODATION**

#### **PROPOSAL FOR SUBSIDISED PARTICIPATION SUBMITTED BY THE ENGLISH TOURISM COUNCIL**

##### **1. HOW DOES RATING SCHEME WORK NOW**

The English Tourism Council (ETC) has responsibility as directed within Tomorrow's Tourism for the strategic development of tourism in England. A part of this remit is to increase the quality of accommodation provision for the tourist. The main way in which quality is increased is through the assessment process and awarding of ratings against National Quality Assurance Standards (NQAS).

Ratings under the NQAS are currently awarded through three bodies. These are ETC, the AA and the RAC.

Between the three organisations there are approximately 26,358 businesses, which participate within the ratings scheme. 22,000 establishments receive their gradings through ETC, 4,358 from either the AA or RAC. There is some duplication between the three awarding organisations.

A typical cost of participating within the NQAS is £90.00 per property although the charges depending on size and nature of the property can go up to a maximum of £2,500. To provide free assessment for all current participants within the schemes including ETC, AA and RAC properties would cost in the region of £2,750,000.

In addition to the 26,358 properties participating within the ratings there are approximately 60,000 properties whose details appear on the ETC database but do not participate within the NQAS. The addition of participants and non-participant's totals some 85,000, which is called known stock within ETC. To provide free assessments to all known stock of 85,000 properties the cost would be around £7.5 million.

## 2. PARTICIPATION LEVELS

The current accommodation “known stock” is not comprehensive as there is no requirement in this country for accommodation providers to register their details. The total could rise by as much as a further 50% bringing the total known stock to 128,000.

### 2.1.1 Known Stock Breakdown by Accommodation Type

Hotels	6,625
Guest Accommodation	22,352
Self Catering Units	52,864
Caravan Parks (inc Holiday Villages)	2,553
Hostels	747
Universities	200
<b>Total</b>	<b>85,341</b>

### 2.2 Participating Stock Breakdown by Accommodation Type

Type	Number	% in quality scheme
Hotels	4,375	51%
Guest Accommodation	11,834	53%
Self Catering Establishments	8,892	31%
Caravan Parks	1,044	41%
Hostels	208	28%
Universities	5	2.5%
<b>Total</b>	<b>26,358</b>	

NB: Travel Accommodation and Townhouses are included in Hotels.

## 3. OPTIONS FOR CONSIDERATION

In order to increase participation without the added bureaucracy of Statutory Registration, a number of options could be considered:

### 3.1 100% Subsidy

This option is to subsidise full payment of all known accommodation stock in England, which is estimated to cost £7.5 million.

### 3.2 Promotion

A second option could be to promote the star ratings scheme to the consumer through PR and advertising, which would encourage consumers to recognise and insist on the “kite-mark”. This would lead to consumer driven increase in participation. Based on experience following the short-term promotion of harmonisation, promotion of does assist with increased participation.

- 1<sup>st</sup> year after harmonisation promotion 12% increase in participation
- 2<sup>nd</sup> year after harmonisation promotion 8% increase in participation
- 3<sup>rd</sup> year after harmonisation promotion 5% increase in participation

After three years, participation levels had increased by 25%.

### 3.3 One Year Introductory

A third option could be to offer a one-year introductory subsidy for participants. In order to gear up assessment teams to cope with this demand, the programme would need to be spread over several years.

## 4. PRACTICALITIES

A practical issue related to offering free assessments to all properties within England is the ability to deliver. Unicorn Tourism Ltd currently holds the contract with ETC to assess properties under the NQAS They employ in the region of 70 assessors to deliver assessments to the 22,000 participants. To deliver the assessment of 85, 000 properties within 1 year is logistically difficult. The main issue would be the recruitment and training of additional 330 assessors.

## 5. COST OF PAYING PARTICIPATION

The cost of participation has been established by taking an average of the current ETC participants per sector divided by the total of payments made in the most recent 12 month period. The assumption is therefore that non-participants are of a similar size and nature to current participants. On this basis the cost of 100% subsidy for all known stock of 85,341 properties would be £7.5m

## 6. STRENGTHS AND WEAKNESSES OF THE THREE OPTIONS

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
Increased Participation	Sets precedent for maintaining subsidy
Improved quality for consumer	Not able to introduce in 1 year
Improved value for money	Applied across all awarding bodies
Reduction in business failure	Could distort balance of participation between awarding bodies
Removes poorest quality providers	Ability to deliver service
Positive public relations (current climate)	Drop out after removal of subsidy
Increase in tourism turnover	Forecasting uptake of offer
Industry education	Disparity of offer within industry

## **7. TIME SCALES FOR INTRODUCTION**

The introduction of free participation would take at some years for all sectors of industry to be included. Priorities should be in the following order.

1. Guest Accommodation
2. Self Catering
3. Hotels, Town House, Travel
4. Hostels, Caravan Parks, Universities

Inevitably there are weaknesses with this staged approach. If for example Guest Accommodation was dealt with as a priority the remaining sectors are penalised until such time as we are able to deliver the service to all. However a staged approach is considered essential because of the logistical problems.

## **8. SUPPORT MEASURES**

With the introduction of subsidised participation a number of conditions would need to be introduced through a variety of bodies such as Local Authorities, Regional Development Agencies, Regional Tourist Boards

The types of conditions, which could be considered, are:

### **8.1 Planning**

When establishments apply for planning in relation to, for example, signs, building, change of use etc a condition of granting this would be participation within the NQAS.

### **8.2 Inspected Only**

All Local authorities should introduce “Inspected First” policies, which ensure that any property wishing to advertise within local guides, should be participants within the NQAS

### **8.3 Licensing**

When establishments apply for planning in relation to any licensing requirements a condition of granting this would be participation with the NQAS.

### **8.4 Grant in Aid**

When an establishment applies for a grant-in-aid a condition of granting this would be participation with the NQAS.

## **9. RECOMMENDATION**

To introduce a 100% subsidy for all creates short-term issues in the delivery of the assessment service and sets a precedent, which could not be maintained over time.

The recommended approach is to develop a lasting commitment to participation and raising quality within the industry through systematic achievement of ratings. This would be achieved by offering a combination of options.

<b>APPROACH</b>	<b>COST</b>
A sliding scale of discount for existing participants over 3 years	£1,500,000
A sliding scale of discount for new participants over 3 years	£2,500,000
3 year promotion of scheme to consumer	£2,000,000
3 year promotion of scheme to industry	£1,500,000
<b>Total</b>	<b>£7,500,000</b>

The introduction of a packaged approach with subsidies and control measures would cost something similar to free assessment, but offers more for the improvement of quality over the longer term.

For an outlay of £7.5 million over three years (Year 1 £3.0 million; Year 2 £3.0 million; and Year 3 £1.5 million) we can expect an uplift of 90% in the number of participants raising participation in the scheme from 26,358 to 50,000.

**March 2002**



## **ANNEX 3**

### **The Case for Domestic Marketing of England**

#### **Executive Summary**

Tourism is a major contributor to the economic prosperity of the UK. This paper represents the industry's view on how this contribution can be improved by the public and private sector working together.

#### **The Issues**

- Tourism has been a success story. It is our fifth largest industry, employing some 2 million people and has been responsible for the creation of 250,000 jobs in the last five years.
- Tourism brings benefits to the whole country and to a wide range of industries. Tourism adds value, preserves local services, encourages local crafts and traditions and ensures the maintenance of much of our heritage.
- This success is not guaranteed in the future. A review of the last five years shows that we now have a "tourism deficit" of £12 billion. An astonishing £40 billion is spent by English residents on overseas holidays and the home market is not winning its share of that expenditure.
- The consumer is changing fast. The age and lifestyle of our customers, and the way they buy holidays, means that we need new methods to compete. The huge opportunities presented by the growth in short breaks and the use of the Internet needs a fast, well resourced, national response.
- The public and private sector are united in their view that we are not making best use of resources at present. There is a universal view that greater coherence and cohesion is needed to maximise the opportunities for England.

#### **The Solution**

- What we are proposing is a new partnership – England Marketing – which will allow the public and private sector to work together on a vision and marketing strategy for England.
- This will require public sector funding of £20 million per annum which will be matched by private sector support.
- England Marketing will be managed through ETC with a steering group made up of the private sector, Regional Development Agencies, Regional Tourist Boards and other key players.
- In the first year (2002/3) priority will be given to commissioning research, establishing the partnership and agreeing a national marketing strategy. This will require seed funding of £10 million.

## **The Return**

- This investment will generate a return of £2.5 billion to England over a three-year period. This return will come from two sources: (i) winning a greater share of the money English residents spend overseas and (ii) growing the market for short breaks.
- A national framework will allow regions and destinations to work more effectively across regions and exploit opportunities for themed promotions, e.g., walking, heritage etc.
- A national marketing strategy will make better use of existing investments made in ICT and marketing by the English regions, the British Tourist Authority and EnglandNet.
- A national framework will provide the opportunity to work with the distribution system of 10,000 travel agents and significant national operators that cannot operate effectively at a regional level. We estimate leverage of £20 million from the private sector in cash and in kind.

## **Summary**

These recommendations have been produced by the public and private sector working together. There is commitment on the part of all organisations to work together to ensure that tourism in England achieves a bigger return for the country. This investment in success will achieve a return of £2.5 billion, create jobs, and make better use of existing investment. It is a win: win for the government and the industry and should be a priority for public spending.

**ANNEX 4**

**THE TOURISM ALLIANCE EXECUTIVE GROUP**

**Chairman:** Digby Jones, Director-General, CBI

**Organisation and representative:**

Association of British Travel Agents	Ian Reynolds
Association of Leading Visitor Attractions	Robin Broke, LVO
Association of Recognised English Language Services	Tony Millns
British Beer and Pub Association	Rob Hayward, OBE
British Holiday and Home Parks Association	Ros Pritchard
British Hospitality Association	Bob Cotton
British Incoming Tour Operators Association	Richard Tobias
British Tourist Authority	Sue Garland OBE
Confederation of British Industry	Digby Jones
English Tourism Council	Mary Lynch
Local Government Association*	Sir Ron Watson, CBE
Regional Tourist Boards	Dorothy Naylor

**Secretary to the Alliance:** Dr June-Alison Sealy, CBI

\* Joined the Tourism Alliance, March 2002