

TourismAlliance

the voice of tourism

**Lyons Inquiry into Local Government Funding
Room 3.12
1 Horse Guards Road
London
SW1A 2HQ**

15 April 2005

Submission to Lyon's Inquiry in Local Government Funding

Dear Sir,

The Tourism Alliance was established in 2001 with the support of the Secretary of State for Culture, Media and Sport as the voice of the UK tourism industry. It comprises over 40 Tourism Industry Associations (see attached membership list) that together represent some 200,000 business of all sizes throughout the UK. The Tourism Alliance's mandate is to work with government on issues relevant to the growth and development of tourism and its contribution to the economy and it is therefore responding to this Inquiry in that capacity.

Britain's tourism industry has been one of the largest and fastest growing sectors of the British economy over the past 20 years and is now worth £75bn (6.4% of GDP) and accords for 7.4% of the UK workforce. Importantly, in addition to the revenue and associated employment benefits, tourism is a major means of redistributing wealth from urban to rural and seaside regions, encourages the protection and maintenance of natural, cultural and historic resources and delivers a range of social benefits such as supporting services and facilities for local communities that would not otherwise be viable.

Recognising the benefits of a healthy and growing tourism industry, Government has set itself the target of increasing tourism revenue from £75bn at present to £100bn by 2010. To achieve this, policies and initiatives are required that encourage Local Authorities and tourism businesses to invest in Britain's historic and cultural assets so that they are preserved and continually improved as a driver for both inbound and domestic tourism.

The Tourism Alliance encourages Local Authorities to recognise that services such as street cleaning, rubbish collection and toilet provision are of great importance to the tourism industry and to allocate resources to the maintenance and upgrading of tourism-related resources and environments appropriate to the scale and importance of tourism in their area. As such, the Tourism Alliance is supportive of the Lyons

Inquiry in its quest to resolve the current problems associated with local government funding.

However, of particular importance to the Tourism Alliance is ensuring that the UK tourism industry remains international competitive so that it can continue to provide the social and economic benefits mentioned above.

Tourists are often accused of taking advantage of the public services and facilities in destination countries while not contributing to the provision and maintenance of these services and facilities. However, studies by the World Travel and Tourism Council (WTTC) and the International Air Transport Authority (IATA) that show that the taxes levied on visitors to the UK are higher than those levied on visitors to other major European tourism destinations. This high level of taxation is reflected in higher prices that place the UK tourism industry at a competitive disadvantage in the global tourism market.

That the UK is at a competitive disadvantage is shown by the WTTC's Taxation Barometer, which compares the level of taxation on a hypothetical set of tourism related products in 52 major cities around the world. This study concludes that visitors to London face the second highest level of taxation of any tourism destination.

This is supported by a VisitBritain study on Britain's international competitiveness, "The Comparative Taxation of Visitors to the UK". This study demonstrates that, during a seven day stay in the UK, an American family of four contributes £331 (just under £50 per day) to the Exchequer. This does not include company tax paid by businesses that benefit from their expenditure nor the personal taxation of employees in the industry.

This is twice the average contribution (£166) that the family would make in the other leading European destinations when purchasing exactly the same goods and services. When calculated as a percentage of total expenditure, the study showed that 18.4% of the family's expenditure in the UK goes directly to government revenue. This is 50% higher than the average of 12.3% for the other major European destinations.

Overall, the study showed that overseas visitors contributed approximately £1.5m in VAT and Air Passenger Duty payments alone. When domestic tourism and day visitors are added, it is estimated that tourists in the UK contribute some £12bn directly to the Exchequer each year.

One of the main reasons that tourists in the UK pay so much more in tax in the UK is because the 17.5% VAT rate on accommodation in the UK is more than three times greater than the reduced rate applying in France (5.5%) and twice the European average of 8.5%. Because of the high rate of tax that tourists pay in the UK, the Tourism Alliance strongly opposes any move that would seek to further increase the contribution of tourists through any form of sector targeted tax such as a bed tax.

Such a move, even by 1-2 %, would seriously affect the competitiveness of the UK tourism industry. Normally, increasing the price of products does not proportionately depress the sales volume and, as such, results in an increase in total sales value. However, this is not so for tourism in the UK, which is highly competitive, highly price sensitive and has many 'close substitutes'.

Another VisitBritain tourism study, “The Price Sensitivity of Tourism to Britain”, showed that a 1% increase in the cost of tourism in the UK results in a 1.3% decrease in revenue generated by tourism. Given the demonstrated high price sensitivity of tourism earnings, it is important that tourism related taxes are not introduced as they would disproportionately reduce the UK’s tourism earnings – thereby reducing social and economic benefits of tourism accordingly.

This finding is supported by the growth in the tourism deficit over recent years. As the budget airlines have reduced the cost of travel, they have exposed the tax-related differential in cost between staying in the UK and staying in other European destinations. As a result, the tourism deficit has increased by over 350% from £4.7bn in 1997 to almost £17bn in 2003 as the growth in outbound tourism has not been matched by the growth in inbound tourism.

To conclude, the discussion above clearly shows that tourists in the UK do actually “pay their way” by contributing some £12bn per annum directly to Government for the provision and maintenance of the public resources that they use. Therefore, the main issue is not how to increase the contribution made by tourists. Rather it is how to ensure that a greater percentage of this £12bn contribution is reinvested back into the provision and maintenance of the resources that tourists use.

If more money is required to fund local tourism-related infrastructure, then this should come from a greater retention of the existing business rates and/or from a greater re-allocation of Central Government funds

The Tourism Alliance wishes the Lyons Inquiry all the best in seeking much needed improvements to local government funding. If it, or its members, can be of any assistance in providing further evidence or expanding or clarifying tourism-related issues, please feel free to contact me at the address below.

Yours sincerely

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Tourism Alliance Membership List

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

Associate Members

Local Government Association
SouthWest RDA
VisitBritain