

Deloitte.



The Economic Case for the Visitor Economy.

Final Report.

September 2008

Audit . Tax . Consulting . Corporate Finance .

Contents

1	Executive summary.....	4
2	Introduction	12
2.1	The wider review and context	12
2.2	Project scope.....	12
2.3	Report structure	12
3	Study framework & methodology	13
3.1	Project methodology	13
4	The economic contribution of the Visitor Economy	17
4.1	What is the Visitor Economy?.....	17
4.2	Model structure.....	17
4.3	Current contribution of the Visitor Economy to the UK	18
4.4	The Visitor Economy's current contribution by trip-type.....	20
4.5	The current contribution of the Visitor Economy to the regions.....	21
4.6	Origin of visitors to the UK.....	22
5	Spillover benefits and wider contribution	23
5.1	Links with other industries	23
5.2	Contribution to choice	25
5.3	Rural	26
5.4	Earnings and employment.....	31
5.5	Contribution to the entrepreneurship agenda.....	35
5.6	Contribution to regeneration and placemaking	36
5.7	Contribution to heritage.....	37
6	Future challenges	38
6.1	Forecasts for the future contribution of the Visitor Economy.....	38
6.2	Hypothetical future scenarios	43
6.3	The challenge of international competition	47
7	Market failures and policy drivers	50
7.1	Influences on the volume and value of the Visitor Economy.....	50
7.2	The UK's performance	54
7.3	Impact and influence.....	56
7.4	Market failures	57
8	Policy considerations	67

9	Annex A - Technical methodology	69
10	Annex B – Model outputs	77

Disclaimer

This report was prepared exclusively for VisitBritain. While every effort has been made to ensure the accuracy of the information contained in this publication the author and VisitBritain does not accept any responsibility for errors or omissions. The author and VisitBritain accept no duty of care or liability to any other party who is shown or gains access to this report. Any person who, contrary to the above, chooses to rely on this publication does so at their own risk and the author will not be responsible for any losses of any such person caused by their reliance on the publication.

1 Executive summary

VisitBritain (“VB”) and the Tourism Alliance commissioned Deloitte, with Oxford Economics as sub-contractors, in March 2008 to assess the ‘Economic Case for the Visitor Economy’ in Britain. The objective of the study is to provide an in-depth quantitative and qualitative analysis of the contribution of the Visitor Economy to Britain.

This report quantifies the economic contribution of the Visitor Economy in terms of both direct impacts (from sectors directly related to tourism) and indirect impacts (from other sectors that rely on tourism through the supply chain, for instance). It also highlights the wider contribution of the Visitor Economy in delivering other socio-economic policy objectives such as regeneration, social and economic inclusion, enhancing skills and employment, and promoting/attracting enterprise and investment.

A conceptual framework was developed to highlight how the Visitor Economy interacts with the wider economy. The quantifiable direct and indirect contribution is estimated using a bespoke model developed as part of this study, and is consistent with the UK’s national accounting methodologies. This analysis was augmented by qualitative assessment based on literature review, stakeholder consultations and case studies.

The report also highlights future challenges facing the Visitor Economy and identifies key market failures and leverage points to enhance economic contribution the industry further.

CURRENT ECONOMIC CONTRIBUTION

The ‘Direct’ contribution (businesses providing tourism related goods and services)

The Visitor Economy delivers a significant ‘Direct’ contribution to the economy – currently £52 billion or 3.7 per cent of GDP.¹ This takes into account value added generated by the provision of tourism related goods and services. Moreover, the Visitor Economy directly supported over 1.36 million jobs in 2007. Total spending in the Visitor Economy has risen in nominal terms from £85 billion in 2005 to £86 billion in 2007.

The ‘Indirect’ economic impact (supporting businesses in the supply chain)

There are significant indirect impacts of the Visitor Economy through its interaction with other businesses in the supply chain. The total (direct and indirect) impact of the Visitor Economy was 8.2 per cent of national GDP in 2007 – equivalent to around £114 billion. These indirect impacts arise because activity and output in the Visitor Economy creates and supports jobs and growth in the wider economy as sectors sell to or purchase from the Visitor Economy. There are also further impacts through interactions with suppliers of investment goods to the Visitor Economy. Consequently, all of these other sectors – to some extent – benefit from the Visitor Economy.

Spillover benefits

There are close linkages between the Visitor Economy and other areas of the economy that create spillover benefits for a number of diverse sectors. Supplementary qualitative analysis of three varied sectors highlights how far reaching the benefits of the industry are. Three indicative examples include:

- **Retail** – This link has been evident in the impacts on retailers’ profits through economic shock events, such as the London tube and bus bombings in 2005. Although in many cases retail is considered a key element of the Visitor Economy,

¹ There is no official definition for the Visitor economy although there are a number of sectors which are directly related to it but classified separately in statistical definitions. Estimates presented are based on an extension of the methodology used under the TSA definition which includes government spending related to tourism. For comparative purposes calculations made using the definition of tourism in the First Step TSA study, valued the industry at 3.4 per cent of UK’s Gross Domestic Product (GDP) in 2007. See Annexes for full details.

some major retailers – who are not directly associated with the industry – develop targeted strategies for tourist areas to maximise sales of goods and services more specific to visitors.

- **Manufacturing** – Although the contribution of the Visitor Economy to the manufacturing sector is not immediately obvious, stakeholders have suggested that there are crucial links through the supply chain – particularly in the form of manufacturing of goods and services in the transport sector; food and beverages; and hotel equipment.
- **Health and life sciences** – Well-developed health care systems and improvements in technology have supported the growth of medical tourism with consumers travelling specifically to receive medical treatments (such as surgery, dentistry, cosmetic surgery and infertility treatment).

Moreover, there is evidence of a ‘critical mass viability’ effect, whereby tourism and associated expenditure creates benefits for British businesses and consumers. Some of this is tangible – in terms of the breadth of additional choice for residents or the conservation effects for Britain’s significant heritage – and some is less tangible – in terms of the ‘vibe’ of a place such as Brighton. Discussions with private sector stakeholders highlight that some areas of their business are aimed specifically at tourists but there is often significant cross-over and in some cases cross-subsidisation benefiting local residents.

Wider contribution to the socio-economic policy agenda

In addition, the Visitor Economy also contributes to the wider policy agenda including:

- **Economic and social inclusion** – There is evidence that tourism related employment provides labour market entry opportunities to those with low or no skills, who can only work part-time and/or those who may not otherwise engage with the labour market, potentially at a cost to the taxpayer. Once in employment, they can be upskilled and move up the value added chain.
- **Enterprise / business formation** – Recent years have seen strong entrepreneurial activity in the Visitor Economy with one of the highest levels of business creation across all sectors in both absolute and percentage terms. This is helped by the comparatively limited barriers to entry in most components and is particularly the case for small and medium sized enterprises. Enterprise has been identified by HM Treasury as one of the five drivers of productivity and thus economic growth, and is a key priority for Government and RDAs. The number of registrations of businesses related to the Visitor Economy as a share of registrations for all businesses in the UK accounted for 11.5 per cent which is in excess of its share of UK GDP using the widest measure of the Visitor Economy. This highlights how, although businesses may be viewed as relatively lower value – they contribute to growth in the wider economy.
- **Sustainable development impacts** – There is clear evidence of the disproportionate contribution of the Visitor Economy to rural and coastal locales – empirically this is the case for direct tourism related activity but anecdotal evidence suggests that localised supply chain links are also likely to be stronger.
- **Regeneration impacts** – Tourism has been the catalyst for wider regeneration and development in a number of urban areas. For instance, Salford Quays regeneration through the ‘critical mass’ impacts of Visitor Economy assets such as the Lowry Gallery and Imperial War Museum North; the Eden Project and Alnwick Castle Gardens; Leith Docks and the subsequent development of the Royal Yacht Britannia; and the later renaissance of waterways from the Falkirk Wheel. However, new visitor projects are not a silver bullet for changing a location’s fortunes, as projects like the Earth Centre have shown.

FUTURE CHALLENGES FOR THE VISITOR ECONOMY

Forecast Growth

- **Short term** – Short term forecasts from the model created as part of this engagement highlight potential challenges for the Visitor Economy, with domestic spend in 2008 set to be – at best – at a similar level to 2007, i.e. a decline in real terms (taking into account inflation). This stems from the impact of the expected economic slowdown on overall tourism spend. The net effect is negative because a reduction in spend levels outweighs the positive impact of people choosing the UK rather than overseas destinations.
- **Long term** – In the longer term it is expected that the industry's overall economic impact (direct and indirect) will be significantly larger in absolute terms – £188 billion by 2018 compared to £115 billion in 2008 – but will account for a similar proportion of the overall UK economy as 2008 at just under 8 per cent.

Scenario analysis

A scenario analysis was undertaken to assess the scale of the overall economic impacts associated with different visitor numbers and provide context for the policy and delivery debate.

- **Exchange rate changes** – a sustained 10 per cent appreciation in the pound relative to other major international currencies could have a significant impact on the UK Visitor Economy. In such a scenario, by 2009 foreign visits are expected to decline by around 3 per cent and associated expenditure by approximately 2 per cent relative to the baseline forecast. UK residents would also find foreign holidays relatively cheaper and, as a result, domestic tourism spending is likely to fall by just over 1 per cent. UK outbound tourism spend is expected to rise by over 1.5 per cent under this scenario. Consequently, the impact on employment would equate to a loss of 44,000 jobs whilst GDP would be £6 billion lower than the base case over the three years to 2010.
- **Short-term shock** – such as a recession in the UK where GDP falls by 1.5 per cent below base growth levels in 2008, further falling to 2.8 per cent below base in 2009 and staying there in 2010. In this scenario, the fall in GDP (driven by consumer spending) is expected to cause UK resident's domestic tourism expenditure to fall by 3.4 per cent and 4.7 per cent in 2009 and 2010 respectively. UK outbound tourism spending is hit even harder (-4.1 per cent and -5.4 per cent in 2009 and 2010). Impacts on the labour market would be more significant than the exchange rate scenario with employment losses of 114,000 and a cumulative GDP loss of £11 billion over the three years.
- **Gradual decline** – a situation where the attractiveness of the UK gradually declines to international tourists. If the growth in visitor number declines by 10 per cent per annum below baseline forecasts by 2012, the resultant loss to employment would equate to 68,000 jobs whilst GDP would be £10 billion lower than the base case by 2012.
- **Import substitution** – this scenario assumes that, each year, 10 per cent of the forecast growth in foreign-bound UK tourists is redirected to domestic destinations. This could either be due to higher air travel costs (both monetary and in terms of perceived environmental effects) or through improved UK offer. In this scenario, the UK economy would benefit from an employment gain of 114,000 jobs and GDP increases of £19 billion by 2012.

Economic leverage points

The economic impact of the Visitor Economy is driven by visitor numbers and associated spending. The model suggests that the tourist numbers and spend are driven by the following key actors:

- **Cost (e.g. bilateral exchange rates)** – this is a key factor influencing decisions of both domestic and international travellers. The model includes a set of bilateral

exchange rates between the pound and currencies of the UK origin and destination tourism markets. Other things being equal, a depreciation of the pound relative to other currencies is likely to result in a weaker demand for outbound tourism and higher demand for inbound and domestic tourism.

- **Destination's attractiveness** – the model includes a destination attractiveness indicator to monitor the relative attractiveness of the UK as a tourist destination over time and to quantify the impact of any improvements made in policy and tourism infrastructure. This variable is included to capture trends in medium to longer term. Although not designed as a measure of destination attractiveness there is a direct correlation between the most useful proxy measure – the WEF index – and tourism numbers.
- **Consumer spending** – a main driver for domestic tourism and outbound tourism is the strength of consumer spending of UK residents. In the model, ultimately this variable is determined by the level of personal income, wealth and conditions in the labour market. A higher overall private consumption translates into higher visitor spending by UK residents at home and abroad.
- **GDP** – in general, the health of the UK economy – as measured by the Gross Domestic Product (GDP) – is a main determinant of activity in the tourism industry. This is particularly relevant for estimating and forecasting business travel spending, which is a main component of personal consumption.
- **Investment** – for the overall value added contribution of tourism activity, the model includes investment in tourism infrastructure (e.g. hotels, aeroplanes, recreation sites) as well as public investment in areas supporting tourism (e.g. transport infrastructure). The ultimate driver of tourism-related investment is the overall level of investment in the UK.

The relationships between these five drivers in the model are complex and interdependent. This means that a relative weighting of importance, for instance, is not practical. It is useful though to distinguish between short-medium term drivers and longer-term drivers of the Visitor Economy.

In the longer-term the health and development of the tourism industry largely depends on supply side factors such as the effective delivery of infrastructure and the relative attractiveness of the destination. These factors will influence economic activity and thus GDP over the long-term.

In the short to medium term, however, those drivers influencing demand conditions are likely to dominate. Exchange rate fluctuations, consumer sentiment and prospects for economic activity in the UK and the main origin markets will drive outcomes.

The long-term drivers correspond to the areas that policy intervention can aim to tackle, whilst it has to be acknowledged that shorter-term drivers such as cyclical fluctuations in output, consumer spending and exchange rates cannot be influenced by policy makers in this context.

International competition

International competition is growing and there are challenges in sustaining and enhancing Britain's position as a destination of choice. Success is not simply a case of increasing the quantum of tourists. In a country that is close to capacity in some highly popular tourist venues, the same number of visitors spending more on a per capita basis may yield better overall outcomes than more visitors spending the same amount.

There is a risk that as a nation the UK is neither sufficiently prioritising tourism nor developing the physical tourism offer/supply. There are longstanding structural challenges in driving Britain's tourism product up the quality scale and important economic and social consequences of significantly repositioning the tourism offer of the UK to focus more strongly on the higher value visitor, domestic or international. Emerging markets – such as the Gulf States and Singapore – and many traditional destinations – Greece and Turkey for example – are differentiating their offer and pursuing strong expansionary policies for

Tourism. There is a need to assess the position of tourism in the wider economic policy context.

Market failures

Despite being a large industry with significant potential to grow further on the back of investment, there are market failures which need to be addressed with that investment – these failures could prevent the Visitor Economy from optimising its potential. With respect to market failures these issues include:

- **Information gaps (asymmetries)** – Information is imperfect, and there are significant failures where both consumers and businesses in the Visitor Economy suffer from information gaps and potential visitors (both overseas and domestic) do not have the relevant information to use in their decisions. The provision of such information (or lack of it in free market conditions) is an example of market failure and manifests itself in the requirement for public provision as outlined below.
- **Free rider problem** – A major market failure within the Visitor Economy is that there is likely to be no equivalent provision of marketing and coordination by the private sector due to the free rider problem. Due to the fragmented nature of the industry, individual business or a group of businesses are unlikely to market a place (country, city or region) to international or domestic tourists. In addition, many tourism providers perceive themselves as being in direct competition with their immediate neighbour rather than with other destinations and products.
- **Externalities** – There are significant positive and negative externalities arising from the Visitor Economy. Positive externalities exist where other businesses and consumers benefit from tourism activity. For instance, these include increased choice for domestic residents and preservation of the UK's heritage, reinforcing the attractiveness of the UK as a location from which to conduct international business. Negative externalities exist where other businesses and consumers are adversely affected from tourism activity. Examples include the congestion impacts of tourist traffic in more popular destinations and erosion of natural heritage where open access to spaces can lead to both economic and environmental overexploitation of the natural environment.
- **Skills gaps** – Provision of skills in the hospitality industry is a critical success factor for a competitive Visitor Economy. Large businesses provide training for specialist skills but the majority of small businesses in the sector are not able to support the development of the necessary skills. Due to labour mobility and the seasonality of the tourism employment market, there are limited incentives for businesses to invest in skills where employee turnover is high, and where skill development opportunities are a limited factor in decisions to leave employment. This is a key contributor to the quality considerations mentioned above, and is talked about in some quarters as a 'productivity' failure – Britain lags comparator regions in Visitor Economy productivity.
- **Spatial dimension of market failures** – There are also spatial dimensions to market failure. The 'honeypot effect' whereby tourist flock to a limited number of then-congested destinations – although beneficial for regeneration and generating economic growth – can create negative externalities as the impact of this concentration of tourists may create problems such as congestion and environmental erosion. There are interesting questions regarding the extent to which demand can be 'spread-around', which is in turn linked to whether tourists do not visit alternative areas due to information failure, or simply because they do not wish to visit.

The above market failures are specific to the tourism sector and a response to correct these needs to be tailored for the Visitor Economy. There are very many national and regional initiatives underway to address them, and many are recognised as longstanding features and challenges in the Visitor Economy. In addition, there are general policy drivers that influence the outcomes in the sector. However, a policy response to positively influence these drivers (such as transport) would include interventions across the public sector and not be specific to the Visitor Economy.

Policy barriers

Policy barriers occur when policy intervention in other spheres impinges on Visitor Economy outcomes. Stakeholder consultations carried out as part of this work, as well as previous research, suggest that there are significant policy barriers at national, regional and local level, including:

- **Transport infrastructure** – The capacity and quality of infrastructure, including airport, port, road and rail networks as well as service provision have significant impacts on the Visitor Economy. For instance, the Network Rail’s ‘9-5 assumption’ for engineering works to take place during typical out of office hours to avoid disruption to the economy has often significant impact on volumes of tourists and the quality of their experience in specific areas of the country.
- **Entry costs and border policy** – The cost and ease of accessing the United Kingdom has been identified as a barrier for international visitors. International visits are in effect pure ‘exports’ and therefore represent a substantial economic contribution. Recent research has singled out taxes and visas as particular costs that prevent higher levels of inbound tourism and limit economic contribution.
- **Limits on movement** – Restrictions on movement, such as those seen in the foot-and-mouth disease (FMD) crisis, have a particularly adverse economic impact on rural areas. The economic contribution of the Visitor Economy in rural areas is particularly significant and anything that may limit tourist numbers in these areas will lead to inferior economic outcomes – although we also note that economic shocks can fast forward structural change and greater future resilience in the local Visitor Economy, as some regions found in the aftermath of FMD.
- **Climate change legislation** – The sustainability of the Visitor Economy is clearly dependent on travel both within Britain and to and from international destinations. Climate change is now a consideration for providers and consumers of tourism services. The industry will have to work within the context of new climate change legislation. The impact of climate change could be positive (increased import substitution) or negative (decline in foreign visitors); it will also change the nature of the product being offered in response to consumer demand, although it is too early to predict the resilience of a price premium for more environmentally friendly tourism services in the face of challenging economic circumstances.
- **National and regional policies** – These tend to focus on higher productivity industries and clusters. The Gross Value Added (GVA) growth targets incentivise investment in more productive sectors. As a relatively low per-worker-productivity sector, the Visitor Economy has tended to receive lower priority in regional economic development than other sectors.

The above policy areas are clearly driven by wider socio-economic objectives. However, changes to these could have significant ramifications for the Visitor Economy. It is therefore important to ensure that tourism implications are considered as part of policy impact analysis before implementing any changes.

Policy Considerations

With other competitor countries further developing their tourist offer, a key consideration for the future is how Britain can retain and develop its current strong position, remain differentiated, attract high value-add tourists and continue to contribute to Britain Plc in economic terms.

The following have been identified as areas for further consideration:

- **Maximise both volume and value** – A successful future for the Visitor Economy implies targeting both the quantum of tourists as well as high value tourists. Targeting ‘value’ will increase benefits without contributing to congestion in a crowded country, but relying on artificial barriers in an attempt to discriminate against lower value tourists in a country like Britain are unlikely to work. Thus, the targeting of volume will also be necessary to complement this. Targeting ‘volume’ also means maximising the chances of significant new markets adopting social

norms that would increase the likelihood of visits to Britain – and at the same time leapfrogging these new target markets into a high value category from the start. As an example targeting ‘early adapters’ from emerging economies may help to maximise future economic contribution.

- **Adaptability** – It is important to understand how the playing field is changing – adaptability is paramount with globalisation, Climate Change and emerging markets (both destinations and ‘export’ markets) presenting major challenges to the industry. The scale and pace of change means current contribution cannot be assumed to be an indicator of future contribution to Britain’s economic performance. If tastes do not change and Britain retains its attractiveness as a cultural, environmental and heritage destination then future economic contribution is likely to be equivalent, but if future drivers, policy barriers and unanticipated events cause a step-change in tastes, the effects could be profound for both the tourism industry and the wider economy.
- **Support long-term drivers of economic growth** – In the long term factors that affect productivity – namely infrastructure, innovation and skills – will need to be key foci for the sector. Higher skill levels, in particular, are associated with higher productivity and higher rates of participation and labour force utilisation leading to stronger economic outcomes for the economy as a whole.
- **Co-ordination of policy and delivery amongst agencies** – Joined-up action is key to supporting the above three aims. Coordination with RDAs is likely to be critical in this context as the Visitor Economy contributes to a number of key RDA policy and delivery objectives. The five key objectives for RDAs, include: Economic Development & Regeneration; Business Efficiency, Investment and Competitiveness; Employment Promotion; and Skills Development; and this report has highlighted how the Visitor Economy contributes to these.

Ultimately the quality of the visitor experience and therefore ability to increase the value added premium depends upon coordination amongst agencies, targeted marketing, adaptability and investment in long-term drivers that will help the Visitor Economy remain competitive, grow and in doing so strengthen its contribution to the UK economy.

2 Introduction

2.1 The wider review and context

British Tourism Framework Review is an industry-wide review currently being conducted to determine the following:

- ⇒ Effective marketing of tourism assets to create a growing and profitable Visitor Economy;
- ⇒ Intervention initiatives where market failure exists;
- ⇒ Key support measures needed from Government;
- ⇒ Effective framework and capabilities for VisitBritain;
- ⇒ Identification of resources needed to deliver a durable legacy from the London 2012 Olympic and Paralympic Games; and
- ⇒ Unambiguous and agreed roles and responsibilities for all public agencies.

This report seeks to inform the review of the Visitor Economy by highlighting the current and potential future contribution of the industry to the British economy.

2.2 Project scope

Using available secondary information and research, consultations and modelling techniques, the core objectives of the study included the following:

- ⇒ Quantifying direct and indirect economic benefits of the Visitor Economy, including scenario analysis;
- ⇒ Highlighting the Visitor Economy's contribution to the wider socio-economic policy agenda through case studies and information gathered from stakeholder consultations;
- ⇒ Highlighting the key market failures (non-quantified); and
- ⇒ Identifying policy failures and leverage points (areas of focus to add further value).

2.3 Report structure

The rest of the report is structured as follows:

- Chapter three outlines the study methodology as well as the conceptual framework highlighting how the Visitor Economy interacts with the wider economy;
- Chapter four presents the direct and indirect economic impacts;
- Chapter five highlights wider contribution of the Visitor Economy to the socio-economic policy agenda in Britain;
- Chapter six considers market failures and potential policy barriers; and
- Chapter seven identifies future challenges and economic leverage points and discusses the policy considerations and conclusions.

3 Study framework & methodology

A conceptual framework was developed for the study to illustrate which impacts – both quantifiable and non-quantifiable – should be assessed and set the wider context for the Visitor Economy in terms of potential market failures and policy issues.

The development of the conceptual framework underpinning the model ensures that the analysis takes into account the key characteristics of the Visitor Economy and its interaction with the wider economy. Broadly the analysis seeks to:

- ⇒ Quantify the current and future value of the Visitor Economy;
- ⇒ Identify market failures;
- ⇒ Consider influencing factors on the industry beyond the control of stakeholders, such as exchange rate sensitivities;
- ⇒ Understand wider policy barriers to success through stakeholder consultation and policy mapping;
- ⇒ Identify traditionally defined economic contribution in terms of direct effects, indirect (supply-chain) effects, and import leakage; and
- ⇒ Examine broader impacts and externalities (positive and negative) that the Visitor Economy contributes to Britain plc using quantitative as well as qualitative evidence.

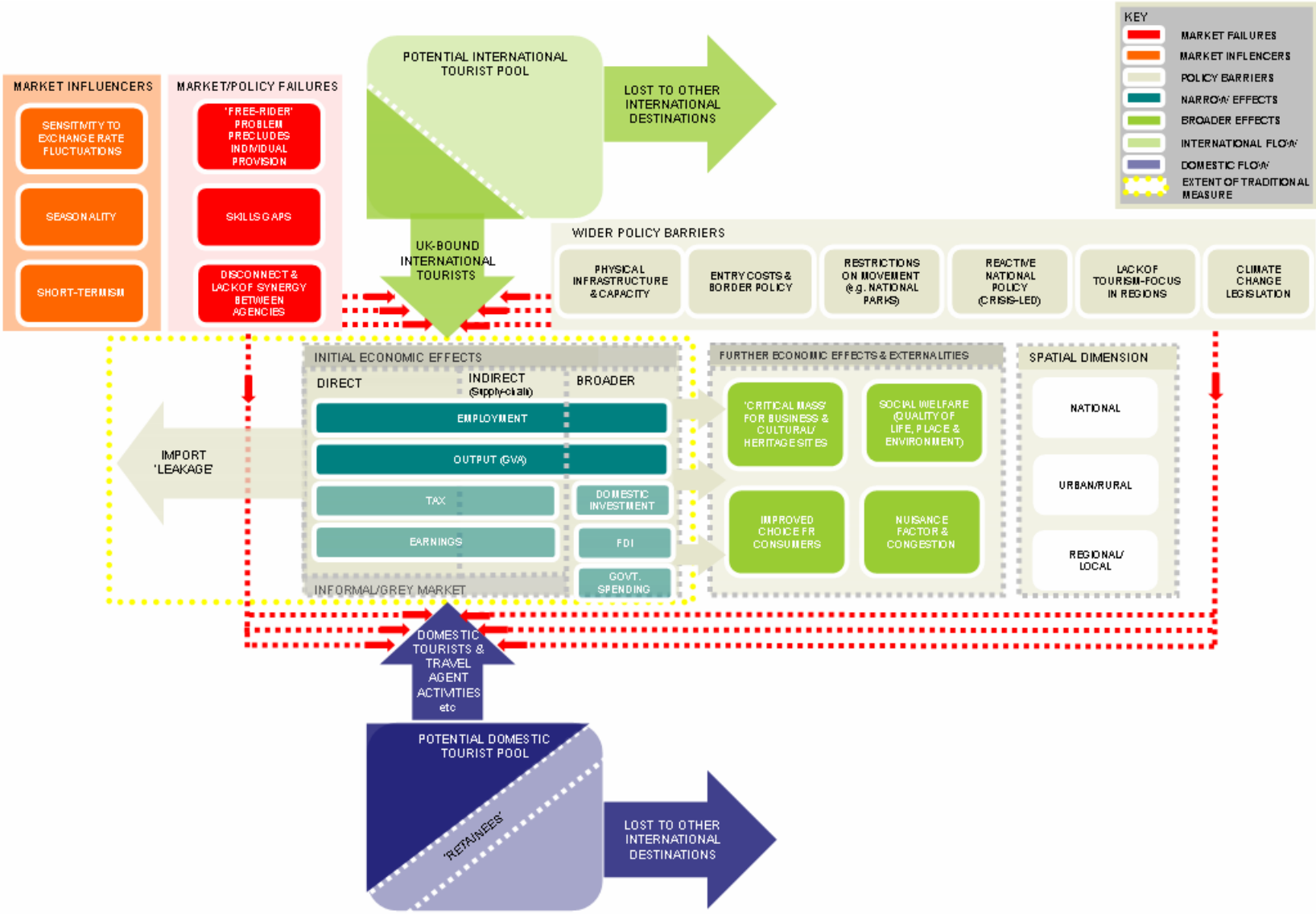
3.1 Project methodology

This report seeks to focus attention on the current and potential future value of the Visitor Economy. The methodology adopted has included:

- ⇒ Literature and policy review;
- ⇒ Stakeholder engagement;
- ⇒ Development of economic model; and
- ⇒ Data analysis.

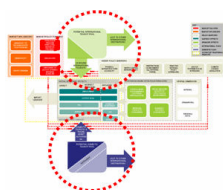
The framework developed and used throughout the study is shown overleaf.

Fig 3.1: Analysis Framework



Source: Deloitte Analysis

The framework presents factors that affect the Visitor Economy and its impacts in the wider economy. Each of the influencing factors, policy barriers, market failures have been analysed in conjunction with the assessment of direct and indirect impacts of the Visitor Economy and wider economic effects. The key elements of the framework are outlined below and discussed fully in subsequent sections of the report:

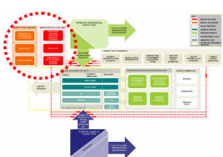


Domestic and international tourists – the economic impact on Britain Plc is driven by the quantum of tourists and the amount they spend whilst in Britain.

Both domestic and international tourists add value to the UK Visitor Economy. Domestic visitors, however, only contribute in an economic sense if the alternative choice would be to travel abroad – anything else represents a redistribution of expenditure within the British economy.

Market influencers and market failures impact outcomes by influencing the quantum of tourists visiting or remaining in Britain. Key influencers include:

- ⇒ Sensitivities to exchange rate fluctuations – as this alters the relative cost of the trip and thus visits and expenditure;
- ⇒ Seasonality – as this changes the destination’s attractiveness for visitors with typical peak in visits and expenditure during Summer and Winter seasons; and
- ⇒ Short-termism – as businesses and employees often see participation in this industry over short term horizon;



In addition market failures impact on:

- ⇒ The level of information available to prospective visitors and thus their behaviour;
- ⇒ The ability of the industry to undertake coordinated and effective marketing, which in turn influences the number and type of visit;
- ⇒ Third parties, such as British residents and businesses;
- ⇒ The quality of Britain’s tourism offer – for instance due to skills gaps; and
- ⇒ Specific areas of Britain.

These market failures and influencers are considered in greater depth in chapter seven.

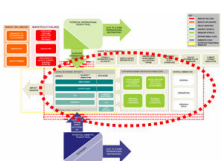
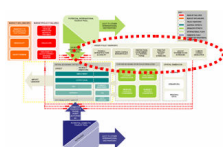
Wider policy barriers – as with the market influencers and market / policy failures, there are general and specific regulatory impacts which also have external effects on the Visitor Economy and in doing so influence both visitor numbers and expenditure. These include:

- ⇒ Physical infrastructure & capacity;
- ⇒ Entry costs & border policy;
- ⇒ Restrictions on movement (e.g. National parks);
- ⇒ Reactive national policy (crisis-led);
- ⇒ Lack of tourism-focus in regions; and
- ⇒ Climate change legislation.

These are examined briefly in the report but form a significant part of the wider Visitor Economy review, of which this report is a constituent part.

Economic effects are then considered in three distinct components:

- ⇒ Initial economic effects. Consisting of quantifiable impacts of the direct and indirect effects on employment, output (measured in gross value added terms), taxation and earnings generated. This also includes the broader quantifiable impacts including domestic investment, FDI and government spending on investments in



the Visitor Economy. The results of this analysis are presented in chapters four and six;

- ⇒ Further economic effects and externalities. These assess the wider contribution of the Visitor Economy that cannot be modelled but can be recognised through qualitative and, in places, quantitative analysis. This is analysed in chapter five; and
- ⇒ The spatial dimension. The economic effects will vary according to the area in question. Local areas and rural areas may for instance realise differential effects and different regions of the UK. These are considered in chapters four and five.

4 The economic contribution of the Visitor Economy

This chapter first presents the core contribution of the Visitor Economy to Britain using UK level information and outputs from the bespoke model developed for this study. The estimates presented cover a number of standard definitions of tourism², and estimates are also presented in line with Visit Britain's assessment of tourist expenditure in Britain.

4.1 What is the Visitor Economy?

The analysis has been conducted according to two widely accepted but differing measures of tourism along with two further measures which are made available as a means of comparison with previous work. The first two measures are:

- ⇒ A core tourism concept that focuses on the direct contribution of tourism activities (i.e. the value added generated by the provision of tourism-characteristic goods and services). This measure is in line with the concept used by the UNWTO Tourism Satellite Accounts (TSA);
- ⇒ A broader measure that also takes into account indirect effects (via the supply chain), as well as the impact of capital investment and collective government expenditure on behalf of the tourism industry (the total Visitor Economy).

Estimates of the economic contribution of Visitor Economy in the UK are then defined using both Value Added (VA) and employment.³

The measure used in the "First Step" report for tourism contribution in Value Added terms indicated that tourism was 3.4 per cent of total UK GVA in 2003 (down from 3.8 per cent in 2000). However, it should be noted that this measure does not include Government spending in support of the Visitor Economy, so it is short of the UNWTO concept. Given the need to use previous work as a reference point, the model is also used to produce estimates on this basis for comparison purposes.⁴

In addition, the model incorporates a key measure used by VisitBritain and other government agencies to assess developments in the Visitor Economy. This is the total spend by visitors – the size of the tourism market – including both inbound and domestic tourism. This is estimated at £85 billion in 2005.

Presenting this range of estimates is helpful given the level of debate around the extent of the Visitor Economy and its subsequent contribution in economic terms. If every sector in the UK presented the largest possible value in similar analysis for their sector the aggregate VA would exceed UK GDP.

4.2 Model structure

The Visitor Economy model consists of an interrelated set of equations (behavioural relationships and identities) that are used to estimate, within a framework consistent with

² Including a core tourism concept that focuses on the direct contribution of tourism activities (i.e. the value added generated by the provision of tourism-characteristic good and services) and a broader measure that also takes into account indirect effects. See Annex A for further details.

³ Value added is analogous to Gross Domestic Product – a measure of economic output. Value added excludes all inputs to production that do not add value to the end product. Accordingly Value Added includes wages paid, profit and appropriate taxes.

⁴ The link with the usual measures is described in more detail in Annex A

National Accounts, the Visitor Economy contribution to the overall economy in terms of Value Added and employment.

Broadly speaking, there are three key modules containing over 400 variables interconnected by an equal number of equations or identities. The three modules⁵ are:

- ⇒ Macroeconomic and industry;
- ⇒ Visitor Economy-related demand; and
- ⇒ Visitor Economy-related supply.

4.3 Current contribution of the Visitor Economy to the UK

As discussed in Section 4.1, there are a number of possible ways of defining the Visitor Economy and, following the remit of the study, the analysis provides estimates for both the direct and overall contribution made by the Visitor Economy to the UK economy.

Table 4.3.a provides three alternative estimates of the Value Added contribution to GDP by the Visitor Economy.

- ⇒ The first estimate, which has been labelled “FS Direct Industry”, is consistent with that used in the TSA “First Step” report and has been included to allow for comparisons with earlier work;
- ⇒ The second definition included has been labelled “Direct Industry GDP” and this is consistent with the concept used by the UNWTO TSA methodology. In particular, it includes Value Added generated by Visitor Economy-related government individual spending which is not included in the analysis in the TSA “First Step” report; and
- ⇒ The final estimate of the Value Added contribution to GDP made by the Visitor Economy is the overall contribution of the Visitor Economy sector. This is the broadest possible measure and takes into account indirect effects (via the supply chain), as well as the impact of capital investment and collective government expenditure on behalf of the Visitor Economy industry.

Using a similar definition as in the “First Step” Report, the model estimates that in 2007 the tourism sector’s contribution to GDP was 3.4 per cent. Moreover, it is expected to fall further in 2008 to 3.2 per cent as the economic slow-down is felt, particularly by the tourism sector.

Note that there are some differences between our “First-Step consistent” estimates presented in the table for the value added contribution in 2000 and those in the First Step Report (e.g. 4.1 per cent vs. 3.8 per cent). This is due to the use in our calculations of balance of payments figures on travel spending – which are higher than those reported in the IPS used in the Report – and differences in the estimation of tourism-related imports. See Annex B for more details.

⁵ Further details of the three modules is provided in Annex A

Table 4.3.a: The Economic Contribution of the UK Visitor Economy sector

UK Tourism Contribution	2000		2006		2007 (estimate)	
	Absolute £ bn	Relative % macro total	Absolute £ bn	Relative % macro total	Absolute £ bn	Relative % macro total
Visitor Exports (inbound = travel spending + fares)	19.8		23.4		23.4	
Personal Travel & Tourism (domestic + outbound)	84.8		107.0		108.9	
Business Travel (domestic + outbound)	19.7		23.1		24.8	
Government Expenditures (individual + collective)	5.1		7.8		8.2	
Capital Investment	20.1		19.7		22.5	
Travel & Tourism Demand	149.5		181.0		187.8	
Outbound tourism spending (fares + travel)	31.0		42.5		44.0	
FS Direct Industry GDP (in line with First Step TSA)	39.8	4.1	45.5	3.5	46.5	3.4
Direct Industry GDP (includes gov. individual spending)	42.8	4.5	50.3	3.9	51.6	3.7
T&T Economy GDP (broader concept)	96.7	10.1	108.5	8.3	114.4	8.2
Direct Industry Employment (jobs)	1,322	4.5	1,346	4.3	1,358	4.3
T&T Economy Employment (jobs)	2,752	9.3	2,600	8.3	2,653	8.4

Source: Oxford Economics

Direct contribution

The results of the modelling analysis suggest that direct contribution of the Visitor Economy in terms of GDP was £52 billion in 2007 which equated to a contribution of 3.7 per cent of UK GDP. These GDP results imply that the Visitor Economy sector directly supported around 1.36 million jobs in 2007.⁶

Indirect contribution

On the wider T&T Economy measure the overall contribution – including supply chain impacts and the impact of capital investment and collective government expenditure on behalf of the Visitor Economy industry – of the Visitor Economy sector accounted for £114 billion of GDP (8.2 per cent) and 2.65 million jobs (8.4 per cent) in 2007.

Spending

Table 4.3.b sets out the latest estimates and Oxford Economics' 2008 forecasts for expenditure in the Visitor Economy in terms of both international and domestic spending.

In total, spending in the Visitor Economy is estimated to have been £86 billion in 2007, up from £85 billion in 2005, but in real terms (adjusting for price rises) represents a 4 per cent fall. In 2007 international visitors (including fares to UK carriers) spent £18.8 billion up from £17.1 billion in 2005. Domestic spending in the Visitor Economy is estimated to be far higher; around £67.6 billion in 2007 slightly down from the 2005 figure of £67.9 billion. By far the largest component of domestic expenditure in the Visitor Economy is that by day visitors (£45 billion in 2007).⁷

⁶ The 2000 direct employment estimate is in line with the First Step results (1.3 million). Our estimate for 2007 is about 6 per cent below the DCMS' latest estimate of 1.45 million. The source for the discrepancy is largely due to the estimation of the impact of 9/11 and its aftermath. The UK tourism model utilised here has a larger fall in employment during the period – in line with developments in value added - with a recovery starting to be felt in 2005.

⁷ In 2005, due to methodological changes in the measuring same-day visits there was a significant increase in daytrip spending – up 38 per cent to £44.3 billion – which is fully reflected in the calculation of the contribution as well as the UK tourism market. Day trip spending is originally sourced from Natural England (England Leisure Visits Survey with last data point in 2005) and it includes trips to shopping centres that last more than three hours. This broad definition and the lack of a yearly measure add an element of uncertainty to recent estimates.

Table 4.3.b: UK Expenditure in the Visitor Economy, 2005-2008

UK Tourism Market	2005	2006	2007	Forecast
	£ bn	£ bn	£ bn	2008 £ bn
Spending by overseas residents				
Visits to the UK	14.3	16.0	16.0	16.3
Fares to UK carriers	2.8	2.9	2.8	3.0
Spending by domestic residents				
Trips of 1+ nights	22.7	21.0	21.2	20.8
Tourism day trips for leisure	44.3	44.8	45.4	45.1
Rent for second ownership	0.9	1.0	1.0	1.0
Total Spending				
Outturn prices	85.0	85.6	86.4	86.4
Real growth (%y-y) ^{1,2}	13.7	-1.9	-2.2	-3.3
¹ Current figures deflated by the UK GDP implicit deflator				
² 2018 figure shows average annual real growth rate over the period 2009 to 2018				

Source: Oxford Economics

4.4 The Visitor Economy's current contribution by trip-type

Estimates for the economic importance of different types of holidays are shown in table 4.4.a. It shows estimates for the direct Value Added contribution to GDP for domestic visitors undertaking various types of holidays. This analysis is based on apportioning the overall contribution using data on the percentage of expenditure in the Visitor Economy that is derived from these trip types. The largest value added contribution to GDP comes from domestic trips to large cities and towns followed by seaside trips.

Table 4.4.a: Economic contribution of the domestic Visitor Economy by trip type, 2007, £bn

	Direct Industry GDP (£bn)
Domestic	
seaside	8.9
large city/town	15.9
small town	7.8
countryside/village	6.2

Source: Oxford Economics

Using international tourism spending data in a similar manner, it has also been possible to produce indicative estimates for the economic contribution of different types of international trips (Table 4.4.b). This analysis reveals that international trips lasting between 1 and 3 days make the largest contribution (£4.1 billion) followed by trips lasting between 4 to 7 nights (£2.7 billion).

Table 4.4.b: Economic contribution of international Visitor Economy by trip type, 2007

	Direct Industry GDP (£bn)
International	
day	0.6
1-3 nights	4.1
4-7 nights	2.7
8-14 nights	1.3
15+ nights	1.1

Source: Oxford Economics.

4.5 The current contribution of the Visitor Economy to the regions

This section includes indicative estimates of the regional economic contribution of the Visitor Economy in England as well as the national contributions in Scotland and Wales. These should be taken as indicative as they have been estimated by simply using regional domestic and international tourism spending data and applying the resultant shares to the national estimates presented in the previous section.

Based on this analysis, and in absolute terms, London is by far the most important region with visitors to that region making an estimated direct value added contribution to UK GDP of £14.2 billion in 2007. The next largest region is the South West (£6.3 billion), followed by the South East and Scotland (£5.8 billion).

Table 4.5.a: Regional economic contribution of the Visitor Economy, 2007

Total (domestic & international)	Direct Industry GDP (includes gov. individual spending)		T&T Economy GDP (broader concept)	
	£ bn	% regional GDP	£ bn	% regional GDP
West Midlands	2.6	2.4	5.8	5.3
East of England	3.2	2.3	7.0	5.1
East Midlands	2.1	2.3	4.7	5.1
London	14.2	5.8	31.5	12.9
North West	4.7	3.4	10.5	7.6
North East	1.1	2.2	2.3	4.9
South East	5.8	2.6	12.8	5.8
South West	6.3	5.7	14.0	12.6
Yorkshire	2.6	2.6	5.8	5.7
Scotland	5.8	5.1	12.8	11.4
Wales	2.6	5.0	5.8	11.0
Northern Ireland	0.5	1.6	1.2	3.6

Source: Oxford Economics.

However, perhaps a more interesting way to consider the regional importance of the Visitor Economy is to examine where tourist expenditure makes the largest percentage contribution to that region's GDP. On this basis, activity in the Visitor Economy is most important to London (5.8 per cent) followed by South West (5.7 per cent), Scotland (5.1 per cent) and Wales (5.0 per cent).

In keeping with earlier analysis, the broader Travel and Tourism economy definition leads to higher estimates of economic contribution of the Visitor Economy. However, on this measure the relative positions of each region are preserved.

4.6 Origin of visitors to the UK

This section includes the latest data on international visitors disaggregated according to the country of origin.

Table 4.6.a: Overseas residents' visits to the UK, 2007

Overseas residents' visits to the UK in 2007			
	Visits	Spending ⁽²⁾	Spend per visit
Top 12 origins ⁽¹⁾	1000s of visitors	£ million	£
USA	3,587	2,554	712
Germany	3,385	1,217	360
France	3,323	865	260
Ireland	2,975	969	326
Spain	2,158	848	393
Netherlands	1,811	535	295
Italy	1,591	675	424
Poland	1,249	378	303
Belgium	980	242	247
Australia	957	683	714
Canada	861	540	627
Switzerland	726	345	475
Top 12 origins	23,603	9,851	417
Total World	32,558	15,955	490

(1) Countries are arranged in descending order according to visits
(2) Does not include fares

Source: Oxford Economics and IPS Travel Trends 2007

The USA is the main origin market for overseas visitors into the UK. In 2007 a total of 3.6 million visitors came from the USA, spending £2.6 billion. In regional terms, the EU is the main source of overseas visitors, led by France, Germany and Ireland. There is a relatively high level of concentration in the origin markets. The top twelve origin countries accounted for nearly three-quarters of all overseas visitors in 2007 and 62 per cent of spending. This means that changes in the exchange rates of the Pound relative to the Euro and the Dollar are to have a significant impact on inbound and outbound flows.

5 Spillover benefits and wider contribution

This chapter considers the wider impacts of the Visitor Economy that are not taken into account in the modelling assessment in Chapter Four. It first highlights spillover of the Visitor Economy through its links with other industries. It also presents findings from quantitative (where available) and qualitative assessment of its contribution to the wider socio-economic policy agenda, including regeneration, social and economic inclusion, upskilling, employment, enterprise and investment heritage.

5.1 Links with other industries

There are close linkages between the Visitor Economy and other sectors – some which attract higher visitors to the UK and others which although not directly associated with the industry reap benefits from tourism. This section uses three different industries (health, retail and manufacturing) as examples to highlight how there are supply chain spillovers from the Visitor Economy to other industries. The industries have been used to supplement the modelling elements and are provided indicatively to illustrate the far reaching impacts of the Visitor Economy across a variety of sectors.

Health

Well-developed health care systems and improvements in technology have supported the growth of medical tourism among countries for many years. Treatments that may induce this 'health tourism' may range from dentistry to cosmetic surgery to infertility treatment to eye surgery.

Some healthcare providers are starting to offer non-medical services such as logistics arrangements and hospitality services, as discerning patients are increasingly demanding a total consumer experience even when seeking medical treatment.

Healthcare providers should however consider more than absolute patient numbers when accessing their competitiveness. A small portion of affluent patients are willing to pay more for world-class treatment, and frequently travel to "gold standard" destinations such as the US and UK. Wealthy individuals in Asia who prefer first-world quality treatment within the region tend to visit Australia or Singapore. The inelastic demand among such patients represents a more lucrative revenue stream, more loyalty, and even a willingness to travel further distances.

Case Study – Health Tourism

Some hospitals offer non-medical services to tourists. For instance, hospitals such as the London Bridge Hospital offer airport pick-up services for patient convenience. This will help to improve the 'welcome' factor felt by tourists on their arrival. Some may also feature additional services such as their own on-site accommodation, both for patients in the aftercare stage, as well as for their relatives.

Another example is Cromwell Hospital in the UK which has representatives in India and Pakistan and these agents help establish and maintain relationships such as with local hospitals, doctors, embassies, sponsor corporations, or insurers.

However, tighter immigration rules and security checks may dent the demand from foreign patients. And medical tourism is becoming more prevalent alongside cheaper prices for treatment abroad which attract patients from the UK. Factors such as the recent European ruling that the National Health Service must fund treatment in the EU if patients face "undue delay" could increase this leakage from the UK economy.

Other factors that could encourage growth in medical tourism worldwide:

- ⇒ The pressure on healthcare resources in developed countries as a result of demographic changes;
- ⇒ The improved quality of care in other countries. Other countries are catching up with the developed countries in terms of quality of care and access to medical technology;
- ⇒ Doctor mobility;
- ⇒ Development of international accreditation standards for healthcare facilities. Examples of this include Joint Commission International and the Trent Accreditation Scheme;
- ⇒ Internet use as it is now often the first place that people go to seek information about treatment and healthcare issues; and
- ⇒ Growth of private provision of health services. As governments struggle with the pressure on health services, private sector providers will take a bigger share of provision, and will have an international rather than national view.

Insurance products that provide low cost insurance based on treatment abroad will appear in the developed countries.

Retail

The Visitor Economy is likely to have a notable impact on the retail sector. This will include spend during shopping trips made by domestic tourists as well as purchases made by international tourists – whether they have made the trip specifically for shopping or make purchases whilst on their trip.

For instance, discussions with stakeholders suggest that even within different parts of the UK there are strategies in place to identify where there is a bias for summer clothing – and can be based on where there is a higher concentration of tourist activity. For instance, there are specific ‘resort stores’ which have a different mix of stock which have a larger proportion of the ‘holiday / summer shop’ style clothing.

Overseas shoppers may visit to purchase clothes and similar items such as shoes and jewellery. Shopping may not be as significant in attracting visitors to London as it is to other cities. Nevertheless, international retail has a significant value to London as a result of London’s status as a premier city for international tourism. There are of course many other factors that are taken into account, such as weather patterns for instance.

Case Study – Retail Impacts

International shoppers in London

- ⇒ Overseas visitors represent around a quarter of all shoppers in central London, slightly more than the proportion of shoppers coming from the rest of the UK outside London. The value of retail spending on shopping by overseas visitors to London is estimated to be £1.0 – 1.7 billion.
- ⇒ Although only one per cent of overseas visitors come to London for shopping, overseas visitors who come to London for other reasons often shop while they are here. In this sense international retail spending is a spillover benefit from tourism.
- ⇒ Most overseas visitors and overseas shoppers in London come from the US and the EU15 countries. Typically spending per visit has been very high amongst visitors from the US although the recent strength of the pound against the dollar may alter this. There is some indication that the Middle East and Russia are also important markets for international retail in London.
- ⇒ The many air passengers who travel through London's airports, particularly Heathrow, to transfer between flights but do not come into central London might be considered as a lost opportunity for central London retailers. A marketing initiative to promote London as a stop over destination would benefit the central London tourism and retail sectors (albeit at a possible cost to the airport retailers). The Crossrail train link could boost shopping by tourists – possibly even those with a long transfer between flights but not stopping over – carrying passengers directly from Heathrow to Bond Street station and Oxford Street.

Source: GLA economics

Manufacturing

Although the contribution of the Visitor Economy to the manufacturing may not be immediately obvious, stakeholders have suggested that there are crucial links over the long term – particularly in the form of manufacturing of:

- ⇒ Goods and services in the transport sector;
- ⇒ Food and beverages; and
- ⇒ Hotel equipment.

These and other areas of the sector that are linked to industries that supply manufactured goods for activities related to the Visitor Economy are likely to be affected by changes in tourism patterns.

5.2 Contribution to choice

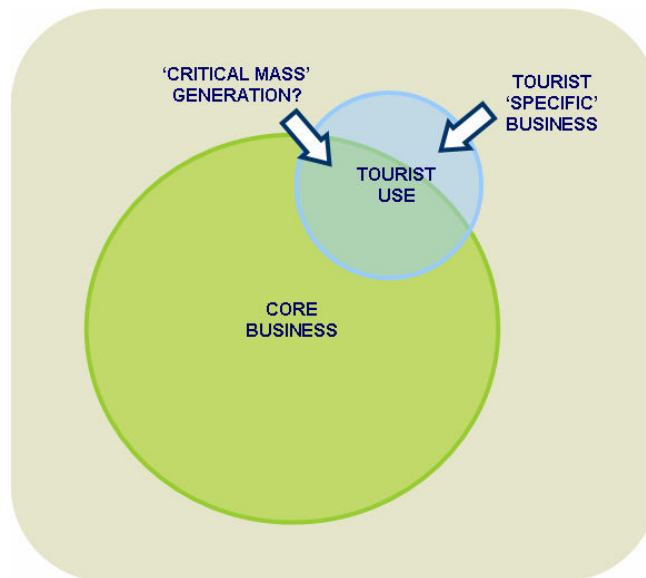
Consumer choice can be constrained by price and availability, however, as already briefly discussed, the residents of areas that have higher levels of tourism may benefit from employment opportunities as well as increases in choice as consumers from businesses catering for tourists. Without tourists, the critical mass for provision may not be reached and local customers would lose out. These may mean lower choice of restaurants and cultural venues as well as weaker transport links.

As a result, the Visitor Economy can help increase choice for residents through higher quantity and quality of choice which, as a result, may improve the standard of living for residents. Brighton is an example of a tourist destination that residents also value as a home because of its vibrant attractions and natural environment.

However, the type of choice on offer will vary on both a spatial and / or temporal dimension. For instance, London offers an extensive range of theatre and evening events whilst – in contrast – the Lake District will have more hotels on scenic settings or outdoor recreational activities.

Visitor attractions and services may be more prevalent during peak times – which could mean increased choice at certain times of year only. Stakeholder interviews have suggested that there are often seasonal operations with the element that targets tourists becoming a reduced service. In some instances, it was suggested that the Visitor Economy is critical to the existence of their business. One stakeholder actually claimed that the Visitor Economy is vital to their business in some parts of the country, which would otherwise be unviable: *“without tourists we could not operate in some places”*. Figure 5.2.a below illustrates this concept whereby parts of the core business may operate to target tourism yet provides a service to core / non-tourist customers who, in turn, benefit from greater choice.

Fig 5.2.a – Impact of tourism on core business and choice



Source: Deloitte Analysis

However, sometimes ‘choice’ can be restrictive as offers are tailored to target different types of tourist. For instance, the majority (around 95 per cent) of tourists who visit theme parks are domestic visitors that make the trip during long weekends or holidays. These destinations tend to target people within a 2 – 3 hour radius of the attraction who are more likely to visit. Whilst, tourist attractions such as Madame Tussauds attract more inbound tourists (around 70 per cent) due to its global awareness and reputation.

The subsequent sections in this chapter discuss the wider contribution of the Visitor Economy to the socio-economic policy agenda.

5.3 Rural

The forthcoming TEAM research into the State of Tourism considers the regional breakdown of tourism activity in the UK. This is factored into the modelling analysis to give regional estimates of the scale of economic contribution of the Visitor Economy (in GVA and employment terms). However, regional analysis fails to uncover some of the subtle sub-regional differences in tourist contribution that are evident within Britain. An example of this is the relative importance of the Visitor Economy to distinct rural and coastal locales, as discussed below.

Figure 5.3.a shows the relationship between the level of workplace-based employment in Visitor Economy-related industries in each English Authority (horizontal axis) and the

degree to which that area is classed as rural using the proportion of population in that Authority living in rural areas (vertical axis).⁸ Whilst there are shortcomings with sample surveys such as the Annual Business Inquiry (ABI) as well as with Standard Industrial Classification nomenclature in defining Visitor Economy, there is evidence of a stronger economic reliance on Tourism-related activity in rural areas than urban areas – some notable exceptions notwithstanding.

The correlation co-efficient between the two sets of data is 0.4 indicating a reasonably strong and positive relationship. The majority of British authorities lie within the shaded rhombus which shows that, in general as an area becomes more rural, it is more likely to have a greater reliance on Visitor Economy related industries. Specific examples of this include the Isles of Scilly, areas of the South West (including West Somerset, Restormel and Penwith for MInehed/Exmoor, Newquay and St. Ives respectively) and areas in the North of England (including Eden, South Lakeland and Berwick-upon-Tweed).

There are a number of urban authorities which are reliant on these industries. Foremost with their concentration of museums is Kensington and Chelsea. Some of Britain's traditional seaside resorts – Blackpool, Torquay, Paignton and Brixham (Torbay), Great Yarmouth and Scarborough – also all appear in the bottom right of the chart.

⁸ This makes use of DEFRA data available through their Local Authority Classification Data and employment from the Annual Business Inquiry using the following 3-digit Standard Industrial Classification codes:

551 Hotels

552 Camping sites etc

553 Restaurants

554 Bars

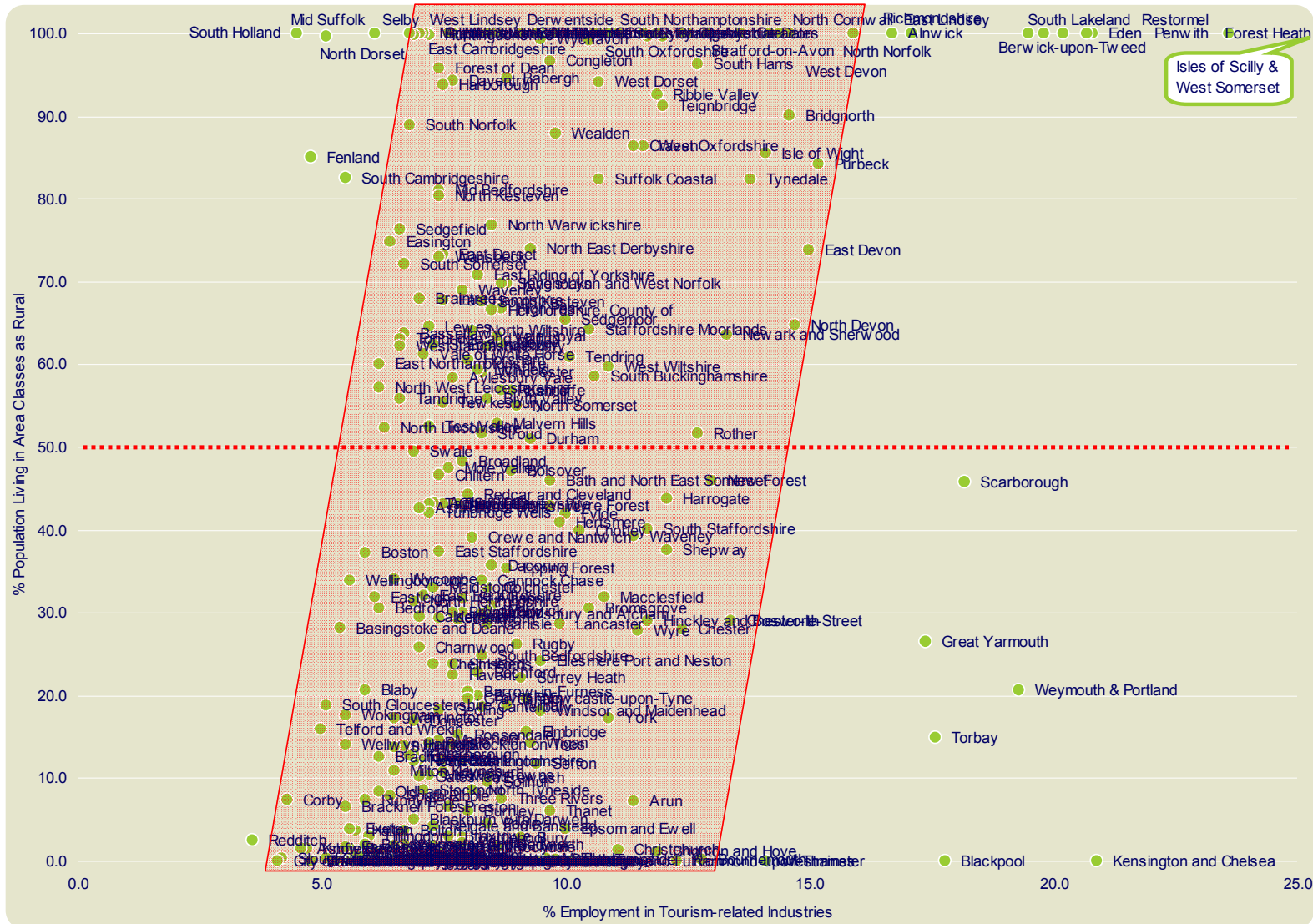
633 Activities of travel agencies etc

925 Library, archives, museums etc

926 Sporting activities

927 Other recreational activities

Fig 5.3.a – Rural/Urban Area Dependence on Visitor Economy-related Industries in England



Source: ONS NOMIS, DEFRA, Deloitte Analysis;

Each of the aforementioned authorities have 17 per cent or more of their respective economies directly associated with Visitor Economy-related industries – the top 50 authorities on this measure are presented below with white shading denoted those areas that are also predominantly rural in nature.

Fig 5.3.b – Top 50 ‘Visitor Economy-dependent’ English Authorities, 2006

Rank	Area	Tourism-related Industry as %		Rurality, (100 = 100% Local Population Live in Rural Area)		Rank	Area	Tourism-related Industry as %		Rurality, (100 = 100% Local Population Live in Rural Area)	
		Total, 2006	Population Live in Rural Area	Total, 2006	Population Live in Rural Area			Total, 2006	Population Live in Rural Area		
1	Isles of Scilly	34.1	100	26	Westminster	14.1	0				
2	West Somerset	26.2	100	27	Tynedale	13.8	82				
3	Forest Heath	23.6	100	28	Caradon	13.6	100				
4	Kensington and Chelsea	20.9	0	29	Chester-le-Street	13.4	29				
5	Eden	20.8	100	30	Newark and Sherwood	13.3	64				
6	Penwith	20.7	100	31	New Forest	13.0	46				
7	Restormel	20.2	100	32	Allerdale	12.9	100				
8	South Lakeland	19.8	100	33	Bournemouth	12.8	0				
9	Berwick-upon-Tweed	19.5	100	34	Rother	12.7	52				
10	Weymouth & Portland	19.3	21	35	South Hams	12.7	96				
11	Scarborough	18.2	46	36	Derbyshire Dales	12.5	100				
12	Blackpool	17.8	0	37	Chester	12.4	28				
13	Torbay	17.6	15	38	Cotswold	12.4	100				
14	Great Yarmouth	17.4	27	39	Richmond-upon-Thames	12.3	0				
15	Richmondshire	17.1	100	40	Harrogate	12.1	44				
16	Alnwick	16.7	100	41	Shepway	12.1	38				
17	East Lindsey	15.9	100	42	Stratford-on-Avon	12.0	100				
18	Purbeck	15.2	84	43	Teignbridge	12.0	91				
19	East Devon	15.0	74	44	Brighton and Hove	11.9	1				
20	North Devon	14.7	65	45	Ribble Valley	11.9	93				
21	Bridgnorth	14.6	90	46	Torridge	11.9	100				
22	North Norfolk	14.6	100	47	Hinckley and Bosworth	11.7	29				
23	West Devon	14.4	100	48	South Northamptonshire	11.7	100				
24	North Cornwall	14.2	100	49	South Staffordshire	11.7	40				
25	Isle of Wight	14.1	86	50	Ryedale	11.6	100				

Source: ONS NOMIS, DEFRA, Deloitte Analysis;

In spite of the relative reliance articulated in the previous two figures, the estimates are likely to be an underestimate of the Visitor Economy's contribution as they do not include the positive effects for other local businesses in these predominantly rural and coastal areas, which are reliant on the custom of tourists through indirect supply chain effects.

Moreover, the residents of these areas, in addition to benefiting from employment opportunity, also benefit as consumers from the increased choice and service afforded by businesses catering for tourists. Without tourists, the critical mass for provision may not be reached meaning that local customers would lose out. This is not simply an issue for rural areas. The cultural offer of major cities is also to an extent reliant on tourism, and citizens of these cities also benefit in the same way as the rural population.

This relative reliance on the Visitor Economy implies that economic activity in many areas in England (and Scotland and Wales) would be adversely affected in the event of falling tourist numbers. This was apparent throughout the foot-and-mouth crisis, and any similar 'wildcard' or general reduction in tourist visitors could have similarly adverse effects on these areas.

Tourism's contribution to the wider rural policy agenda

⇒ The government recognises that there are wider benefits to rural tourism which are compatible with Government's aims to:

- Reduce health inequalities and promoting healthier lifestyles. For instance, people who visit rural areas are more likely to carry out some form of exercise;
- Create employment opportunities and conditions for growth in rural areas as it encourages access to and enjoyment of the countryside – particularly through sustainable tourism;
- Forge further links between business and the local environmental and cultural assets – as tourists often buy locally sourced food and drink from businesses in the Visitor Economy and this also acts as a unique selling point;
- Support key assets of environmental and landscape quality as well as the built environment and the heritage (which will be discussed in more detail later in this chapter). For instance, designated land such as National Parks and Areas of Outstanding Natural Beauty or National Scenic Areas can be maintained with income from tourists; and
- Support the declining agricultural (farming, fishing and forestry industries) sector which can benefit from rural tourism activities by diversifying into non-agricultural businesses to increase income. Furthermore, the offer of regional and local food can be part of the rural 'brand' that attracts tourists, supporting local services.

⇒ However, although environmental quality is important to rural tourism it is also important to ensure that the environment impact of tourism is limited and managed in a sustainable way. There is a potential conflict between increased visitor numbers and sustainable tourism as tourism such as footpath erosion and moorland wildfires.

Initiatives to increase the Visitor Economy in Cornwall and gain extra value from the attractions already there have been developed using the county's mining legacy in creative ways.

Case Study – The Eden Project

Eden opened in 2001. It has more than a million plants representing 5,000 species from many of the climatic zones of the world. Many of these can grow naturally in Cornwall whilst others require greenhouses generated in Eden's two Biomes – the biggest conservatories in the world.

The objective for Eden is to create an organisation that works for environmental, economic and social health from a local, through to national and international levels. This search for ways in which people can improve their environment and their lives helps to support the idea of sustainable tourism.

Quantified impacts include:

- **Total impact** – An economic impact analysis estimated that in its first 8 months it generated £16.3 million of spend at Eden itself and an estimated £111 million within the South West Region.
- **Visitor numbers** – From March 17th 2001 to 1st October 2007 was 9.4 million which significantly exceeded initial forecasts.
- **Spending generated** – Generated additional expenditure of around £111 million in the South West region.
- **Employment** – Created (directly and indirectly) a total of around 5,450 jobs in the South West region, 435 of which are directly related to the Project.

Wider impacts include:

- **Skills** – Eden achieves this through large scale education initiatives ranging across all levels of age and qualification.
- **Enterprise** – Eden helps to support the local economy by using local suppliers wherever possible, employs local people and supports local businesses in Cornwall and the South West.
- **Inward investment** – English Partnerships (EP) provided funding towards the cost of site investigations and for site reclamation and servicing works of the previously derelict site. This investment was seen to contribute to achieving the region's principal strategy of physical and economic regeneration, while avoiding a potentially open ended commitment. However, Eden has helped to create confidence in the region and attract inward investment by changing the image of the region.
- **Regeneration** – Eden has achieved regeneration benefits through support of new business and employment as well as a change of attitude towards the region.

The approach is a focus on a social enterprise working practice that maximises net positive environmental, social and economic impacts.

5.4 Earnings and employment

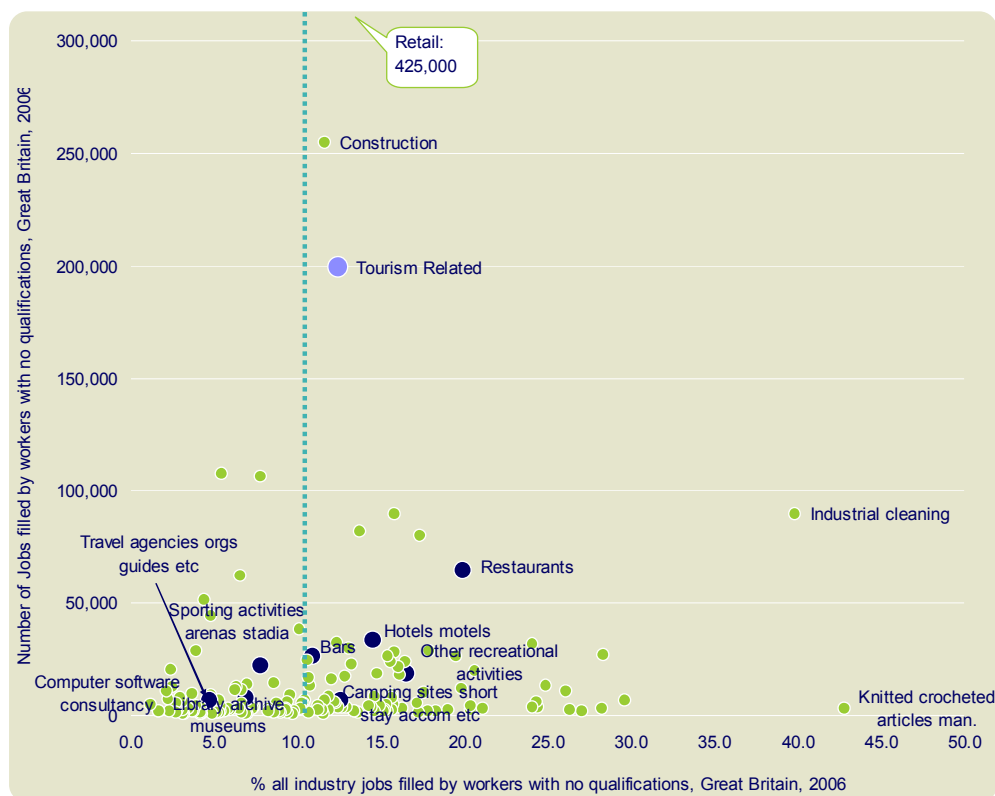
Economic competitiveness policy focuses on interventions to increase productivity growth and higher productivity industries. As a result, industries typically associated with lower levels of per-worker productivity – such as those in the Visitor Economy – can fail to benefit from necessary funding and attention.

Whilst this rationale for funding and attention is understandable to a certain extent, it overlooks other important economic gains that could be achieved in the Visitor Economy. For instance, extra inbound tourists in the UK (or retained domestic tourists) can provide

real benefits through ‘additionality’⁹ as they are likely to generate spending benefits and additional value added that would otherwise have not existed.

It should also be recognised that lower productivity occupations and thus lower wage occupations provide a vital step on the employment ladder for many reaches of society for whom other, more skilled roles would be out of reach. The skills profile of Visitor Economy related industries helps to explain the sector’s poor performance in productivity and earnings terms. Figure 5.4.a illustrates this with a high number of jobs filled by workers with no qualifications in tourism-related industries. Therefore, the industry can help to reduce unemployment and boost employment opportunities.

Fig 5.4.a – Employment for those with no qualifications, Britain, 2006



Source: APS 2006, Deloitte Analysis;

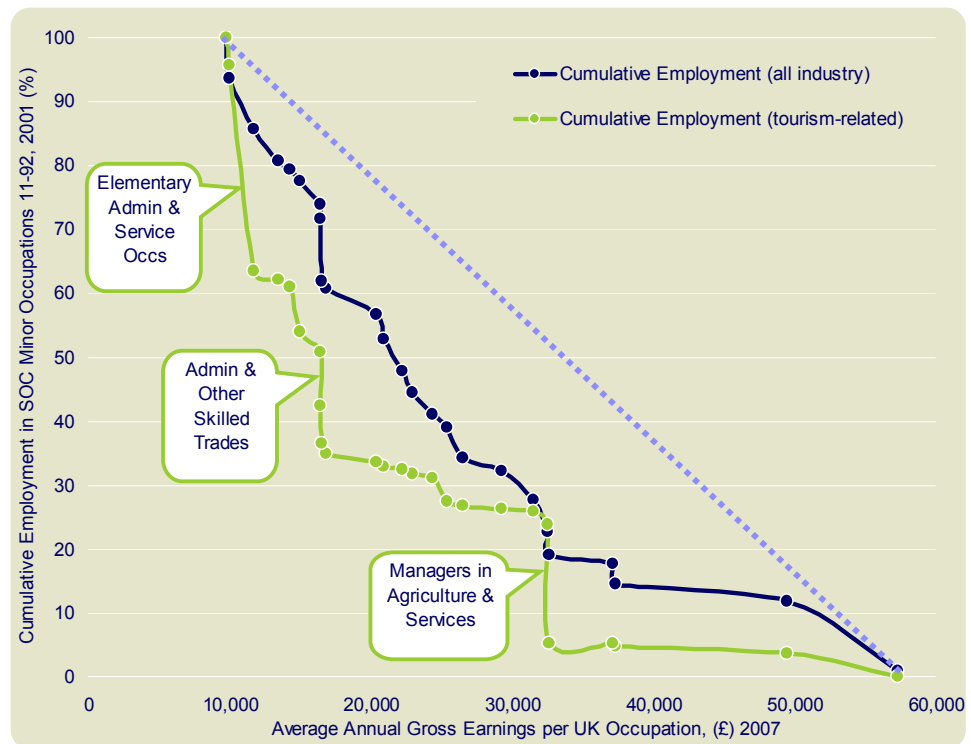
Without the benefits that the Visitor Economy brings there would be less employment choice for those most in need of work. This highlights how the Visitor Economy interacts with employability and social policy agenda through subtle employment benefits.

Equally however, the Visitor Economy is not just associated with low paid occupations. As Figure 5.4.b demonstrates, the Visitor Economy provides significant levels of opportunity at many different occupational and salary levels as shown below.

The chart is designed to include information on the level of employment in specific occupations within Visitor Economy-related industries (from the 2001 Census) in the UK as well as the current average salary in those occupations (from 2007 Annual Survey of Hours and Earnings). From right to left, the green curve shows the cumulative proportion of employment with Visitor Economy within each occupation at that level of earnings (denoted individually by dots) – occupations are ranked on prevailing average earnings. The blue curve does the same for all industries in the UK.

⁹ Input leakages notwithstanding (which are accounted for in the modelling framework) an inbound tourist’s expenditure is wholly additional. The same is true for a retained domestic tourist who would otherwise have ventured abroad.

Fig 5.4.b – Distribution of Employment and Average Earnings within the Visitor Economy



Source: ONS Census 2001, ONS ASHE 2007, Deloitte Analysis;

The distribution of earnings shows higher earners accounting for low levels of total employment. This effect is more pronounced in the Visitor Economy than in the UK across all industries – where three distinct groups account for much employment in the industry.

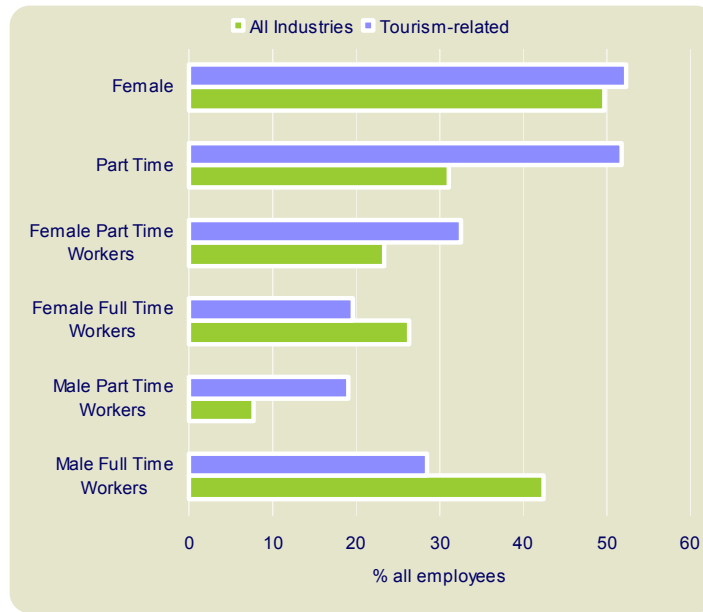
However, there are still a significant proportion of workers in the Visitor Economy, as many as 20 per cent, likely to command salaries in excess of £30,000 per annum in managerial occupations. A similar proportion will command salaries in excess of £15,000 per annum in administrative roles and skilled trades.

Around 32 per cent work for the annual equivalent of between £10,000 and £15,000 in elementary administrative and service occupations. This is more than four times the UK average level of 8 per cent, and highlights the level of job support the Visitor Economy brings for UK residents and migrants with lower skill levels. Without continued growth in Visitor Economy jobs the employment prospects for lower skilled workers in certain parts of the country would be poorer.

However, business tourism can also be a high value-added market in some areas with luxury hotels that offer additional services to business delegates. This may require high staffing rates as well as specific skills related, for instance, to kitchen activities and the management of events.

Analysis of work patterns of tourist related employees highlights that more than half of all employee jobs in Visitor Economy-related activities (excluding the self-employed) work part-time. This is markedly higher than the national all industry average of 30 per cent.

Fig 5.4.c – Composition of employee jobs in Visitor Economy-related activities



Source: ABI 2007, Deloitte Analysis;

Moreover, many opportunities are available for females wishing to work part time. 23 per cent of employee jobs in the UK are occupied by part-time female workers, but in Visitor Economy-related activities this rises to 33 per cent. Thus, the type of job opportunity on offer fits well with the Governments stated aim of providing employment opportunities for females traditionally less likely to engage with the labour market in a full-time role.

Further to this, a stakeholder interview suggested that where there have been cases of high unemployment – the Visitor Economy can be used as a tool to develop employment. This is not just in the traditional sense of additional full time jobs as it can provide opportunities for students, parents and those with disabilities who may want part-time or on a seasonal basis. These subtle employment benefits can help increase equity to the lower skilled or less able workers.

Tourism's contribution to wider skills agenda

As discussed earlier in this section, tourism can provide a gateway into employment for those with no or low skills. One example of where this links to Government skills initiatives is the 'Employer Accord' – a deal with key employers to help disadvantaged people into sustained jobs; volunteer programme, offering an NVQ qualification and further opportunities; sector based training which is industry-relevant; outreach to communities with the help of the third sector and an Opportunities Fund; and the Local Employment and Training Framework.

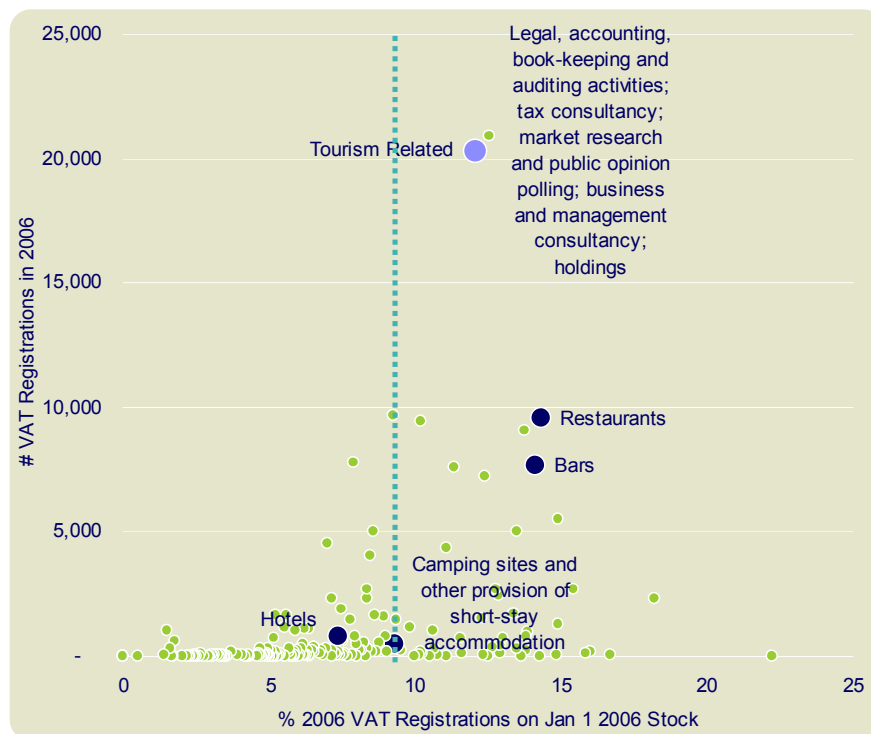
In addition, firms in the tourism sector offer training in line with Government schemes such as 'Train to Gain' which is flexible training delivered in the workplace. These help people gain management and NVQ Level qualifications directly related to their jobs whilst working. Some examples of where this has been delivered in the tourism industry include:

- *“Training keeps our staff motivated and we have seen a tangible link between retention and training. We are already committed to developing our people and currently have around 150 employees working towards a Level 2 qualification”*
Human Resources Manager, Center Parcs
- *“Training is proving a tremendous success. The staff think it's great and the benefits to the business are huge.”*
Head of Administration and HR, Newquay Zoo

5.5 Contribution to the entrepreneurship agenda

The Visitor Economy can induce benefits through income generated by the tourist trade and further job creation. Job opportunities arising from the growing Visitor Economy cover a range of sectors, including transport and travel, retail, hospitality, accommodation, visitor attractions, and the performing arts.

Fig 5.5.a – VAT Registrations in Great Britain, 2006



Source: SBS, Deloitte Analysis

Figure 5.5.a highlights how businesses in the Visitor economy collectively display one of the highest levels of business creation in both absolute and percentage terms. The number of registrations of businesses related to the Visitor Economy in 2006 stood at almost 21,000 and accounted for 12.5 per cent of all businesses in the sector at the start of 2006.

In addition to this, the number of registrations of businesses related to the Visitor Economy as a share of registrations for all businesses in the UK in the same year accounted for 11.5 per cent. This highlights that although each business may be relatively lower value add compared to other sectors in Britain, the quantum of new business is higher and as such there could be a balancing effect. Business creation in the sector was predominately led by new restaurants and hotels which accounted for 46 per cent and 37 per cent respectively of all new businesses in the Visitor Economy.

Total 'churn' – including business survival rates – is also important. In 2006 the net addition (the number of business registrations in excess of de-registrations) of businesses in the Visitor Economy accounted for 13 per cent of the total net change in businesses in the UK economy. Enterprise has been identified by HM Treasury as one of the five drivers of productivity and thus economic growth, and is a key priority for Government and RDAs. And this evidence highlights how the Visitor Economy provides a significant contribution to enterprise formation – particularly given that businesses in the Visitor Economy accounted for 8.4 per cent all of businesses in the UK.

However, it should be noted that the use of the VAT statistics are limited as they do not account for the entire economy.

Tourism's contribution to wider employment / enterprise policy agenda

As discussed earlier, tourism can help to create employment opportunities and conditions for growth in rural areas but benefits also extend to urban areas as tourists purchase goods and services during their visits. In addition, the growth of businesses through tourism leads to the growth of supporting professions and trades, such as accountants, surveyors and construction trades.

An example of the active encouragement of tourism is the Welland Sub-Regional Strategic Partnership (The Welland SSP) – one of seven sub-regional strategic partners funded by the East Midlands Development Agency – which has managed to establish a sustainable and enterprising economy by promoting tourism. It supported the creation of 'Hidden England', a consortium of country houses and castles, which has successfully managed to increase tourist spend and retention. Although there was a high visitor footfall there was also a proportionately lower visitor spend. It was vital that they found ways to attract, retain and encourage spend from visitors before they leave in addition to sustaining and increasing the number of visitors.

The Hidden England network has now spread to include local hotel, restaurants and tourist services. Businesses have seen the value of collaboration resulting in an enhanced tourist offer. The Welland SSP has really brought a focus on tourism back to the area, which has stimulated enterprise and business. Hidden England has also gained international recognition and the 'Enjoy England' Gold Award.

5.6 Contribution to regeneration and placemaking

The Visitor Economy can act as a catalyst to generate critical mass effects – particularly through regeneration projects which trigger a 'honeypot impact' as more businesses choose to locate near the revival of activity.

Case Study – Manchester & Salford

Salford's docks suffered a decline at the end of the 1960s as traditional industries such as engineering and steel-making were in decline and finally closed in 1982. The consequence was high levels of unemployment and a challenge as to how the docks could be used.

The project to transform the derelict Manchester Ship Canal into Salford Quays started over 20 years ago. The project now includes The Lowry building, theatres, the large Plaza, the terraced areas down to the canal and the Lifting Footbridge leading to Trafford Wharfside and the Imperial War Museum North. Also included in The Lowry project is the Digital World Centre (DWC) - a high-tech business centre providing quality, serviced premises. It will be home to the Digital World Society (DWS), a new think tank that will generate innovative projects in digital technologies.

Salford Quays will also soon house the Mediacity:uk development. With the BBC now formally secured as an anchor tenant, Mediacity:uk can provide an environment where creative talent can fuse with innovative technology to develop new products and services.

The redevelopment of Salford Quays has created a world-class business and cultural area of great national and regional significance. Further major investment is planned over the next decade, which will help generate further employment in the region. The critical mass of facilities is one of the most successful regeneration projects in Europe,

Salford Quays is an exemplar regeneration project demonstrating the scale of transformation that can be achieved.

5.7 Contribution to heritage

'Heritage' covers a diverse mix of both cultural and natural assets. These include prehistoric monuments, country houses, medieval churches, towns of the Industrial Revolution as well as wildlife and outdoor venues for activities.

Cultural heritage such as historic landmarks can help the country to compete with other tourism destinations by provides a differentiating offer from the beach holidays or other city breaks where there are fewer historic assets. In the North West examples of heritage include the Roman city of Chester and the frontier of Hadrian's Wall in Cumbria, the development of the cotton industry in Lancashire, the industrial revolution in Manchester, and the maritime history of Liverpool. Whilst in the East and West Midlands there are a number of historic tourist attractions such as Warwick Castle, Stratford-upon-Avon, Chatsworth.

The Visitor Economy can provide a source of income which is needed to cover the continuing costs of conservation and renewal of these cultural and natural assets – which form Britain's heritage – to assure the long-term future of the resource. Spend by tourists can contribute to the upkeep, maintenance and renewal of many heritage sites. For example, the Landmark Trust – a building preservation charity – aims to rescue historic and architecturally interesting buildings and their surroundings from neglect and, when restored, to give them new life by letting them as places to experience by staying in them. The strategy is to promote enjoyment of such places by enabling people to experience living in them for a short time. The letting income this generates then pays for the buildings' future maintenance.

The Visitor Economy can help boost economic activity in the regions. For instance, when tourists visit a city, for instance, there may be a number of venues competing for their visits – but they will ultimately cooperate with each other and with other organisations to market the city as a whole.

6 Future challenges

This chapter presents forecasts for the future contribution of the Visitor Economy – extending the quantitative analysis in Chapter Four. To provide an indication of prospective alternative paths for the Visitor Economy, it also assesses some hypothetical future scenarios with respect to exchange rate changes, an economic shock (such as a recession), a gradual decline in the UK's share of the international Visitor Economy market and the impacts of import substitution.

6.1 Forecasts for the future contribution of the Visitor Economy

The forecast is shaped by five key drivers in the model, namely:

- ⇒ Bilateral exchange rates;
- ⇒ Destination attractiveness proxy;
- ⇒ Consumer spending;
- ⇒ Overall GDP; and
- ⇒ Investment.

The future tourism contribution will depend on the particular path forecast for the drivers as well as by the interaction among the drivers and their wider implications for the rest of the economy.

For instance, in the short-term, exchange rate movements and consumer spending influence travellers' decisions with an impact on the contribution of the Visitor Economy. A slowing down in consumer spending is expected to lead to a decline in domestic tourism as well as outbound trips. Meanwhile, the weakening of the Pound relative to the Euro is also likely to reduce outbound travelling, but at the same time it provides a strong incentive for residents in the Euro zone to visit the UK. The net effect on the contribution is uncertain, as it will depend on the substitution between domestic and international travel.

At the macroeconomic level, Gross Domestic Product and domestic demand are also important determinants of activity in the tourism industry and the forecast of its economic contribution. Healthy and sustained economic growth is to be consistent with increased consumption and investment activity. In turn, increased internal demand is to support growth in domestic and outbound travel as well as the expansion of tourism facilities. By contrast, a slowdown in overall GDP is expected to translate into a decline in demand for tourism activities and to postpone investment plans in the sector.

Key Drivers and their Significance

Bilateral Exchange Rates

In terms of the relative impact of the drivers to the number of foreign visitors and the value of the Visitor Economy (including both spending by foreign visitors and by UK residents in the UK), our estimation shows that a 10 per cent appreciation of the Pound relative to the Dollar, would result in a 1.3 per cent drop in foreign visitors in the first year (2008) and a 1.7 per cent decline in the UK tourism market (i.e. inbound and domestic spending). If the exchange rate change is maintained over the following two years, the drop in foreign visitors could reach, on average, 3 per cent with an equivalent decline for the UK tourism market.

Our estimate of the sensitivity of visitor arrivals to changes in the exchange rate is lower than previous estimates (e.g. the 2001 report by Caledonian Economics). Our lower elasticity reflects both a delayed response of tourists' travel decisions (for instance due to pre-bookings) and reactions to lower demand by UK Visitor Economy operators. It is also in line with recent econometric estimates for UK Border Agency, DCMS and the Tourism Alliance for a study of the impact of visa fee increases.

Overall GDP

Regarding the impact of a change in overall GDP on the tourism economy, a fall of 1.5 percentage points in the growth rate of the UK GDP in the first year (2008) would bring about several effects. Foreign visitors would rise by 0.2 per cent due to a weaker Pound (driven by the fall in GDP), while the spending of UK residents in the UK would decline by 1.6 per cent. The net effect for the UK tourism market is estimated at -0.6 per cent. If the GDP fall is maintained over the following two years or so, the net loss for the UK tourism market could reach -3 per cent (largely the results of lower domestic spending).

Consumer Spending

Changes in overall consumption levels could result in opposite effects to the UK tourism market. For instance, a simulation in the model (not shown in the tables) shows that a 2 per cent rise in overall consumption in a given year (keeping constant the exchange rate and other macro economic variables) could result in a drop of up to 1 per cent in the UK tourism market largely due to a switch of UK residents from domestic to outbound travelling. In other words as consumption increases the propensity of British residents to take overseas holidays is higher and this effects dominates.

Destination Attractiveness Proxy

The destination attractiveness driver has an influence on Visitor Economy outcomes over the longer term. This is a composite index that is set to reflect developments in a number of factors such as tourism infrastructure, regulatory framework, business environment and policy support. The model assumes that this driver remains constant over the forecast period that there are no major changes in terms of the attractiveness of the UK as a tourism destination relative to its main competitors.

Investment

Overall investment has a direct link to the expansion of tourism infrastructure (e.g. hotels building and transport infrastructure). However, additional investment spending only has an impact on the overall GDP economy measure. The measures of the UK tourism market, as well as those of the direct industry GDP and employment contribution do not include investment.

Other Considerations

Finally, there are other residual factors with the potential to shape the forecast. Among them are changes in economic conditions (e.g. GDP or private consumption) in the main origin markets for the UK (e.g. US, Germany, France), or changes in price differentials. And there is always the potential of unexpected crises affecting visitors' confidence, spending and attendance (recent examples are the 2000 foot & mouth crisis and the July 2005 London tube and bus bombings). However, unforeseen events are not part of the modelling work.

Relative Contributions

The relationships between these five drivers in the model are complex and interdependent, this means that a relative weighting of importance, for instance, is not practical. It is useful though to distinguish between short-medium term drivers and longer-term drivers of the Visitor Economy.

In the longer-term, the health and development of the Visitor Economy largely depends on supply side factors such as the effective delivery of infrastructure and the relative attractiveness of the destination. These factors will influence economic activity and thus GDP over the long-term.

In the short to medium term, however, those drivers influencing demand conditions are to dominate. Exchange rate fluctuations, consumer sentiment and prospects for economic activity in the UK and the main origin markets will drive outcomes.

The long-term drivers correspond to the areas that policy intervention can aim to tackle, whilst it has to be acknowledged that shorter-term drivers such as cyclical fluctuations in output, consumer spending and exchange rates cannot be influenced by policy makers in this context.

Direct contribution

Looking ahead, the model estimates that the Visitor Economy's direct contribution to GDP will fall in 2008 as the UK and global economies slow. However, this decline is not expected to continue in the long term and the model suggests that by 2018 the Visitor Economy's direct contribution to GDP will have stabilised at 3.5 per cent, generating 1.4 million jobs (4.1 per cent).

Indirect contribution

The Visitor Economy's wider contribution to GDP – including indirect effects and tourism-related investment and public spending – will also fall in 2008 but as described above this decline is not expected to continue in the long term. The model suggests that by 2018 the Visitor Economy's wider contribution to GDP will have stabilised at 7.8 per cent, generating 2.8 million jobs (8.2 per cent).

Table 6.1.a: The Economic Contribution of the UK Visitor Economy sector

	Forecast					
	2008		2009		2018	
UK Tourism Contribution	Absolute £ bn	Relative % macro total	Absolute £ bn	Relative % macro total	Absolute £ bn	Relative % macro total
Visitor Exports (inbound = travel spending + fares)	24.2		25.6		50.5	
Personal Travel & Tourism (domestic + outbound)	110.7		114.0		179.3	
Business Travel (domestic + outbound)	25.9		27.3		43.6	
Government Expenditures (individual + collective)	8.7		9.2		14.7	
Capital Investment	23.3		24.8		41.5	
Travel & Tourism Demand	192.7		200.9		329.7	
Outbound tourism spending (fares + travel)	46.5		49.2		85.8	
FS Direct Industry GDP (in line with First Step TSA)	46.4	3.2	47.5	3.1	75.1	3.1
Direct Industry GDP (includes gov. individual spending)	51.8	3.6	53.2	3.5	84.2	3.5
T&T Economy GDP (broader concept)	115.0	7.9	118.5	7.8	187.6	7.8
Direct Industry Employment (jobs)	1,335	4.2	1,328	4.2	1,407	4.1
T&T Economy Employment (jobs)	2,587	8.2	2,565	8.1	2,817	8.2

Source: Oxford Economics

Spending

Forecasts for the Visitor Economy also show that spending by international visitors is expected to rise modestly in the short term – in part due to the favourable exchange rate with the Euro. However, domestic spending in the Visitor Economy is expected to stagnate in 2008 as UK residents cut back on overnight holidays (both domestic and international). This cut back is driven by forecasts for a slow-down in the domestic economy which reduces household disposable income and increases residents' uncertainty about future income.

The negative impact on all tourism outweighs the positive impact of UK residents switching to cheaper domestic holidays from more expensive international ones. In the longer term, over the period to 2018, a modest real annual growth of 2.1 per cent is expected for total spending in the Visitor Economy, slightly below consumer spending as a whole.

Table 6.1.b: UK Expenditure in the Visitor Economy, 2005-2018

UK Tourism Market	2007	Forecast		
		2008	2009	2018
	£ bn	£ bn	£ bn	£ bn
Spending by overseas residents				
Visits to the UK	16.0	16.3	17.2	34.2
Fares to UK carriers	2.8	3.0	3.3	6.3
Spending by domestic residents				
Trips of 1+ nights	21.2	20.8	21.3	28.8
Tourism day trips for leisure	45.4	45.1	45.5	62.7
Rent for second ownership	1.0	1.0	1.0	1.1
Total Spending				
Outturn prices	86.4	86.4	88.3	133.1
Real growth (%y-y) ^{1,2}	-2.2	-3.3	-0.2	2.1
¹ Current figures deflated by the UK GDP implicit deflator				
² 2018 figure shows average annual real growth rate over the period 2009 to 2018				

Source: Oxford Economics

Forecast growth, scenarios and investment assumptions

The forecast average annual real growth of 2.1 per cent over the next ten years implies the UK Visitor Economy will grow to £133.1 billion by 2018 in current price terms, a significant rise from the £85 billion achieved in 2005 and the estimated outturn of £86.4 billion expected this year. In line with recent experience, growth in UK tourism market spending will be driven more by overseas than domestic residents' spending, although both parts are forecast to expand over the coming ten years in both value and volume terms.

Such higher forecast tourism activity is built upon the assumption that tourism facilities, accommodation and transport infrastructure are upgraded – both in terms of capacity and quality – to meet such demand. For example, overseas visitor growth of just over 3¼ per cent per annum over the coming ten years (to over 45 million visitors by 2018 from 32.6 million in 2007) underpins the projection for overseas spending whilst the real increase in domestic residents' spending (of 1 per cent per annum) implies an equivalent percentage rise in domestic tourism trips. Tourism's overall share of UK investment spending – estimated to be close to 9 per cent at present – will at the very least need to be sustained, if not increased, to accommodate such growth. Private sector investment in upgrading and expanding visitor accommodation, attractions and other facilities is projected in line with the growth in demand for such capacity but expansion also requires investment in, for example, transport infrastructure.

In the absence of sufficient infrastructure investment, the contribution of the Visitor Economy to the UK will decrease over the coming ten years. Since real growth of 2.1 per cent is likely to be below that of the overall economy, the contribution to GDP is already forecast to decline to 7¼ per cent by 2018 from just over 8 per cent last year. But the picture could be much worse if all stakeholders fail to respond and invest to the degree required to support such growth. For example, the gradual decline scenario outlined later in this section (see Table 6.2.c) illustrates the impact of foreign visitor arrivals over the next five years falling to 10 per cent below those currently forecast (i.e. being just over 34 million in the Olympic year 2012 rather than the 38 million currently projected). As a result of this slower growth, both GDP and employment are 2¼ per cent lower, which translates into 68,000 fewer jobs and a cumulative loss in GDP terms of almost £10 billion by 2012. This would push the contribution of the Visitor Economy down to just 7½ per cent of GDP, well below the 8 per cent-plus share posted last year. Moreover, an even greater impact from inadequate support could come from discouraged domestic tourism by residents, as this makes up the larger part of the UK tourism market. Inverting the import substitution scenario outlined later in this section (see Table 6.2.d), for example, provides a quick illustration of the possible impact: a loss of 114,000 jobs and almost £20 billion in GDP terms if constraints on domestic tourism exacerbate the trend towards overseas travel.

More optimistically, a more proactive approach to the development of the UK Visitor Economy (including addressing investment, marketing and market failure issues) could allow the UK to sustain its share of inbound tourism. The latest forecast from the World Travel and Tourism Council envisages 10-year growth in global foreign visitor arrivals averaging 4 per cent per annum, in line with the 4.1 per cent long-term trend rate used in UNWTO's Tourism 2020 Vision. Thus, sustaining market share would require 4 per cent per annum growth rather than the 3¼ per cent rate projected for the UK which underpins the central forecast. This would result in just over 49 million overseas visitors by 2018, producing a UK tourism market of £136.2 billion. In real terms, average annual growth would increase to 2.3 per cent over the next ten years, producing by 2018 over 50,000 more jobs.

Such an outturn could be achieved if the UK could raise its attractiveness as a destination. In the latest (2008) WEF report, the UK ranks 6th overall (up from 10th in the 2007 report) with a score 30 per cent higher than the average of the 130 countries covered but Switzerland tops the rankings with a score almost 40 per cent higher than the world average.

Output

The long-run GVA growth rate in the UK is 2.6 per cent.¹⁰ This macroeconomic growth rate, however, masks many interesting variations across sectors. In the long term the wider Oxford Economics macro model forecasts that the economy will be driven by growth in financial and business services and sectors such as health (driven by increasing demands from an ageing population), although the Visitor Economy will play its part with above average growth at 2.6 per cent.

Table 6.1.c: Growth in sectoral GVA across the UK economy, 2009-2018

	CAGR (%) (2009-2018)
Manufacturing - chemicals & pharmaceuticals	2.6%
Manufacturing	0.8%
Electricity, gas & water	2.6%
Construction	2.8%
Retailing, hotels etc	2.5%
Transport & communications	3.1%
Tourism	2.6%
Financial services	3.1%
Business services	3.8%
Public admin & defence	1.9%
Education	2.7%
Health	4.0%
TOTAL	2.6%

Source: Oxford Economics.

Growth across most manufacturing sectors is expected to be significantly slower, with exception of chemicals (and, in particular, pharmaceuticals). In the longer run, domestic consumer spending is expected to grow at 2.7 per cent above the forecast for expenditure in the Visitor Economy: this is in line with historic trends.

In 2008, the direct impact of the Visitor Economy in terms of GDP in the UK (3.6 per cent) is estimated to be a lower share of total GDP than in countries such as Spain (6.4 per cent) and Italy (4.0 per cent), but similar to Japan (3.4 per cent) and the US (3.8 per cent) and

¹⁰ Note that GVA is a measure of value added and not gross output. It is analogous to GDP.

greater than in Germany (2.4 per cent). The direct impact of the Visitor Economy is estimated to make up the largest share of GDP in the Maldives (33.6 per cent).

Table 6.1.d: Contribution of the Visitor Economy and expected growth rates internationally

	Share direct tourism in GDP (%) 2008	Annual average growth direct tourism GDP (% in \$s) 2009-2018
Maldives	33.6	5.5
US	3.8	4.9
Spain	6.4	4.5
UK	3.6	4.2
Italy	4.0	3.6
France	4.1	3.3
Japan	3.4	3.2
Germany	2.4	1.7

Source: Oxford Economics

Nominal growth over the next ten years in the direct impact of the Visitor Economy in terms of GDP (converted into \$s for a consistent measure) is estimated to be broadly similar in the UK to other major economies.

6.2 Hypothetical future scenarios

The Visitor Economy forecasts discussed above are based on Oxford Economics' Macroeconomic Forecasting Service. A consistent view of the global outlook is used to produce internally consistent forecasts within the TSA framework.

In order to give an indication of prospective alternative paths for the Visitor Economy this section considers some hypothetical future scenarios with respect to:

- ⇒ Exchange rate changes;
- ⇒ Shock (e.g. recession);
- ⇒ Gradual decline; and
- ⇒ Import substitution.

Scenario 1: Exchange rate changes

This scenario considers the impact of a sustained change (a significant variation that lasts indefinitely) in the exchange rates on the UK Visitor Economy (e.g. Pound to the US dollar).

The logic underpinning the scenario is to quantify the implications of a particular situation in the exchange rate markets on the Visitor Economy in the UK – in this case for a sustained 10 per cent appreciation in the pound relative to all major international currencies from 2008. Large exchange rate fluctuations are not uncommon.

There have been numerous occasions in each of the last four decades when annual changes in the £/\$ exchange have been greater than 10 percent (in both directions), and so this represents a feasible scenario for the Visitor Economy. Table 6.2.a presents these scenario results in relative terms, i.e. as absolute and percentage differences with respect

to from the baseline (i.e. central forecast). Full details of the results are included in the technical annex.

Table 6.2.a: Exchange rate scenario results

UK exchange rate scenario	absolute difference from base (£bn)			% difference from base (percentage points, %pts)		
	2008	2009	2010	2008	2009	2010
All foreign visitors (000s)	-428	-1076	-1036	-1.3	-3.3	-3.0
Spending by visitors to the UK	-0.1	-0.3	-0.3	-0.6	-1.8	-1.6
UK residents' domestic spend	-0.8	-0.9	-0.9	-1.1	-1.2	-1.3
UK outbound spend	0.8	0.9	0.9	1.7	1.7	1.7
T&T economy GDP	-1.7	-2.0	-2.2	-1.5	-1.7	-1.8
T&T economy employment (000s)	-36	-42	-44	-1.5	-1.7	-1.8

Source: Oxford Economics.

The outcome from the model suggests that by 2009 foreign visits would decline by around 1.1 million (or 3 per cent relative to the baseline) and associated expenditure by £0.3 billion (a drop of nearly 2 percentage points).¹¹ Most of the losses are expected to result from fewer visitors for the US and the Eurozone (particularly Germany, France and Spain).

UK residents would also find foreign holidays relatively cheaper, and the model suggests that domestic spending in the Visitor Economy would fall by £0.9 billion (just over 1 percentage point) whilst UK outbound spend would rise by £0.9 billion, equivalent to 1.7 percentage points.

Over the period to 2010 impacts on:

- ⇒ Employment: loss of 44,000 jobs; and
- ⇒ GDP: loss of £5.9 billion.

Scenario 2: Economic shock (e.g. recession / income changes)

The second scenario considered by the model examines the impact of a recession in the UK – for example as a result of an intensification of the credit crunch impacting upon consumer spending.

It focuses on a UK led recession with limited impact on global growth (so to model a country specific shock) and has been implemented in two steps. Firstly, a shock in the macro model to generate a new set of overall GDP, private consumption, exchange rates and other relevant variables. Subsequently running these new forecasts into the Visitor Economy model to assess the impact on the contribution the Visitor Economy makes to the UK economy.

A consumption led recession as embodied in this scenario would reduce UK residents' travel with foreign travel hit hardest initially, especially in year two, and day trips suffering within a domestic travel context.

On the upside, a weaker pound means additional inbound visitors are attracted to the UK, so the decline in the total UK Visitor Economy is less marked than the decline in domestic tourism would imply in isolation. Results from this scenario are presented in figure 6.2.b.

¹¹ Percentage points are used to give the difference between two percentage values. A change from 5 per cent to 10 per cent is a change of 5 percentage points. If the actual values in question are 10 and 20 from 200 then the increase is also technically equal to 100 per cent. Percentage points are used to remove this ambiguity.

Table 6.2.b: UK recession scenario results

UK recession scenario	absolute difference from base (£bn)			% difference from base (percentage points, %pts)		
	2008	2009	2010	2008	2009	2010
	GDP	-5.0	-34.1	-62.8	-1.5	-2.8
Exchange rate (£/US\$)	0.01	0.01	0.01	1.1	2.7	2.1
All foreign visitors (000s)	63	168	361	0.2	0.5	1.1
Spending by visitors to the UK	0.2	0.1	0.01	1.0	0.4	0.1
UK residents' domestic spend	-1.1	-2.4	-3.5	-1.6	-3.4	-4.7
UK outbound spend	-0.8	-2.0	-2.9	-1.8	-4.1	-5.4
T&T economy GDP	-1.1	-4.1	-6.1	-1.0	-3.4	-4.8
T&T economy employment (000s)	-22	-79	-114	-1.0	-3.4	-4.8

Source: Oxford Economics.

Specifically, the consumer led recession assessed in this scenario sees GDP fall 1.5 per cent below base in 2008 and further falling to 2.8 per cent below base in 2009 and staying there in 2010. This fall in GDP (driven by consumer spending) sees UK resident's domestic expenditure in the Visitor Economy fall by 1.6 percentage points in 2008 (equivalent to £1.1 billion) and 3.4 percentage points and 4.7 percentage points in 2009 and 2010 respectively (£2.4 billion and £3.5 billion). UK outbound spending is hit even harder (-1.8 percentage points, -4.1 percentage points and -5.4 percentage points in 2008, 2009 and 2010 respectively).

On a positive note the UK recession leads to a depreciation in the exchange rate which encourages international visitors; their spending is expected to rise by 1 percentage point in 2008, or £0.2 billion. The overall contribution that the Visitor Economy makes to UK GDP falls by 1 percentage point in 2008 and 3.4 percentage points.

Scenario 3: Gradual decline scenario

This scenario considers a gradual decline in the attractiveness of the UK as a destination, perhaps due to inadequate spending by the UK on marketing and branding or inadequate investment spending in contrast to other destinations in Europe. This results in a steady loss of market share as foreign visitors to the UK decline by 10 per cent relative to the base case by 2012.

This is equivalent to a fall of 3.7 million visitors. Spending from foreign visitors falls slightly faster than visitor numbers themselves as average spending falls. This decline in average spending reflects hotels and other business responding to the decline in visitors and lowering their prices for the goods and services foreign tourists demand.

The 10 percentage points decline in foreign visitor spending reduces Visitor Economy GDP by almost 3 per cent relative to the baseline forecast by 2012 (or £3.8 billion), with a similar decline in employment (a loss of 68,000 jobs). The impact on UK residents' tourism spending is negligible.

Table 6.2.c: UK Gradual decline scenario results

UK gradual decline scenario					
absolute difference from base					
	2008	2009	2010	2011	2012
All foreign visitors (000s)	-635	-1281	-1974	-2556	-3734
Spending by visitors to the UK (£bn)	-0.3	-0.7	-1.2	-1.7	-2.6
T&T economy GDP (£bn)	-0.5	-1.1	-1.8	-2.5	-3.8
T&T economy employment (000s)	-10	-22	-34	-46	-68
% difference from base (percentage points, %pts)					
	2008	2009	2010	2011	2012
All foreign visitors	-2.0	-3.9	-5.8	-7.3	-9.8
Spending by visitors to the UK	-1.9	-4.1	-6.2	-7.9	-10.9
T&T economy GDP	-0.4	-0.9	-1.5	-1.9	-2.8
T&T economy employment	-0.4	-0.9	-1.4	-1.8	-2.7

Source: Oxford Economics.

Over the period to 2012 impacts on:

- ⇒ Employment: loss of 68,000; and
- ⇒ GDP: loss of £9.7 billion.

Scenario 4: Import substitution scenario

This scenario considers the effect of a switch in UK residents' travel preferences such that they substitute decreased spending on foreign trips for increased spending on domestic trips, perhaps because higher air travel costs (both monetary and in terms of perceived environmental effects) and better UK weather and facilities. This results in spending on outbound trips being 10 per cent below the baseline case by 2012 (equivalent to a fall of £6.2 billion), with monies saved switched pound-for-pound towards domestic trips. By 2012, UK residents' domestic spending is almost 8 percentage points higher (or £6 billion).

This import substitution within household travel budgets changes Visitor Economy GDP and employment by 4.5 per cent relative to the baseline forecast by 2012. Any change in foreign visitor trips to the UK or spending here is assumed to be negligible.

Table 6.2.d: UK import substitution scenario results

UK import substitution scenario					
absolute difference from base					
	2008	2009	2010	2011	2012
UK residents' domestic spend (£bn)	0.9	2.1	3.5	5.1	6.0
UK outbound spend (£bn)	-1.0	-2.2	-3.6	-5.3	-6.2
T&T economy GDP (£bn)	1.0	2.3	3.7	5.5	6.4
T&T economy employment (000s)	21	45	71	101	114
% difference from base (percentage points, %pts)					
	2008	2009	2010	2011	2012
UK residents' domestic spend	1.4	3.0	4.9	6.8	7.7
UK outbound spend	-2.1	-4.4	-6.8	-9.3	-10.1
T&T economy GDP	0.9	1.9	3.0	4.2	4.7
T&T economy employment	0.8	1.8	2.9	4.0	4.5

Source: Oxford Economics.

Over the period to 2012 impacts on:

- ⇒ Employment: gain of 114,000; and
- ⇒ GDP: gain of £19 billion.

6.3 The challenge of international competition

International benchmark comparisons of the Visitor Economy offer, government expenditure on travel and tourism, and the size of the travel and tourism sector highlight some key challenges with respect to the activities of other countries. The charts overleaf respectively show the linkages (or otherwise) between these factors.

The left-most chart shows that there is a strong positive relationship between the size of a country's travel and tourism industry (relative to GDP) and the relative expenditure by that country's Government on travel and tourism support (relative to GDP). The direction of causality is not clear – this could be a case of either Governments backing winners or Governments attempting to create winners. The right most chart, on the other hand, shows that the quality of the Visitor Economy offer (measured by competitiveness rank) in a country is not particularly related to the level of Government expenditure, which suggests that this is related more closely to the endowment of Visitor Economy 'capital' and that throwing expenditure at a country's Visitor Economy offer does not necessarily result in relative success.

Even so, for Britain this analysis draws out a number of salient points. Relative to other countries expenditure devoted to travel and tourism is low, as is the proportion of the economy dedicated to travel and tourism, but in spite of this Britain is ranked very highly in the competitiveness index. As a proxy measure, this seems to represent a very good return for Britain in economic terms (noted by DCMS in respect of VisitBritain's monitored RoI).

However, the relationship between the size of the Visitor Economy and Government expenditure still appear to hold, and to reduce expenditure in future may lead to a smaller share of tourism, a smaller industry and thus lower economic contribution.

Figure 6.3.a: Relative Government Expenditure, the Visitor Economy Contribution and Tourism Offer, Selected Countries, 2008



Source: WEF Travel and Tourism Competitiveness Report 2008, World Travel and Tourism Council, Deloitte Analysis

In a situation where other non-private institutions are investing in marketing and coordination it may leave Britain at a competitive disadvantage not to do so to an equivalent extent or to the same quality. Below is a simplified and hypothetical example of the advertiser's dilemma, which can be used to consider the effects of intervention in a strategic setting using Game Theory.

The Governments of Britain and other international competitors can choose either to advertise or not, with each element of the matrix giving the payoff to Britain and competitor respectively. Optimal strategies are denoted by the asterisk and green shaded elements, and crucially depend upon the actions of each 'player'.

Figure 6.3.b: The Advertiser's Dilemma in the Visitor Economy – Hypothetical Payoff Matrix

		INTERNATIONAL COMPETITORS	
		DO NOT ADVERTISE	ADVERTISE
BRITAIN	DO NOT ADVERTISE	(0,0)*	(-1,1)
	ADVERTISE	(1,-1)	(0,0)*

Source: Deloitte Analysis.

In a world where there is no marketing or coordination of the Visitor Economy by Governments the optimal strategy is not to advertise as others will then do so as well reducing the effectiveness of advertising. In a world where every country markets the Visitor Economy – which equates to the current status quo according to the official data presented above – the optimal strategy is for all countries to market and coordinate or potentially face losing market share.¹²

In practical terms, of course, this is complicated by some degree of 'collective-equivalent' marketing carried out (probably sub-optimally with respect to overall outcomes) by the private sector, which will of course differ in quality and effectiveness both within and outwith national borders. Moreover, it is likely that a proportion of visitors would visit Britain without the influence of advertising.

This means that competition in marketing and coordination between countries is only relevant to those individuals who are likely to be swayed in their decision by such intervention. With respect to the above payoff matrix, this would imply that the competition is for a sub-set of potential tourists with the capacity to travel – and volume and value tourists should be targeted on this basis.

¹² The payoffs to each country for advertising may be higher than those for each country deciding not to advertise, but this does not affect the outcome in reality as the no advertising outcome is not realistically an option for any party in this day and age. The point of the analysis is to show that as soon as countries engage in marketing and coordination the optimal strategy is to continue doing so or lose market share.

7 Market failures and policy drivers

The rationale for intervention in the Visitor Economy is the extent to which public provision secures a superior economic and social outcome, relative to the free market outcome. Although important considerations, contributions to Britain plc, industry size, industry productivity, and other factors are not, in isolation, compelling rationale for intervention.

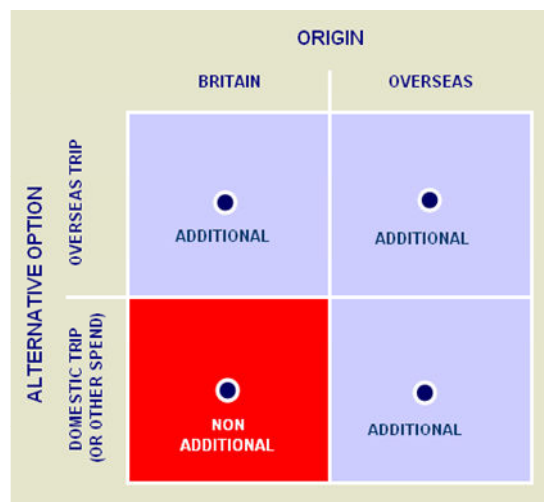
This chapter expands on components of the framework developed earlier in the study using previous research and stakeholder consultations to highlight market failures and policy drivers. It must be noted, however, that quantification of market failures and the identification of the specific rationale for public sector interventions (in terms of nature, scale and scope) was outside the scope of this study. Further work is required to establish why, how and where public sector must intervene to deliver optimum outcomes from the Visitor Economy.

7.1 Influences on the volume and value of the Visitor Economy

The tourist decision (a British tourist deciding whether to remain in Britain or an international tourist deciding whether to come to Britain) is determined by weighing up all expected costs and benefits relative to competing destinations and spending opportunities.

A foreign visitor generally provides additional expenditure to the British economy as that expenditure would otherwise be directed elsewhere. However, a British resident visiting another British destination might not be adding to overall economic output in the UK – due to the fact that the decision to spend earnings on internal tourist activity can amount to a simple redistribution of expenditure that would otherwise go elsewhere in the domestic economy. If, on the other hand, that resident would have otherwise vacationed overseas, the impact is ‘additional’. This is summarised below in the two-by-two matrix.

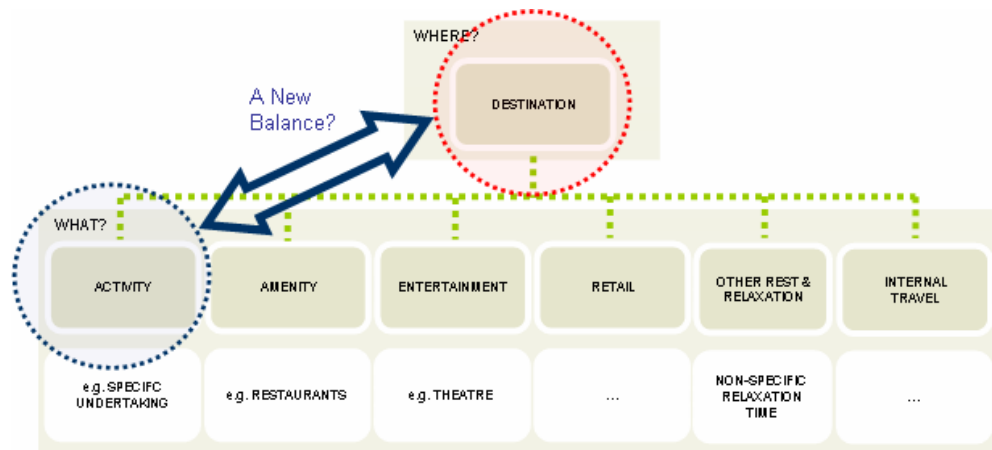
Fig 7.1.a – Additionality in Visitor Economy Activity



Source: Deloitte Analysis.

Traditionally it is thought that the decision has been made within a framework of firstly determining ‘where shall I go’ and secondly ‘what can I do there?’ – effectively ‘what can I do where?’. There is some evidence that this is changing toward a ‘where can I do what mentality’, whereby the activity and experience drives the choice rather than the location itself. This is summarised in Figure 7.1.b.

Fig 7.1.b – The Tourist Decision



Source: Deloitte Analysis.

As this is a micro consideration (at individual, household or firm level) it is likely to differ substantially between individuals as consumers and members of business organisations. That said, there are a number of major factors that are common to influencing that decision and are largely beyond the control of policy makers. These include:

- ⇒ Destination costs and prices (in domestic prices);
- ⇒ Exchange rate sensitivity;
- ⇒ Security concerns (e.g. the terror threat);
- ⇒ Time of year; and
- ⇒ Expected benefits.

In addition to this, there are a number of factors that will be considered when deciding whether and where to go on a trip. These will include pre-trip factors – which influence a decision for a visit and post-trip factors – which influence whether someone will visit again or recommend to someone else. Both will impact the volume and value of the Visitor Economy and Figure 7.1.c illustrates some of the key factors.

Fig 7.1.c – Factors affecting the volume and value of the Visitor Economy

Factor	Pre-trip factors	Post-trip factors
Political	<ul style="list-style-type: none"> • Perceptions about safety and security • Globalisation • Capacity (airports, water, sanitation) • Marketing of Britain • Open-skies agreements 	<ul style="list-style-type: none"> • Experience with safety and security • Taxation on goods and services
Economic	<ul style="list-style-type: none"> • Incomes • Inflation • Exchange rates • Migration • Taxation 	<ul style="list-style-type: none"> • Impact of taxation • Impact of inflation • Competitive prices for good and services
Social	<ul style="list-style-type: none"> • Socio-environmental awareness / consciousness • Family composition • Tastes – e.g holiday type: historic vs beach • Reputation for extreme weather – e.g rain, flooding, wildfires 	<ul style="list-style-type: none"> • Available choice of goods and services • General experience on trip – e.g. quality • Experience with weather / seasonality – e.g. rain, flooding, wildfires • Culture clash / agreement
Technological	<ul style="list-style-type: none"> • Internet • Low cost airlines • Digital information / mobile technology as a substitute for business travel / online shopping 	<ul style="list-style-type: none"> • Ease of travel during trip • Integrated systems e.g. fast-tracking

Source: Deloitte Analysis.

Some of these factors are discussed in more detail below.

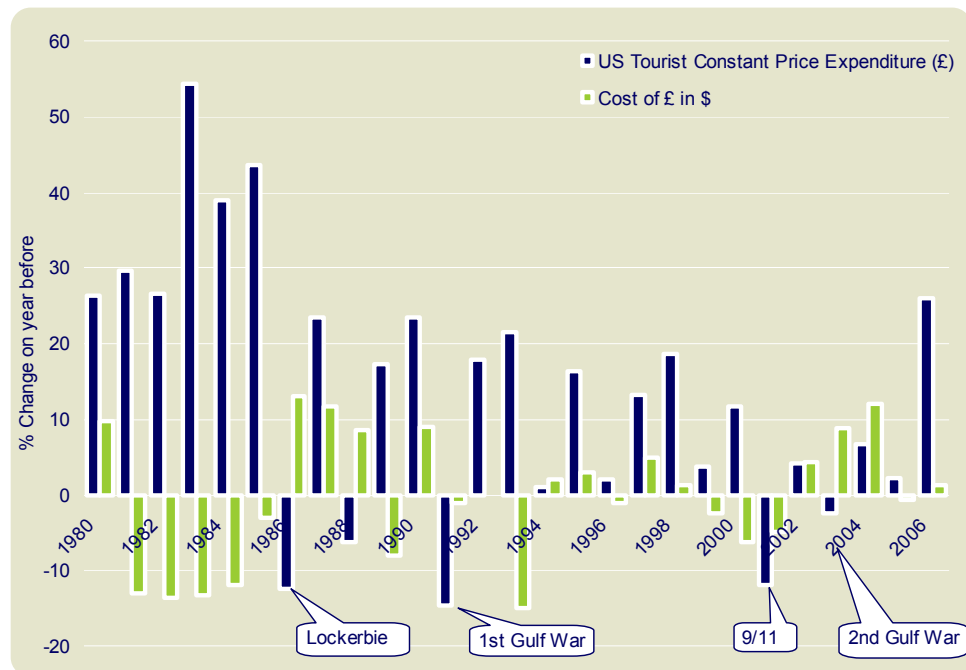
Costs, exchange rate sensitivity and security

The effects of exchange rate fluctuations and security concerns on in-bound tourist numbers and expenditure have been researched previously for VisitBritain by Caledonian Economics, although the work was conducted back in 2003.

Britain becoming more expensive can have a number of outcomes – some potential visitors might simply decide not to come, but others may still visit but spend less than they would otherwise have done. There is also some evidence that higher costs and poor economic conditions do not necessarily deter tourists from making the trip, but crucially higher costs do impact on the level of expenditure made by each tourist.

Figure 7.1.d, below, shows the annual change in inflation-adjusted US tourist expenditure relative the annual change in the cost of sterling in dollar terms. The chart also shows the years where major terrorist incidents or wider conflagrations have occurred. The analysis is extended to 2006.

Fig 7.1.d – Exchange-rate sensitivity of US Tourist Expenditure, 1980-2006



Source: Reproduced and updated from Caledonian Economics (2003) by Deloitte using ONS RPI Data, ONS IPS Data, BoE Exchange Rate Data;

This clearly demonstrates the underlying negative relationship between cost and expenditure. In general, when the pound becomes more expensive to US tourists, overall levels of expenditure by US tourists in the UK tends to fall. Conversely, when the pound is cheaper for US tourists the reverse happens and expenditure rises.

However, the most marked falls in revenue are associated with terrorism or conflict. In 1986, 1991, 2001 and 2003 – which correspond to such incidents – US tourism expenditure fell by the greatest amounts.

In 2003, Caledonian Economics estimated that for every 1 per cent change in the (trade-weighted) exchange rate the UK's international earnings in the Visitor Economy would fall by 1.3 per cent – an elasticity of 1.3. Changes in foreign incomes are associated with increases in the UK international earnings in the Visitor Economy – a 1 per cent rise in incomes leading to a 0.6 per cent increase in earnings. From a specific national perspective a 1 per cent increase in the dollar cost of sterling, US tourist constant price expenditure fell by 1.4 per cent – an elasticity of 1.4. The equivalent estimate for Europe is 0.8, so European expenditure is generally less sensitive to exchange rate fluctuations than US expenditure.

Moreover, when sterling is strong and foreign currency is expensive for inbound tourists it also becomes cheaper for British tourists to holiday abroad (rather than in Britain), so the effect is twofold. It should, however, be noted that the consequences of fluctuating exchange rates can be beneficial in the opposite case, where weak sterling means that overseas travel becomes more costly for British residents and more affordable for foreign tourists.

Timelier analysis carried out by Oxford Economics as part of this study, however, suggests that the elasticity of visitor expenditure with respect to exchange rates is likely to be some way lower than the above estimate (in the order of 0.3 to 0.60) due to changes in the industry – such as low-cost carrier models associated with lower non-foreign exchange travel costs and real income changes. Another reason for the lower estimate is the simultaneous and fully-specified macro-model used by Oxford Economics, which includes more explanatory variables than the specification used by Caledonian Economics. In each instance, however, the quantitative analysis demonstrates the sensitivity of the British Visitor Economy to cost (through fluctuations in exchange rates) and terrorism.

Seasonality

Visit Britain's Foresight report has previously examined seasonal impacts on the industry. The key influencers of seasonality have been identified as institutional – in terms of rigid holiday periods – and weather related.

It is acknowledged that whilst seasonal effects are not as pronounced as they once were, in part due to a shift towards City-based Visitor Economy which is less seasonally dependent, they do pose challenges for the industry. This has been highlighted through our consultations as a particular problem for rural tourist areas. Seasonal demand still tends to peak in the summer, with a notable reduction in the off-season which presents particular challenges in these areas.

7.2 The UK's performance

A number of published indices provide proxy measures of the above through competitiveness relative to other competing destinations. Whilst not designed to calculate the benefits to visitors there is likely to be some positive correlation between the quality of the Visitor Economy offer and perceived benefits to tourists. On composite measures Britain (the UK) performs extremely well indicating that the benefits to be had by visiting Britain are substantial. Specifically:

- ⇒ The Anholt-GMI Nation Brands Index places the UK in 1st place overall and 7th in terms of tourist offer (from 38 countries); and
- ⇒ The World Economic Forum (WEF) Travel and Tourism Competitiveness Index ranks Britain (the UK) in 6th Place (from 130 countries).

The WEF index provides significant detail regarding contributory factors in the composite index, providing three sub-indices, a further 14 'Pillars' and, beneath that, a further 70+ KPIs. The UK's ranking in the three sub-indices and 14 Pillars is shown in figure 7.2.a.

Fig 7.2.a – WEF Travel and Tourism Competitiveness Index

	GB Rank (from 130 Countries)
2008 Index (overall)	6
Travel & Tourism Regulatory Framework	26
Policy Rules and Regulations	5
Environmental Sustainability	10
Safety & Security	65
Health & Hygiene	41
Prioritisation of Travel & Tourism	43
Travel & Tourism Business Environment & Infrastructure	6
Air Transport Infrastructure	4
Ground Transport Infrastructure	11
Tourism Infrastructure	16
ICT Infrastructure	9
Price Competitiveness	127
Travel & Tourism Human Cultural & Natural Resources	5
Human Resources	7
Education & Training	13
Availability of Qualified Labour	12
Affinity for Travel & Tourism	90
Natural Resources	27
Cultural Resources	4

Source: WEF – reproduced from TEAM report, 2008.

This indicates that the Britain's relative strengths are:

- ⇒ The quality of supporting infrastructure; and
- ⇒ The cultural/leisure/natural resource offer.

And that the Britain's relative weaknesses are with respect to:

- ⇒ Price and competitiveness;
- ⇒ A perceived lack of affinity for travel and tourism; and
- ⇒ Safety and security.

Whether these weaknesses are founded on fact, past experience or perception is insignificant, the fact remains that tourists are likely to base their decision to come, and subsequent expenditure levels, around their perceptions of these costs and benefits, and that as things currently stand Britain is unfavourably positioned with respect to the above measures. As an example the relevant KPI for terror related costs (a proxy for perceived terror threat) ranks Britain in 120th place, well below most major competitors (with the exception of the US) and below countries such as Saudi Arabia and Egypt, which have also suffered from terrorist incidents of late.

That Britain still manages to rank so highly in the overall index in spite of the above is testament to the overall quality of the tourist offer and benefits gained by visiting, which clearly influences the individual decisions to a great extent.

7.3 Impact and influence

Although past performance of the UK Visitor Economy has ranked highly – as described in the previous section – it is important to recognise the factors that will have the greatest impact on performance in future. This section assesses which factors should be prioritised given their potential impact whilst taking into account the ability stakeholders may have to influence them going forward.

Based on analysis using the model developed for this study, the future contribution of the Visitor Economy depends on the outlook for key macro-economic variables. The main macro-economic drivers include:

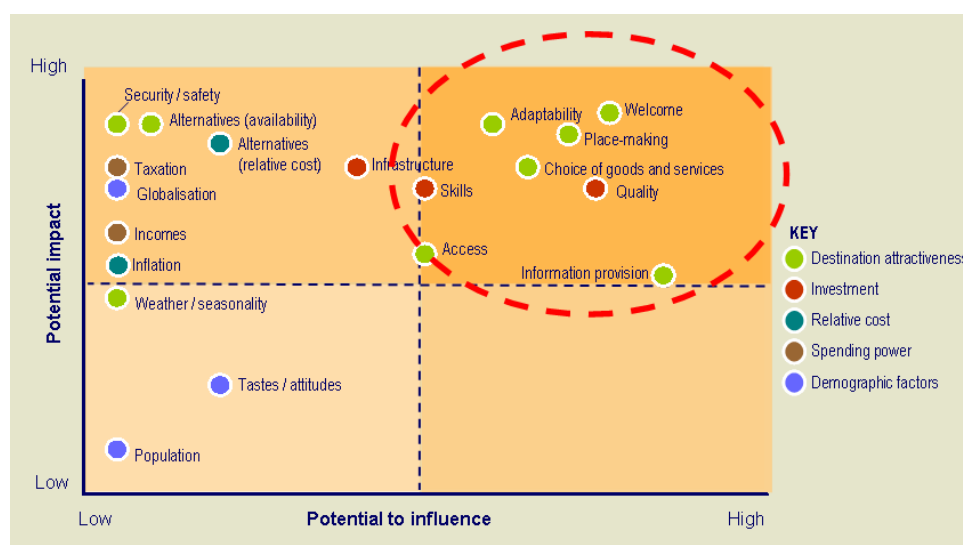
- ⇒ **Relative cost / bilateral exchange rates** – This is a key factor influencing decisions of both domestic and international travellers. The model includes a set of bilateral exchange rates between the pound and currencies of the UK origin and destination tourism markets. Other things equal, a depreciation of the pound relative to other currencies is likely to result in a weaker demand for outbound tourism and higher demand for domestic tourism. At the same time, a weaker pound can help boost inbound tourism.
- ⇒ **Destination attractiveness** – The model includes a destination attractiveness indicator to monitor the relative attractiveness of the UK as a tourist destination over time and to quantify the impact of any improvements made in policy, tourism infrastructure etc. This variable is included to capture trends in medium to longer term.
- ⇒ **Overall Gross Domestic Product (GDP)** – In general, the health of the UK economy – as measured by the Gross Domestic Product – is a main determinant of activity in the tourism industry. This is particularly relevant for estimating and forecasting business travel spending, which is a main component of personal consumption.
- ⇒ **Consumer expenditure** – A main driver for domestic tourism and outbound tourism is the strength of consumer expenditure of UK residents. In the model, ultimately this variable is determined by the level of personal income, wealth and conditions in the labour market. A higher overall private consumption is to translate into higher visitor spending by UK residents at home and abroad.
- ⇒ **Investment** – For the overall value added contribution of tourism activity (under the broader economy concept) the model includes investment in tourism infrastructure (hotels, airplanes, recreation sites etc) as well as public investment in areas supporting tourism (e.g. transport infrastructure). The ultimate driver of tourism-related investment is the overall level of investment in the UK.

Some of the macro-economic drivers have a number of underlying factors which should be considered individually as they will have varying impacts on the Visitor Economy. For instance, the macro-economic driver of 'destination attractiveness' will be driven by underlying factors such as security / safety, weather conditions and information provision / advertising. Each will have different impacts on the Visitor Economy and some are beyond the control of stakeholders whilst others can be influenced to varying degrees.

There are also other important drivers that are not captured through the model but have been considered for this analysis using the TEAM report and other literature.

Figure 7.2.b illustrates these key factors – drawing from both the model and wider research – in terms of their potential impact and potential to influence. Each of the five drivers identified as part of the model have a specific colour in the diagram to denote the issue.

Fig 7.2.b – Key factors for focus



Source: Deloitte analysis.

The two quadrants at the top contain factors where the potential impact is likely to be high whilst the two quadrants on the right hand side contain factors which have a higher potential to influence. The initial focus therefore should be on factors in the top right hand side quadrant – which include the leverage points that may enable some ‘quick wins’ for the Visitor Economy. Although there is relatively limited potential to influence the factors in the top left hand quadrant, they are the factors that will also have a significant impact on the industry so some of these should be monitored / assessed to ensure the industry is able to adapt to future changes.

7.4 Market failures

The Visitor Economy is characterised by a number of market failures that could prevent it from optimising its potential and from delivering wider benefits to Britain Plc – constraining the potential impact of some of the key factors for leverage described in the previous section. This section highlights what these market failures are and how they relate to the Visitor Economy.

What is Market Failure?

*“Market failure occurs when a market left to itself does not allocate resources efficiently. Economists have identified four main sorts or causes of market failure: **

- ⇒ *Market power;*
- ⇒ *Lack of provision (public goods);*
- ⇒ *Externalities; and*
- ⇒ *Asymmetric information (uncertainty).”*

**Adapted from economist.com*

Policy intervention occurs where market failure is deemed serious enough to warrant expenditure to improve (allocative) efficiency. Thus, if the net benefits of intervention outweigh the costs associated with market failure and costs of intervention there is a case for intervention.

Historically the major market failure in respect of tourism has been viewed as a lack of provision of information, through marketing and coordination in a free market environment. Despite being a large industry with significant potential for strong future growth, these

market failures – amongst others – could prevent it from optimising its potential. The range of market failures include:

Information gaps (asymmetries)

Although information is unlikely to ever be perfect, there are significant failures where both consumers and businesses in the Visitor Economy suffer from information gaps.

From the business perspective, British firms know what their offer is and how attractive it is for tourists. What they do not know is the tourists' willingness to visit and pay. Businesses are therefore operating in an environment where there is incomplete information.

From the visitor perspective, tourists know broadly about Britain but have incomplete information about the range of offer and why exactly they should visit relative to competitor destinations. Therefore, without some degree of information provision and co-ordination, bringing the two together is difficult, and a failure exists as there is no incentive to provide information. There are business incentives for firms not to provide such information – see the 'Free rider' problem below. Individuals will invest in acquiring information as it has value, so there is a demand for it and information on the internet through agencies such as VisitBritain and websites such as TripAdvisor are, in part, a solution to this.

Free rider problem

The Visitor Economy is a fragmented and competitive industry. Businesses are likely to consider fellow UK businesses as a substitute rather than a complement. Two hotels on opposite sides of a street are likely to view each other as competitors for business, rather than as complementary suppliers to a global market for tourism. Operators in the Visitor Economy in Britain are likely to see other domestic suppliers as the major threat to market share rather than the tourism offer of other foreign destinations in general.

As a result, businesses (individually or as a group) are unlikely to market a place (country, city or region) to international or domestic tourists – rather they market their own business within that country, city or region.

This is because there is little or no incentive for individual firms to join-up and market / co-ordinate the Visitor Economy for common good if others benefit for free from their actions. This lack of provision can be traced back to the incentives of those that potentially benefit from the existence of tourism information, marketing and coordination and is referred to as the 'free-rider' problem, which requires the provision of a public good.

*"if the number of people willing to pay for the a service is not enough to cover the cost of providing it the service might not be produced at all or in sufficient quantity, even though it would be beneficial for the economy as a whole to have it" **

**Adapted from economist.com*

It is therefore a major market failure within the Visitor Economy that marketing and coordination by the private sector will be hindered due to the free rider problem. The final result in this situation is for no co-ordinated provision of information and, without intervention from Government to correct the market failure, sub-optimal outcomes are likely to be the result.

There is also an international dimension to the problem in that every other country devotes some degree of resource to tourism marketing and co-ordination, with many devoting a larger share of Government expenditure to the industry. When this is the case, it is difficult to see how any non publicly-provided alternative could be arrived at.

As a recent example of the problem in another industry, UK farmers have historically viewed each other as local competitors. However, following the Foot and Mouth outbreak, and its detrimental impact across the agricultural and farming industry, there has been a more co-ordinated approach amongst farmers. However, it ought not to take a crisis event such as Foot and Mouth to develop a joined-up strategy in every instance. Stakeholder consultations during this study indicated a majority view that the Visitor Economy – like farming and agriculture – only benefits from policy in a crisis.

The above refers to the theoretical counterfactual case where a public good is not provided. There is another free-rider issue, which occurs at present due to businesses gaining benefit from the Visitor Economy that are either not aware or do not recognise this spill-over impact and contribute little to local trade associations or wider co-ordinated marketing activity and are thus 'free-riding'.

Externalities

The Visitor Economy also generates positive and negative externalities (benefits and costs for those not directly engaged in market-based tourist activity).

There are significant positive externalities arising from the Visitor Economy – where other businesses and consumers benefit from tourism activity. For instance, from a British residents perspective the 'critical mass' provided by tourist expenditure leads to increased leisure choice – for options such as theatre, restaurants, and heritage. The positive externalities are the increased choice for domestic residents and preservation of UK's heritage.

The existence of positive externalities can lead to too little of the good / service being produced – as there is a lack of incentive for private sector firms to produce these goods and services. Consequently, the lack of incentives to invest in the activity without government support would lead to a level of provision that is below the optimal level for society.

However, there are also significant negative externalities which are likely to exist. The first example is that of congestion, particularly where transport infrastructure is unable to support the visitor traffic in popular destinations.

In addition, the activities in the Visitor Economy can generate negative externalities in the form of environmental costs. For instance, open access to spaces can lead to both economic and environmental overexploitation of the natural environment. This can in turn affect the overall Visitor Economy as demand can be affected by accommodation and environmental quality.

A further negative externality is that tourist destinations may face localised price pressures as stronger demand for goods and services (with both visitors and residents using the goods and services) could generate demand-pull inflation in the Visitor Economy. Both the congestion impacts and environmental costs exacerbate these price pressures in the industry, shifting the goal posts. This raises the question whether intervention should be wider to help the industry.

Skills

Provision of skills in the hospitality industry is a critical success factor for a competitive Visitor Economy as it is crucially important to quality of offer. It is also a key policy driver and identified by HM Treasury as one of the five drivers of productivity and thus economic growth, and so is a key priority for Government and RDAs.

The current skills gap in the hospitality sector represents a market failure. Consultees across the public and private sector suggested that this was a major failing of Britain in comparison to other countries. The skills gap and quality of hospitality relative to competitor destinations is also well documented.

There is a short term outlook in the industry amongst employees. This is evident in the high staff turnover rates which are led by employment in the industry as a stepping-stone into something else, as discussed earlier. In turn this creates little incentive for many firms to provide on the job or vocational training, which leads to a short term outlook in the industry from the supply side. Large businesses can provide specialist skills but the majority of small businesses in the sector are not able to provide necessary skills.

Spatial dimension of market failures (regional and local)

It may be argued that the market functions efficiently by directing (predominantly international) tourists to the destinations that they most want to visit – for instance the busiest tourist destinations such as London, Scotland and The Lakes.

However, this ‘honeypot effect’ can create negative externalities as the impact of this concentration of tourists may create problems such as congestion and environmental erosion.

Moreover, it is not clear whether these destinations are favoured because they are the default ‘places to go’ and because visitors are less aware of other destinations in Britain, rather than being based on informed decisions. The wider distribution of tourists therefore could be a VfM strategy – if it is the lack of information on alternative destinations that precludes tourists from seeing beyond the major destinations in Britain.

Market distortions

Finally, although the existence of market failures creates a signal and rationale for the public intervention, there are cases where such intervention creates further market failures and distortions.

For instance, a market distortion and criticism noted by private sector consultees was the Government’s decision to offer free entry to museums and art galleries across the board with no pricing differential for domestic users and international tourists.

In their view this completely distorts the market and undermines their own offer, although from a broader socio-economic perspective this creates benefits associated with equity and accessibility and is thus designed to remedy another market failure. Therefore, although free entry to museums and cultural facilities could add to the competitiveness offer of the UK Visitor Economy, it highlights the fact that policy intervention can cause displacement effects on other areas of the economy.

The above market failures are specific to tourism sector and a response to correct these needs to be tailored for the Visitor Economy. In addition, there are general policy drivers that influence the outcomes in the sector. However, a policy response to positively influence these drivers (such as transport) would include interventions across the public sector and not specific to the Visitor Economy.

The problem can be overcome by financing the service through tax receipts on the entire population and then providing it ‘collectively’ for consumer, business and broader economic and societal benefit – the provision of tourism marketing and support as a public good.

It is difficult to estimate what a free market solution would look like and therefore how unsuccessful or successful it would be relative to the current collective provision in terms of overall economic impact. However, as section 5.4 testifies all other countries are engaged (most to a much more intensive extent) in collective provision of tourism support in one guise or another. Thus, the more basic rationale for collective provision is to maintain and grow Britain’s current share of tourism (both domestic and international) in what is a very competitive international environment.

7.4.1 Policy barriers/failures

Whilst some of key influencers described in section 7.2 are beyond the control of policy makers, it is necessary to understand that they have significant impacts of Visitor Economy outcomes, and that other policies may exacerbate the effects in certain instances. The subsequent section considers how policy barriers can work to make the Visitor Economy offer and related economic output sub-optimal.

In addition to these influencing factors, stakeholder consultations (both here and in research stream two in the wider review) have identified a number of barriers to the development of the Visitor Economy and thus economic contribution stemming from wider Government policy.

Physical infrastructure of the Visitor Economy offer

Barriers relating to the physical infrastructure in the Visitor Economy can be locally and regionally specific, and generally relate to the provision of transport infrastructure, planning policy and the quality of public realm.

With respect to the Visitor Economy, transport infrastructure was the major limiting factor identified by consultees across both public and private sector. This sentiment ties in with the opinion expressed in most economic development research conducted by Deloitte over the last three years. Most consultees suggested Britain's infrastructure itself was at or near capacity, both with respect to international gateways, major internal networks and at a local level, and that this undoubtedly impacts on the Visitor Economy and local population. One consultee noted that certain rural areas have suffered from disconnect since Dr. Beeching's closure of branch railways in the 1960's and that new targeted provision could really work to assist these areas.¹³

As well as the physical provision, there were questions as to the level of utilisation of infrastructure in 'off-peak' times. The Visitor Economy's peak can correspond to business 'off-peak', and for particular destinations this restricts visitor numbers. As an example trains between London and Brighton are suspended for between 20 and 25 weekend days per year. There are other examples, such as the repeated closure of the West Coast Mainline on Bank Holiday weekends. Whilst there are clear and compelling arguments for prioritisation of '9-5' commuter traffic, this policy nonetheless restricts the Visitor Economy's potential and thus economic effects in key destinations.

Following a series of reviews, moves are underway to ease pinch-points in the planning system at national, regional and local levels, but at present there remain major variations around the country depending on local political agendas and prevailing policy.

Our consultations suggested that in some areas of the country, planners are actively seeking to develop tourist infrastructure, whilst others are opposed to such activity. Whilst this reflects local autonomy and in many cases the interaction of limited supply and excess demand of land for development, such inefficiencies can prevent investment in Visitor Economy related infrastructure by domestic and international investors, in turn limiting the economic contribution of the sector.

Although there are benefits to relax planning laws to benefit the Visitor economy, there are instances where the restrictions through planning laws can also help to retain natural and cultural heritage features that make Britain attractive as a tourist destination.

Finally, public realm is predominantly a local consideration, but the effects of poor 'placemaking' cannot be understated. The physical desirability of a destination is crucial in the visitor decision, with poor or shabby environment likely to impact adversely on visitor numbers.

As is noted later in the report, one response to limited infrastructure and capacity is to target high value-add tourists rather than greater numbers of tourists, although a minimum service level will be required to attract those higher value-add tourists.

Entry costs and border policy

As part of the wider review, the cost and ease of accessing the United Kingdom has been identified as a major barrier to international visits. International visits are in effect purely additional expenditure and therefore represent a substantial economic contribution. The review singled out taxes and the visas as particular costs that prevented higher levels of inbound tourism and limited economic contribution.

¹³ One stakeholder was of the opinion that this countries transport infrastructure is not the problem it is made to be by the media, did not limit tourist potential and that it copes adequately at present. This was a minority view, but the point regarding media treatment and public perception is particularly valid.

Limits on movement

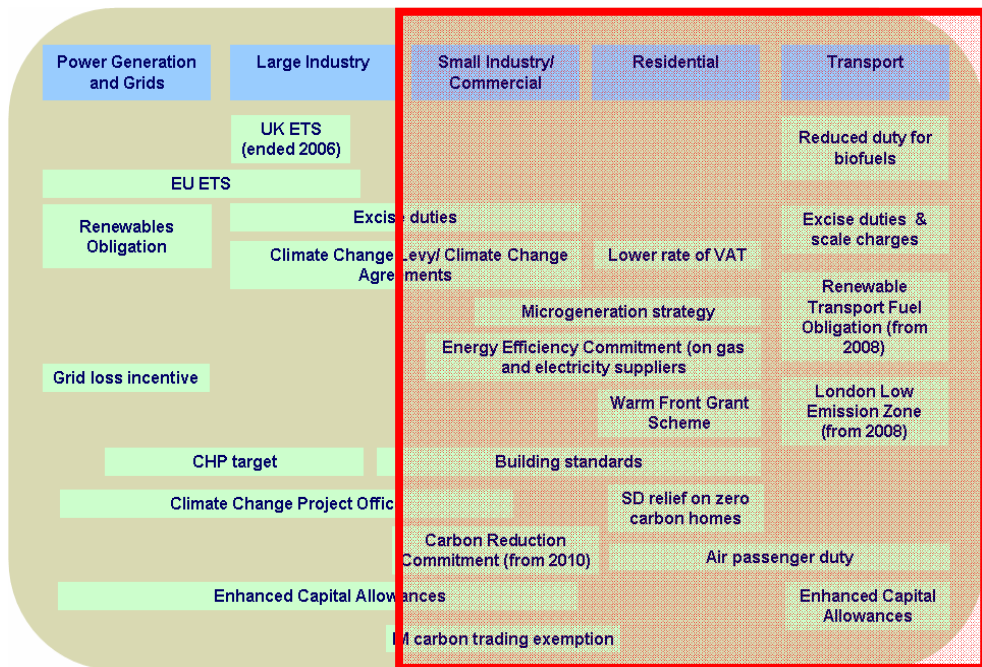
Restrictions on movement, such as those seen in the foot-and-mouth crisis, have a particularly adverse economic impact on rural areas. As chapter four showed, the economic contribution of the Visitor Economy in rural areas is significant and anything limiting tourist numbers in these areas will lead to inferior economic outcomes.

Climate change legislation

The sustainability of the Visitor Economy is clearly dependent on travel both within Britain and to and from international destinations. Climate change is now accepted as fact and the travel and tourism industry will have to work within the context of new legislation.

The diagram below shows how specific current and future legislation will cut across all sectors of the economy. The Visitor Economy is represented by the red box, and excludes legislation targeted at traditional industry and utilities– although it should be noted that climate change legislation will affect the Visitor Economy directly and indirectly through the supply chain.

Fig 7.3.a – Key drivers – policy instruments in Britain and their effects on different sectors



Source: Deloitte Analysis

Whilst the Visitor Economy would have to adapt like any other sector, it is important to consider the differential effects that policy and legislation will have on specific industries, and in particular those that are highly dependent on travel as a necessary input. It is expected that Visitor Economy (as well as other energy/transport intensive) will be disproportionately affected by legislation, although there is little existing evidence regarding the extent of these impacts.

On the positive side, climate change led consumer behaviour changes could mean an increased domestic tourism (import substitution) where British tourists switch from foreign to domestic holidays. This could lead to significant positive impact on the economy given the value (spend) profile of British tourists.

National policy

There is a commonly held perception amongst stakeholders that the Visitor Economy is only prioritised in the national policy agenda when there is a crisis. Only then, they argue, the extent of the Visitor Economy’s contribution to the British economy becomes apparent. Recent examples include the foot and mouth crisis and the aftermath of 7/7.

Reactive policy has assisted the industry in these circumstances and has minimised the adverse economic impact of each incident, but it is agreed amongst stakeholders that a more proactive engagement and prioritisation of the industry would improve outcomes. There exists a perception that the industry is some way down the ‘pecking-order’ and is frequently out-muscled by other sectors.

Whilst it has been noted in this report (as well as in the wider review) that coordination between Visitor Economy stakeholders can be improved significantly, it has also been noted that integration with other agendas and Government departments is limited and could be improved to maximise economic benefits to Britain.

Regional policy

The Regional Economic Strategies have tended to focus on higher productivity industries and clusters. The Gross Value Added (GVA) growth targets incentivise investment in more productive sectors. As a relatively low per-worker-productivity sector, the Visitor Economy has tended to receive lower priority in regional economic development than other industries.

The changing roles of Regional Development Agencies within the Visitor Economy present an opportunity for greater link-up and an opportunity to bring the Visitor Economy development to the fore.

The above policy areas are clearly driven by wider socio-economic objectives. However, any changes to these could have significant ramifications for the Visitor Economy. It is therefore important to ensure that tourism implications are considered as part of policy impact analysis before implementing any changes.

Coordination failures

There are also a number of ‘coordination failures’ where it is agreed that all stakeholders aiming to work for the common benefit of the British Visitor Economy and thus the British economy could be better linked to provide those benefits. These have been identified as part of the wider review but are of relevance to this report – inefficient use of resources by stakeholders limits the potential economic contribution of the sector.

What are the Coordination Failures in tourism?

The wider review has identified inefficiencies in linkage between organisations, with respect to mandates, policies and expenditure on tourism. This suggests that –

“The lack of commonly agreed strategies also applies at the International/National levels (including London) and at the Regional and Local levels in England.”

The review highlights two disconnects that stand in the way of more ‘effective’ and ‘cohesive’ provision of tourism support in Britain. These are:

Disconnect 1: *Between VisitBritain and the other British tourist boards. Greater cohesion is required in international marketing, especially between VisitBritain, Scotland, Wales, and London.*

Solution: *Recognition by the main players that they have more to gain through cooperation, than to lose by continuity of the status quo;*

Disconnect 2: *Between national tourism strategies and policy in England, the Regional Development Agencies and local authorities.*

Solutions: *DCMS could recognise that the current laissez faire attitude is not delivering adequate solutions; DCMS could make specific requests to BERR to endorse the recognition of all co-ordinated aspects of tourism in each RDA’s regional economic strategy. Then in turn, RDAs could require local authorities to deliver more through their agreements; Given a stronger strategic framework, VisitEngland could work effectively with Partners for England acting as the forum for the evolution of forward tourism strategy; Local Authorities could be required to maintain tourism strategies.*

Previous research

Recent work by TEAM Tourism – the UK State of Tourism Report - identifies key drivers of change in the following categories, which are summarised below.¹⁴

- ⇒ **Economics:** rising wealth and standards of living will drive demand for tourism as well as the supply of tourism and thus levels and intensity of competition;
- ⇒ **Politics:** there is a need for facilitation and provision of tourism 'infrastructure' within the context of security, environmental and other concerns;
- ⇒ **Demographics:** the ageing population and a trend towards 'time-poverty' will contribute to a shift towards activity rather than location-based decision making;
- ⇒ **Sociological:** – changing customer values, attitudes and beliefs will drive demand, and these will be particularly sensitive to the impact of climate change;
- ⇒ **Environmental** – Climate change will have a profound impact both through the legislation designed to offset it and the way in which this will impact consumer choices in tourism; and
- ⇒ **Technological** – Low Cost Carriers and Information and Communications Technology (primarily the internet) will change demand through the more efficient provision and usage of information.

Deloitte research

Deloitte, examining value generators in the hospitality and tourism sector, have identified five 'Mega-Trends' – macro-level drivers of change – that will impact the industry and thus the British Visitor Economy over the medium-term.¹⁵ These are:

- ⇒ **The next big thing:** Three emerging markets stand out – China, India and the Gulf States – both as destinations in their own right and also as markets for British inbound-tourists and as such present both threats and opportunities;
- ⇒ **From East to West:** Global passenger numbers are expected to increase sharply from 1.6 billion now to 2.3 billion in 2010 and it is anticipated that routes to/from India and China will capture 15 per cent of this growth;
- ⇒ **The Generation Game:** Although World population should exceed 9 billion by 2050, less than 6 per cent of that growth will come from 'developed' countries. Within these countries the baby boomer transition into the high value 'silver' economy should mean Europe remains the world's number one tourist exporting region – 730 million travellers by 2030;
- ⇒ **Brand is the way forward:** in hospitality in future, tourists will make decisions based are 'brand' rather than simply on location choice;
- ⇒ **Technology Playing Catch-Up:** The industry has historically lagged in terms of technology and R&D expenditure. This will have to change to preserve competitive advantage both for firms and government agencies vying for a share of the 'pie'.

Climate change is another driver of change, treated separately, likely to impact on all the above factors.

¹⁴ See Chapter 7 of TEAM report for further details.

¹⁵ Adapted from Deloitte 'Hospitality 2010: A Five-year Wake-up Call' 2006

Too Hot to Handle? The Hospitality Industry Faces up to Climate Change

Climate change will affect tourism and hospitality on a number of levels including:

- ⇒ **Direct Impacts:** as the principal driver of global seasonal demand and a driver of operating costs changes in temperature will mean significant costs and benefits for UK tourism;
- ⇒ **Indirect Environmental Change Impacts:** would generally reduce the global supply (and demand) of tourism destinations through water availability, disease, coastal erosion, damage to infrastructure and other related factors;
- ⇒ **Indirect Societal Change Impacts:** could reduce demand through a reduction in discretionary wealth and effects on the propensity for travel. Associated political unrest could also limit destinations;
- ⇒ **Destination Vulnerability Hotspots:** there will be winners and losers as new tourism destination emerge in line with shifting temperatures and weather patterns;
- ⇒ **Destination Level Adaptation:** Tourists have the most adaptive power in the relationship between tourist and destination as they choose where to visit. Suppliers are less able to adapt and respond, and accordingly may need continued and targeted support to preserve current levels of activity;

In an interventionary capacity, there is a real case to be a 'first-mover' to gain a competitive advantage. If, for instance, climate change has a profoundly negative effect on traditional Mediterranean destinations, will Britain be adaptive enough to both retain UK outbound-tourists and attract in-bound tourists to Britain? Are policy makers thinking about this already?

Adapted from article of same name appearing in WEF's T&TC Report, 2008

Given the potential afforded by rising wealth in China and India it is important to understand how these markets can be best leveraged. As well as new threats and opportunities from these countries, the Gulf States and particularly the UAE are important. In the UAE they are currently working to quadruple their tourism capacity and are looking to explicitly target high-value UK residents and UK-bound tourists. At this top-end of the spectrum Russian tourists are currently a very lucrative market for the UK, but this could soon change.

Other countries are backing major developments and moving away from the traditional 'sun, sand and sea' offer. Prime examples include Turkey where the focus is broadening and Greece where eco-tourism as well as the extensive cultural offer is being leveraged in an attempt to secure larger market share. In future, some of the longer-haul destinations are more likely to come into play with changes in aerospace technology and aircraft development, examples include Singapore and Macau.

A key point is that in the face of the above Britain is not developing at the pace of other destinations. Accordingly, the stock of attractions will be little different ten years hence in terms of Britain's tourist infrastructure and offer but there will be significant changes elsewhere. Trump International Golf Links Scotland is an example of planning challenges for a major development.

Overseas, there are instances of developers offering a development idea to a number of countries/locations with those areas effectively competing for the right to have the development – rather than the traditional method of a firm applying for planning permission or the country deciding that it wants a development and tendering for it.

The interaction of changes in the Visitor Economy offer and changes in population, wealth, and propensity to travel, will determine longer-term outcomes. And, if an anticipated increase in the tourist potential of China and India does not materialise, or climate change restricts growth, will the Visitor Economy become a zero-sum game which results in 'cannibalisation of a fixed pie'?

Given that other countries are further developing their tourist offer in infrastructural and destination terms, the key question moving forward would be how can Britain retain and develop its current strong position, remain differentiated, attract high value-add tourists and continue to contribute to Britain Plc in economic terms.

The importance of first mover advantage:

With respect to emerging economies it is anticipated that 'early adopters' – perhaps as little as 5 per cent of populations of China and India – will hugely influence the remaining 95 per cent of the population and subsequent generations through their lifestyles. Long-term habits will be formed in the short term.

Thus by targeting not only high value add tourists, but also those who are likely to develop lifestyle norms for their national cohorts, before other nations do, it may be possible to unlock significant future tourist flows.

Conversely, if Britain lags behind other developed tourist economies in targeting these 'early adopters' it may be difficult to maintain future market share, which could limit potential economic contribution.

8 Policy considerations

With other competitor countries further developing their tourist offer, in infrastructural and destination terms, a key consideration for the future is how can Britain retain and develop its current strong position, remain differentiated, attract high value-add tourists and continue to contribute to Britain Plc in economic terms.

The following have been identified as areas for future consideration:

- **Maximise volume and value of future economic contribution** – A successful future for the Visitor Economy implies targeting both the quantum of tourists as well as high value tourists. Targeting ‘value’ will increase benefits without contributing to congestion in a crowded country, but relying on artificial barriers in an attempt to discriminate against lower value tourists in a country like Britain are unlikely to work. Thus, the targeting of volume will also be necessary to complement this. Targeting ‘volume’ also means maximising the chances of significant new markets adopting social norms that would increase the likelihood of visits to Britain – and at the same time leapfrogging these new target markets into a high value category from the start. As an example targeting ‘early adapters’ from emerging economies may help to maximise future economic contribution.
- **Ensure the market is able to adapt** – It will also be important to understand how the playing field is changing – adaptability is paramount with Globalisation, Climate Change and emerging markets (both destinations and ‘export’ markets) presenting major challenges to the industry. Together these drivers create a volatile mix with some commentary suggesting that sustained high fuel costs may put the brakes on Globalisation. The scale and pace of change means current contribution cannot be assumed to be an indicator of future contribution to Britain Plc. If tastes do not change and Britain retains its attractiveness as a cultural and historical destination then future economic contribution is likely to be equivalent, but if future drivers, policy barriers and unanticipated events cause a step-change in tastes, the effects could be profound for both the tourism industry and the wider Britain’s economy.
- **Support long-term drivers of economic growth** – In the long term factors that affect productivity – namely infrastructure, innovation and skills – will need to be key foci for the sector. Higher skill levels, in particular, are associated with higher rates of participation and labour force utilisation leading to stronger economic outcomes for the economy as a whole.
- **Co-ordination of policy and delivery amongst agencies** – Joined-up action is key to supporting the above three aims. Join-up with RDAs is likely to be critical in this context. Pre-Sub-national Review (SNR) agencies involved in the Visitor Economy can aid RDAs in delivery against their major themes for intervention, and when the regional planning and transport remit passes over to RDAs in the medium-term it will be possible for RDAs to support the Visitor Economy through fit-for-purpose spatial planning. The major themes for RDAs are summarised below with respect to relevant Visitor Economy issues outlined in this report.

Major Theme	Link to Visitor Economy
Economic Development & Regeneration	Growth generation and commercial rationale for some regeneration schemes.
Business Efficiency, Investment and Competitiveness	Highly competitive industry with higher than average gross and net business registrations. Critical mass benefits to business and consumer.
Employment Promotion	Access to lower end of labour market and provision of employment in rural and coastal locales.
Skills Development	Key requirement for the Visitor Economy, improvements in which can help RDAs.
Contribution to sustainable	Positives and negatives, in respect of heritage

development	preservation and climate change/aviation.
Transport & Planning	A concern of stakeholders with respect to industry capacity and a critical success factor.

The next stage for Visitor Economy stakeholders is to work with RDAs more closely on the above issues.

Ultimately working together, targeted marketing, adaptability and investing in long-term drivers will help the Visitor Economy remain competitive, grow and in doing so strengthen its contribution to the UK economy.

9 Annex A - Technical methodology

I. Data/Previous work

The model feeds from two main data sources:

Macroeconomic data on the UK economy. The first group covers the key elements of aggregate demand and supply conditions – including employment, the current account, and key monetary variable such as exchange rates, prices etc. Here, also the model takes into account macroeconomic variables of the origin markets for UK visitors that drive outbound demand in those countries.

Tourism-related data. These include available tourism statistics, including series on international arrivals, spending of foreign visitors and average stay, and basic information on domestic tourism demand (e.g. number of trips, spending and same-day visits).

Sources:

Inbound spending

For the purpose of calculating VisitBritain's UK Tourism Market, spending of international visitors is sourced from the International Passenger Survey (IPS). In addition, passenger fares will be limited to air transport.

However, to be consistent with the methodology guidelines of the First Step TSA project – as well as the UNWTO and WTTC TSA approaches – inbound spending is sourced from the UK Balance of Payments data.

Domestic spending:

Spending by UK residents in the UK is sourced from VisitBritain, with a breakdown into: same-day visits, overnights and second home rents. The aggregation of these three components gives the total resident travel and tourism spending (a variable called VBRSDTT! in the model). Spending during same-day visits is sourced from the England Leisure Visits Survey (Natural England), scaled up to the UK by VisitBritain.

Due to the methodology differences in the processing of the data on domestic tourism, the first data point is 2005. Prior to that year, we apply the rate of growth of Oxford Economics' existing estimates for domestic tourism to complete the historical series.

Other variables/parameters

When appropriate, we take into account in the estimation process valuable information included in the "UK Tourism Satellite Account: First Steps Projects" prepared by the Cardiff Business School on behalf of the Department for Culture, Media and Sports (DCMS).

II. Measurements/Definitions

We approach the measuring of the tourism contribution from the demand side and, in a second step, translate demand-side estimates into supply-side measures such as employment and labour compensation, operating surplus and net indirect taxes and subsidies. In particular, the model for the UK takes account of the following aspects of the tourism contribution:

Private consumer demand for travel and tourism. This includes spending by UK residents attributable to travel and tourism, both at home and abroad.

Business travel. This comprises both government and corporate travel expenditures (at home and overseas).

Foreign visitor spending in the UK and overseas travel by UK residents. These items have traditionally been recorded in the UK tourism statistics, and form a clearly identifiable part of the balance of payments accounts.

Imports of tourism-related goods. Visitors to the UK buy goods imported from abroad while tourism-related businesses (such as travel agencies and hotels) purchase imported materials and capital goods such as automobiles, aircraft, etc in order to provide services to their customers.

Government spending on tourism. This includes the resources devoted by the central government, regional government, local authorities and other public sector bodies to support travel and tourism in the country.

Tourism-related investment. This estimate takes into account both residential structures such as vacation properties and non-residential structures such as hotels and convention centres; equipment items such as airplanes, passenger trains and ships, and rental cars; and infrastructure spending such as on roads, airports, amusement parks and other tourist amenities.

Tourism-related value added and employment

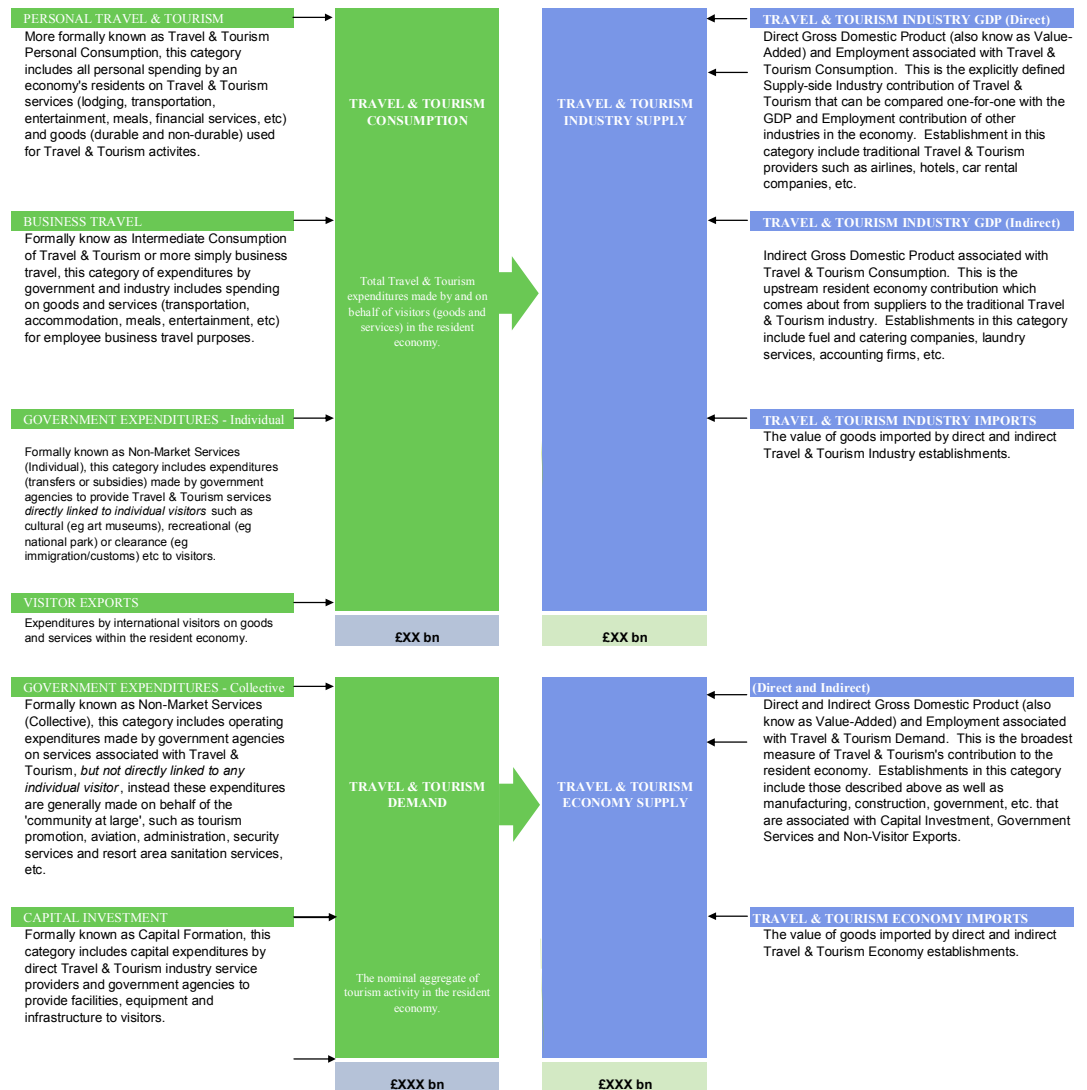
The following figure describes the process to derive value added and employment estimates from aggregate demand components.

Fig A1 – TSA concepts, demand and supply accounts

UK TSA CONCEPTS & STRUCTURE

DEMAND-SIDE ACCOUNTS

SUPPLY-SIDE ACCOUNTS



Estimates for the value added and employment contributions are provided according to two different measures. First, a core tourism concept that focuses on the direct contribution of tourism activities (i.e. the value added generated by the provision of tourism-characteristic goods and services). This measure is in line with the concept used by the UNWTO TSA methodology. Second, a broader measure that also takes into account indirect effects (via the supply chain), as well as the impact of capital investment and collective government expenditure on behalf of the tourism industry. Figure A2 illustrates the different concepts.

In the diagram the largest circle is inclusive of the smaller circles. As an example, the total tourism economy is inclusive of direct and indirect activity, as well as investment goods. Indirect activity, however, does not include direct activity and is represented only by the area surrounding the direct impact.

The UK Tourism Model has two main measures of employment matching those of value added: the narrower Direct Industry Employment and the broader Economy Employment. Note that employment figures refer to jobs (including both employees and self-employed).

The estimation process relies on UK Input-Output information (I-O) - this is sourced from Oxford Economics' Industry Model. The crux of the procedure is to calculate tourism weights by industry from tourism-related final demand and output. Where final demand aggregates are allocated across industries with the use of the I-O framework. These weights are then used to calculate employment, indirect taxes, wages and salaries.

In order to obtain Full Time Equivalent (FTE) estimates (this is a separate variable in the model: VBEMPDIRFTE), a conversion factor of 0.84 is used. This factor is calculated from employment figures provided by the TSA First Step Project and the DCMS.

III. Model structure

The model consists on an interrelated set of equations (behavioral relationships and identities) to estimate, within a framework consistent with the National Accounts, the tourism contribution to the overall economy in terms of value added and employment and taxation. Broadly speaking, there are four main modules containing over 400 variables interconnected by an equal number of equations or identities.

1. Macroeconomic and industry variables

This module includes a detailed set of macroeconomic variables including:

Aggregate demand components

Overall GDP and value added by industries

Employment, overall and by industries

Overall wages, profits, taxes and subsidies

Key prices such as CPI, exchange rates and interest rates

Both the historical data and the forecast for the above variables originate in Oxford Economics' macroeconomics and industry models and are fed into the UK Tourism Model. The macro and industry variables are exogenous to the tourism model.

2. Tourism-related demand variables

This is a key module containing relevant tourism data for visitors' flows and spending. When no complete hard evidence exists (e.g. spending by residents on business trips, and tourism-related imports of goods), the model implements a procedure to make an estimate.

Consumption variables, including:

- Inbound and outbound flows (spending and number of trips/nights)
- Domestic tourism (same-day, overnights and second-home rents)
- The above three concepts define the size of the tourism market (as defined by VisitBritain)
- In addition to this, the model includes the following demand items:
- Government spending in support to the tourism industry – split into individual and collective.

- Investment and Imports of goods

3. Tourism-related supply variables

These variables are generated with the help of Input-Output analysis. They are calculated according to the “Industry” and “Economy” definitions (differentiating between direct and indirect effects).

- Value added/GDP
- Employment
- Labour compensation
- Operating surplus
- Depreciation
- Net taxes

4. Other

The key tourism measures are presented in current and constant prices (using 2000 as the base year) as well as a share of comparable macroeconomic variables (.e.g. share of tourism employment in total employment).

IV. Equation specification

In this section, we concentrate on the description of the logic and the specification of the forecast of inbound/outbound spending and the domestic tourism – as these are crucial for the estimation of the tourism contribution (narrow concept) and the scenario analysis.

The approach adopted to the forecast of international tourism flows reconciles origin trips (the base for estimating potential demand) and destination visits (competitive-based supply).

There are key points to highlight:

Tourism Demand for each market is derived from macroeconomic trends and forecasts from the Oxford Economics global forecasting model. Each destination’s share of the total global outbound demand is calculated according to both price (bilateral exchange rates) and non-price competitiveness factors (e.g. income in each origin market).

The aggregation of all outbound spending by country over the forecast period provides a measure of growth potential of tourism demand worldwide. The UK outbound spending is estimated together with other origin markets.

Once the size of the expected “tourism cake” is estimated, then the model allocates it to competing destinations according to competitiveness and supply factors. Inbound travel spending is calculated for each market as each destination takes a share of outbound spending accordingly. This gives the estimation for UK inbound spending.

The economic rationale here is that each destination/country competes to attract a given overall spending of potential visitors. Two main factors are considered:

i) the destination’s exchange rate (inbound spending is inversely correlated with the strength of that destination’s currency);

ii) and the destination’s attractiveness.

The latter is measured by an index developed in conjunction with the World Competitiveness Forum which tracks a series of factors relating to attractiveness

over time. Finally, visitor flows are derived from inbound spending by market incorporating both short-run and long-run relationships.

Outbound Spending equation

The UK outbound demand is forecast according to the following generic equation:

$$\text{Outbound Spending} = \text{Growth in Economic Drivers} - 0.4 * (\text{Last period} - \text{Long-run estimate})$$

{Consumer Spending}	{Consumer Spending}
{GDP (GDP)}	{GDP (GDP)}
{Exchange rate}	{Exchange rate}
{External Shocks}	

This equation implies that:

Personal sector income and expenditure is strongly correlated with outbound leisure tourism expenditure.

The influence the business spending component of outbound spending is represented within the model by GDP, which also shows strong correlation with outbound spending.

Exchange rate movements are modelled to account for changes in wealth accumulated within an origin. The equation includes long-run and short-run dynamics to allow both growth and levels of spending to be consistent with the fundamental economic relationships.

- i) Short-run. Spending growth in the first years of the forecast period is dominated by growth rates in key identified economic drivers.
- ii) Long-run. Forecast growth rates in the medium to long-term are consistent with spending levels according to the fundamental economic relationships.

Inbound Spending equation

UK inbound spending is forecast according to the following equation

$$\text{Inbound Spending} = \text{Growth in Drivers} - 0.4 * (\text{Last period} - \text{Long-run estimate})$$

{"Potential" Spend }	{"Potential" Spend}
{Exchange rate}	{Exchange rate}
{External Shocks}	{Attractiveness}

Two points to highlight:

The real exchange rate in each destination is included to determine the value of wealth derived in key origin markets relative to that in the destination. This takes into account differences in price levels in destinations.

The inclusion of the destination attractiveness indicator (jointly developed by the World Economic Forum and Oxford Economics) makes it possible to monitor the relative attractiveness of the UK as a tourist destination over time and to quantify the impact of any improvements made in policy, tourism infrastructure etc.

Domestic demand equation

Visitor spending by residents in the UK is forecast according to the following equation:

$$\text{Domestic spending} = \text{Overall consumption} + \text{Relative prices (services/non-services)} + \text{Exchange rate effect}$$

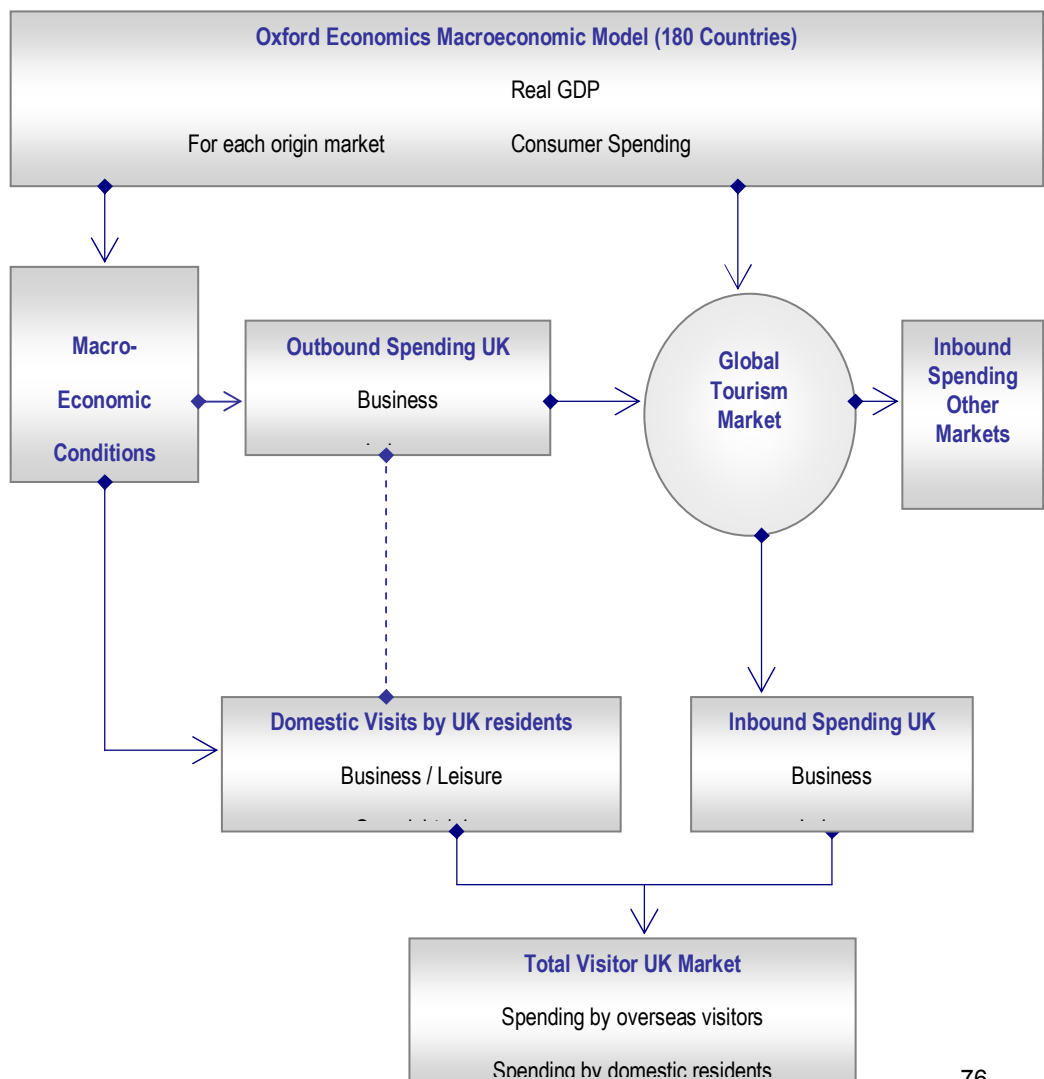
The equation incorporates three key factors determining domestic tourism demand:

First is the overall level of consumption (determined in the macroeconomic model). Other things being equal, a higher overall private consumption is to translate into higher visitor spending by UK residents at home. The relative cost between the service sector (as a proxy for the cost of tourism-related services) and the non-service sector of the economy. This accounts for substitution effects affecting UK residents' spending decisions.

The exchange rate effect. Other things equal, a depreciation of the pound relative to the currencies of the UK main origin and destination tourism markets is likely to result in a weaker demand for outbound tourism and higher demand for domestic tourism. An appreciation of the pound will generate an effect in the opposite direction.

The following diagram shows how the three tourism spending flows (inbound, outbound and domestic) are related in our modelling approach. Note that there is a link between outbound spending and domestic spending (dash line), reflecting the exchange rate effect.

Fig A3 – Modelling approach to the estimation of the UK Visitor market



10 Annex B – Model outputs

The model generates forecasts over a twelve-year horizon (i.e. to 2020), though the outcome of the project focuses on a five-year horizon. Moreover, it provides an effective tool to perform scenario analysis to assess the implications of changes in key policy or exogenous variables to the tourism industry and the overall economy (e.g. the impact on the UK current account).

All the derived travel and tourism forecasts are based in the first instance on Oxford Economics' Macroeconomic Forecasting Service. We use this consistent view of the global outlook to produce internally consistent forecasts within the TSA framework. Using these forecast aggregates, additional variable detail required to calculate tourism estimates will be obtained by projecting the trends of the historical shares for each of the aggregates.

In what follows we present the main results for the estimation of the UK tourism market and the overall contribution to GDP and employment. The following table summarises the key VisitBritain measures for the UK Tourism Market. It starts with the benchmark value of 2005 and goes up to 2018 to provide a long-term trend.

Table B1: UK Visitor Economy, 2006-2018

UK Tourism Market	2005 £ bn	2006 £ bn	2007 £ bn	Forecast	
				2008 £ bn	2018 £ bn
Spending by overseas residents					
Visits to the UK	14.3	16.0	16.0	16.3	34.2
Fares to UK carriers	2.8	2.9	2.8	3.0	6.3
Spending by domestic residents					
Trips of 1+ nights	22.7	21.0	21.2	20.8	28.8
Tourism day trips for leisure	44.3	44.8	45.4	45.1	62.7
Rent for second ownership	0.9	1.0	1.0	1.0	1.1
Total Spending					
Outturn prices	85.0	85.6	86.4	86.4	133.1
Real growth (%y-y) ^{1,2}	13.7	-1.9	-2.2	-3.3	2.1

¹ Current figures deflated by the UK GDP implicit deflator
² 2018 figure shows average annual real growth rate over the period 2009 to 2018

As was mentioned before, spending by overseas residents in the UK is sourced from the IPS, and excludes spending by foreign students that stay less than a year in the UK. This means that the IPS figures are below those published by the UK Balance of Payments (under “travel spending”). For instance, in 2005 the IPS reports £14.2 billion for travel spending while the Balance of Payments has £16.9 billion.

Also “fares to UK carriers” only includes those paid by air passengers and a further adjustment is carried out using tourism supply ratios from the First Step project. Regarding spending by domestic residents, it excludes spending associated with outbound travel done before or after an outbound trip.

By contrast, in line with the First Step report and the UN TSA RMF, the calculation of the overall tourism contribution to the UK economy presented in table B2 includes spending by foreign students resident in the UK for less than a year¹⁶, as

¹⁶ Though in practice the TSA First Step calculations source foreign visitor spending from the IPS, so excluding spending by foreign students.

well as fares paid by passengers using other transport services such as sea and railways. Moreover, for the calculation of domestic spending outbound-related spending is included.

Table B2: UK Tourism Contribution, 2006-2018

	2000		2007		Forecast			
	Absolute £ bn	Relative % macro total	Absolute £ bn	Relative % macro total	Absolute £ bn	Relative % macro total	Absolute £ bn	Relative % macro total
UK Tourism Contribution								
Visitor Exports (inbound = travel spending + fares)	19.8		23.4		24.2		50.5	
Personal Travel & Tourism (domestic + outbound)	84.8		108.9		110.7		179.3	
Business Travel (domestic + outbound)	19.7		24.8		25.9		43.6	
Government Expenditures (individual + collective)	5.1		8.2		8.7		14.7	
Capital Investment	20.1		22.5		23.3		41.5	
Travel & Tourism Demand	149.5		187.8		192.7		329.7	
Outbound tourism spending (fares + travel)	31.0		44.0		46.5		85.8	
FS Direct Industry GDP (in line with First Step TSA)	39.8	4.1	46.5	3.4	46.4	3.2	75.1	3.1
Direct Industry GDP (includes gov. individual spending)	42.8	4.5	51.6	3.7	51.8	3.6	84.2	3.5
T&T Economy GDP (broader concept)	96.7	10.1	114.4	8.2	115.0	7.9	187.6	7.8
Direct Industry Employment (jobs)	1,322	4.5	1,358	4.3	1,335	4.2	1,407	4.1
T&T Economy Employment (jobs)	2,762	9.3	2,653	8.4	2,586	8.2	2,816	8.2

In terms of the value added contribution, there are three measures:

FS Direct Industry GDP: this measure is consistent with that used in the First Step TSA report.

Direct Industry GDP: It includes government individual spending in support of tourism in the UK.

T&T Economy GDP: this is a broader concept that also makes allowance for tourism-related investment and government tourism-related collective spending.

Note that there are some differences between our estimates for the value added contribution in 2000 and those in the First Step report (e.g. 4.1 per cent vs. 3.8 per cent). This is due to the use of balance of payments figures on travel spending – which are higher than those reported in the IPS – and differences in the estimation of tourism-related imports. However, both estimates are consistent in terms of both levels and growth.

Regarding the value added estimates, we include spending in same-day visits sourced from VisitBritain. In 2005, due to methodological changes in the measuring of such variable there was a significant increase in daytrip spending – up 38 per cent to £44.3 billion – which is fully reflected in the calculation of the contribution as well as the tourism market.

The final two rows in table B2 present tourism-related employment figures. The first aggregate (Direct Industry Employment) is consistent with the narrow value added concept, while the second (T&T Economy Employment) matches the border value added concept. They are expressed in terms of jobs.

The 2000 direct employment estimate is in line with the First Step results (1.3 million). Our estimate for 2007 is 1.36 million jobs. This figure is about 6 per cent below the DCMS' latest estimate of 1.45 million. The source for the discrepancy is largely due to the estimation of the impact of 9/11 and its aftermath. The UK tourism model has a larger fall in employment during the period – in line with developments in value added - with a recovery starting to be felt in 2005.

In this publication, references to Deloitte are references to Deloitte MCS Limited, a subsidiary of Deloitte & Touche LLP.

Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu ('DTT'), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other's acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT. Deloitte & Touche LLP is authorised and regulated by the Financial Services Authority. For more information, please visit our website at www.deloitte.co.uk

This report has been prepared solely for the Addressees as defined in the Contract. No other party is entitled to rely on our report for any purpose whatsoever and we accept no liability to any other party who is shown or gains access to this report.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication.

Deloitte MCS Limited would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte MCS Limited accept no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© Deloitte MCS Limited 2007. All rights reserved. Deloitte & Touche LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and is authorised and regulated by the Financial Services Authority.

Member of
Deloitte Touche Tohmatsu