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Sir Michael Lyons
Lyons Inquiry into Local Government Funding
Room 3.12
LONDON
SW1A 2HQ

Dear Sir Michael

Local Government Funding – a tourist bed tax?

I am writing, having consulted industry representatives and other stakeholders, to give you our considered view of the proposal for a tourist bed tax as part of the local government funding review.

EETB was set up under the Development of Tourism Act, along with the British Tourist Authority, English Tourist Board (now amalgamated as VisitBritain) and other regional tourist boards. EETB is a company limited by guarantee, not a government agency, covering the six counties of the East of England. It is a business-led organisation, harnessing resources from the EU, government, regional agencies and local authorities to deliver services on behalf of the tourism industry. We play a key role in building understanding and support between the different organisations working in the industry or having an impact on it.

We recognise the financial difficulties faced by many local authorities and are concerned about the impact these are already having on non-statutory services such as tourism. We are convinced that a tourist bed tax of the kind being discussed would be anti-competitive, counter-productive and unworkable. It should not be seriously considered, for the following reasons.

Anti-competitive

Tourism is a fiercely competitive industry and visitors are price-sensitive. Britain is already perceived as expensive, partly because of the continuing strength of the pound.

Our VAT rate is already among the highest in Europe at 17.5% against an average of 8%, making it hard to compete for overseas visitors. This proposal would do nothing to encourage overseas visitors and would give UK consumers another reason to holiday abroad, at a time when the UK has slipped from 5th to 7th in world tourism rankings and the balance of payments deficit is growing.

If local areas were allowed to levy local taxes at differential rates, the UK market-place could become artificially distorted. Some regions would become less competitive against others

where government grants were higher, council tax payments were traditionally higher and local authorities chose to levy tourism tax at a lower or zero rate.

Counter-productive

Visitors do, of course, consume public goods when they visit a district. But they also contribute hugely to their cost - by paying for their hotel, their meals, their visits to attractions and theatres, parking and so on – generating the revenue that enables the businesses they use to employ people, pay taxes and pay business rates, thereby supporting the local economy. The tax picture should be looked at in the round, taking into account all the charges currently levied on businesses and the contribution those businesses make to their local economy.

Tourism revenue amounts to around £5billion per year in the East of England, and most local authorities have woken up to its value and are using it as a catalyst for regeneration. Many are spending large sums of money to bring visitors to their area, because they recognise the net benefits of tourism. This proposal runs totally counter to that philosophy, and runs the risk of damaging local economies and the employment and revenue tourism brings. Local authorities should be more active in publicising the benefits of tourism to their council-tax payers, rather than 'stinging' the visitor because it seems the easier political option.

The LGA has made a commitment, through the national quality review, to encourage local authorities to adopt inspected-only policies for tourism accommodation. It will be even more difficult for local authorities to convince businesses that it is appropriate to insist on a paid-for inspection before the businesses can feature in local marketing activity if these same authorities are at the same time levying a new tax on these businesses or their guests. Tourism bodies are trying to encourage the industry to invest more in their businesses and their staff – this proposal will impede that good work by placing another anti-competitive burden on tourism businesses.

Unworkable

There would be great difficulty and expense in collecting the tax. It has been mooted as a bed tax – would it just apply to VAT-registered accommodation and be collected alongside VAT? If so, it would further distort pricing and be an unfair additional levy on VAT-rated businesses. VAT is already effectively a bed tax levied on the service provided. If not, then non-VATable businesses would have to set up new procedures to collect the tax. The costs of collection could well exceed the value of any tax collected.

Why should the accommodation sector be the only sector to be made to contribute, when so many other businesses benefit from tourism (attractions, transport, retail businesses etc)? Overnight visitors already contribute more to the economy than day visitors, who will not be taxed – this is demonstrably unfair.

Would the tax be levied on every bed night, whatever the purpose – for example, relatives visiting for a wedding or a funeral, or business visitors? How do you decide who is a tourist and who is not?

Most tourism businesses already pay business rates, so are already contributing to local government revenue. The proposals also include a locally-levied business rate – potentially, a double whammy for tourism businesses. This is clearly discriminatory – why should tourism businesses be asked to levy a tax on their customers in a way that other businesses are not?

Finally, a tourism tax has already been found to be unworkable in other countries.

There is a great deal of concern among the industry, in this region as elsewhere, about the threat to tourism services provided by local authorities due to budgetary constraints. The key role that local authorities play in supporting the infrastructure for visitors and residents – everything from beach cleaning to the provision of Tourist Information Centres and marketing support - is valued by the industry and vital to England's continuing competitiveness.

If there was a possibility of any tax revenue raised from visitors being hypothecated into supporting these services, then there may be merit in giving the proposal serious consideration. This is unlikely to happen, however, meaning that tourism businesses would be asked to contribute more to their local authority at the same time as seeing the diminution of the services they most value.

There is an increasing need in these circumstances for local authorities to work closely with regional development agencies and tourist boards and examine their expenditure on tourism to ensure that it is cost-effective. There is a need for clarity about what needs to be done in support of tourism and which agency is best-placed to perform the various roles. We are engaging in debate on this with local authorities in these regions, and it would be very helpful if the inquiry could endorse this approach as part of its consideration of the financial issues.

Yours sincerely

Tess Wright
Managing Director