

HM Treasury consultation draft on Planning Gain Supplement, December 2005 – Tourism South East response

OVERVIEW

The principle objective of the PGS is to gain revenue by taxing new housing development. However, non-residential development is not excluded. Whilst tourism development is not highlighted in the PGS, it may be implied that new development for which planning permission is granted would be included in this tax regime.

On that basis therefore, it appears that tourism development will be liable to PGS.

The Report does not prescribe specific rates of tax against specific types of qualifying development, though it makes broad assessments and suggests that rates 'would not be punitive'.

SPECIFIC COMMENTS

- 1 The first issue is whether tourism development should in principle be included as business development that will need to pay PGS. Tourism is promoted by the Government as a form of economic activity that is of considerable benefit to the country as a whole, and to the individual regions and local areas. Tourism development and growth and improvements to the region's tourism products needs to be strengthened and this means that financial resources need to be maximised for providers. ***Where owners and operators of tourism facilities are forced to 'pay to develop', this may have a prejudicial effect on the viability of the development projects, and the decision to develop at all.*** Margins may be relatively small and returns may be yielded over relatively long-terms (unlike the housing industry where development and house sales will tend to generate a much shorter-term income stream). The Government is therefore invited to look carefully at its core principles of supporting and encouraging tourism development against the proposals set out in the report. It is considered that as tourism is a vital source of employment and economic activity in many parts of the region (some of which suffer relatively high levels of social and economic deprivation) the Government's aim must be to demonstrate its continued commitment and to give the tourism industry its maximum level of support. ***To apply PGS to tourism development would not appear to be***

consistent with the Government's current policy to promote tourism growth and potential.

- 2 At the moment, it is likely that only the providers of larger scale tourism development would be required to enter into planning agreements to fund or provide site and off-site works, including environmental, highway, or social facilities. It is unlikely that smaller projects would be required to provide anything more than limited 'site-orientated' facilities (if any at all). However, under the PGS proposal, even modest-scale proposals will be required to pay tax which places a financial burden on tourism providers that does not exist at present.

- 3 ***On the basis that employment and economic development will be taxed under PGS as a principle, this should be at a lower percentage rate than new housing development. It is felt that this should be no more than 2.0% of the value of the development and that a clearly defined 'qualifying threshold' should be identified – we suggest for development projects whose value is £100,000.00 and above.*** This will enable smaller levels of tourist development to be implemented without the additional costs of PGS. It will also mean that for the smaller providers, it will avoid the need and cost to prepare validated start notices; additional inputs to self assessment returns and two land valuations, all of which will be mandatory before development may commence. This of course would be over and above other planning requirements through conditions and legal agreements. The point must be to *ease the burden* on this sector of the economy *not to add to it*.

- 4 As it stands, the Report implies that there are no obvious exclusions to PGS “any applicant for planning permission to expand or develop new premises” will be included, although it is suggested, a minimum threshold will apply. However, this is vague and is not clearly defined.

- 5 PGS would apply to business operators and landowners alike, large and small. In a sense, the structure of PGS would work against the smaller tourism provider, whose profit margins may be the lowest and who can suffer additional financial burdens the least. ***Again, the Government should focus on these groups and ensure that they exempt from the PGS system.***

- 6 Whilst the Report suggests that there could be tax savings against PGS paid, it appears that all this means is that in order to save tax one must pay a new form of tax. This is a potential added complication for anyone in the tourism industry, large or small, and will serve only to add to professional costs administering the PGS and its associated requirements.
- 7 A question mark hangs over the types of development that will be included in the PGS system. It seems clear that this will include new development i.e. new building projects. ***It is less clear whether or not this will extend to, for example, projects that bring into use existing buildings through planning permissions for changes of use.*** By the same token, will any allowance be made for projects in locations that have greater levels of planning policy, landscape and environmental constraints where development costs are likely to be higher as a result.
- 8 The PGS proposals are unclear in terms of who will benefit from the tax and who will control expenditure and on what. The report infers that PGS revenue need not be spent on requirements that relate to the consented development (of whatever size or type). It is considered that this departs from tried and tested principles where planning gain derived from development is put back into the location to which the development most directly relates. It is a form of accountability which, whilst not perfect, at least provides a rational linkage between development and facilities derived from it. Box 5.1 of the report says that local authorities should receive a share of PGS and that they should be free to spend this money as they see fit. If implemented under these terms, expenditure of income gained through PGS would have no planning-based priority, indeed it need have no planning correlation at all.
- 9 Local authorities would have no compulsion to fund tourism-related projects or works that add to an area's attractiveness as a tourist destination, irrespective of whether PGS has been derived from housing or tourism development. The potential loss of any link between development and PGS expenditure will potentially leave 'priority voids', whereupon beneficial areas of expenditure could be ignored.
- 10 Opportunities exist for tourism to benefit from PGS. ***The Government is therefore urged to ensure that in its final format, an element of PGS income***

is used to provide funding for tourism development and initiatives through regeneration works, grant aid and other means of funding.

- 11 The aim of Government should be to continue its positive support for tourism in the regions and to avoid measures that have a negative impact on tourism providers and their ability to bring forward new initiatives and development proposals.

Tourism South East is the principal agency in the region with strategic responsibility for the development and management of tourism. Income is via a combination of public subsidy (via the South East England Development Agency) and private sector funds (via membership subscriptions and selling training packages, for example). Annual turnover is £7million. Our area covers nine counties and matches SEEDA's boundaries.