



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

10 March 2006

Submission to Lyons Inquiry in Local Government Funding

Dear Sir,

In April 2005, the Tourism Alliance wrote to you regarding the issue of tourism taxation. In that submission we highlighted the fact that the UK is at a competitive disadvantage in the global tourism market due to the level of tax that visitors already pay to enter and stay in the country. This competitive disadvantage is clearly demonstrated by the World Travel and Tourism Council's Taxation Barometer, which compares the level of taxation on a hypothetical set of tourism-related products in 52 major cities around the world. They conclude that visitors to London already face the second highest level of taxation of any tourism destination in the world.

This analysis is supported by VisitBritain's 2002 research on tourism taxation, which shows that, during a seven-day stay in the UK, an American family of four contributes £331 (just under £50 per day) to the Exchequer. This is twice the average amount of tax (£166) that the same family would pay in the other leading European destinations when purchasing exactly the same goods and services. It should be noted that this average of £166 per European destination includes those destinations where a specific tourism-related tax is already applied.

One of the main reasons that tourists in the UK pay so much more tax in the UK is because the 17.5% VAT rate on accommodation in the UK is more than three times the rate applying in France (5.5%) and twice the European average of 8.5%. Again, this demonstrates that tourists in the UK already pay a very high rate of accommodation-related tax, which lowers the UK tourism industry's competitiveness in the European market.

It is also worth noting that the research conducted for the Association of London Government by Local Government Futures is based on the implementation of a 6% accommodation tax. This would push the total tax on accommodation to 24.55% - the second highest rate in the EU and almost three times the European average - and produce only £4.5m in additional revenue per London council.

Given the high level of tourism-related tax already existing in the UK, we were disappointed to read in your Interim Report that you are still considering the implementation of an additional accommodation tax as a means for local authorities to raise revenue.

We would therefore like to make a number of other observations regarding the implementation of such a tax as follows.

The Iniquitous Nature of an Accommodation Tax.

It is often assumed that bed taxes are equitable as tourists stay in paid accommodation when they visit a destination. However, when one looks at the figures, it quickly becomes apparent that such a tax would only target a very small percentage of visitors.

The domestic tourism market generates £59bn per annum in revenue for the UK economy and comprises two main groups – overnight visitors (£27bn) and day visitors (£32bn). If we assume that both day visitors and overnight visitors use public services and facilities in the same manner (i.e., the only difference is that one group stays overnight and the other travels home), then it becomes apparent that those people who stay will end up subsidising the services and facilities used by day-visitors.

In 2003, there were 1.08bn leisure day visits and 151m overnight visits undertaken by tourists in the UK. This means that, on average, only 12% of visitors to a destination stay overnight.

Next we have to look at the accommodation used by the 12% of visitors who stay overnight. The UK Tourism Survey shows that most people who stay overnight do so in private accommodation (either their own or that of a friend or relative) or in accommodation where it would be difficult to apply an accommodation tax such as halls of residence. By contrast, the number of people who stay in accommodation that could be specifically targeted by an accommodation tax (e.g., hotels, motels, guesthouses and B&Bs) constitute just 36% of overnight visitors.

Therefore, just 5% of the total number of visitors to a destination stay in accommodation that would readily be subject to the tax.

There is a counter argument that overnight visitors spend longer in a destination and, therefore, should pay more per trip than day visitors because of their greater use of services and facilities per visit. To take this into account it is necessary to convert the overnight visits into “day visits” by multiplying them by the average length of stay (3.25 days). This means that the total number of overnight visits is equivalent to 490m day visits, giving an aggregated number of day visits of 1.57bn.

Using this formula, we can calculate that those people staying overnight use 31% of the public services and facilities provided by the local authority at the destination.

Assuming that the average length of stay is the same regardless of the type of accommodation used, the tourism tax would only be collected from people undertaking the equivalent of 176m day visits.

This means that an accommodation tax would target visitors who used just 11% of the services and facilities provided.

As if the introduction of a tax that is so blunt as to only target 5% of visitors and 11% of service and facility use is not bad enough, there are two other factors to take into consideration that show that even these figures are optimistic.

1. The lack of a statutory registration scheme

As there is no statutory registration scheme, there is no accurate list of accommodation providers at either a national or regional level and no compulsion upon accommodation providers to inform local authorities that they are operating such a business. While there are requirements for accommodation providers to gain licences from councils for providing various ancillary services, such as the sale of alcohol, it is very easy for accommodation providers to operate without requiring any approvals from local authorities. As such, these businesses simply do not show-up on any database.

Indeed, VisitBritain's Quality Standards Department estimates that up to 50% of accommodation businesses in some areas are not on local databases and therefore operate "under the radar".

2. The de minimis approach

It is a feature of the UK accommodation industry that there are a relatively small number of large hotel companies and a very large number of small businesses such as B&Bs, especially in rural and seaside areas.

While, individually, these small businesses account for very few overnight visitors, collectively B&Bs account for almost 20% of all overnight trips to establishments where an accommodation tax could be applied. Therefore, it is likely that it would be considered inefficient to collect a bed tax from very small establishments that, for example, did not reach the VAT threshold, the number of visitors subject to the tax would be further reduced.

Taking into account these two factors, it would not be unreasonable to conclude that if an accommodation tax were to be introduced, it would apply to less than 4% of all visitors to a destination.

Further Problems Associated with an Accommodation Tax

There are three further problems with the implementation of an accommodation tax that are worth mentioning.

1. It would be an administrative burden on businesses
2. It would prove an incentive for people to holiday overseas
3. It would increase the contribution of accommodation businesses to local Government funding by 100 – 200%

It should be pointed out that the imposition of an accommodation tax is counter to Government's efforts to reduce the regulatory burden on small businesses. As you will be aware, following on from the Better Regulation Task Force Report and the Hampton Report, every Government Department has been asked by the Cabinet

Office to examine the regulation it controls with the aim of reducing the regulatory burden on businesses.

The Tourism Alliance is part of this process through its work on the Tourism Minister's Better Regulation Task Group, which aims to reduce the regulatory burden on tourism businesses. For another arm of Government to be imposing further regulation on accommodation businesses at the same time is counterproductive.

Second, there is considerable evidence that international tourism is extremely price sensitive. For example, an econometric study undertaken by VisitBritain in 2002 showed that the price elasticity of tourism to Britain is -1.3 (i.e., that a 1% increase in the cost of visiting Britain reduces tourism revenue by 1.3%). This means that any increase in the cost of accommodation will have a detrimental impact on the revenue generated by the industry as a whole.

The reduced cost of travel to overseas destinations since the mid 1990s has resulted in an enormous increase in outbound tourism as UK residents sought to take advantage of cheaper overseas destinations. This has resulted in stagnating growth in the domestic tourism market and a sharp increase in the UK's tourism deficit as UK destinations have struggled to compete with the lower costs of their European counterparts.

Therefore, any increase in the cost of holidaying in the UK will result in even greater numbers of UK residents deciding to holiday overseas instead of staying in the UK and putting their expenditure into the local economy. This, in turn, will be detrimental to the very local authorities that are seeking to gain additional funding through implementing the accommodation tax. Even if UK residents do not swap domestic holidays for overseas holidays due to the increased cost, an accommodation tax would provide a disincentive for people to stay overnight in UK destinations. This is important for local economies as overnight visitors contribute an average of £54.00 per person per day to local businesses whereas day visitors contribute only half that amount (£27.70).

Many small tourism businesses already see themselves as under threat as a result of cheap overseas flights and lower tax rates in other European destinations. Introducing a further tax, even if it were to be hypothecated, would therefore be seen by these businesses as being detrimental to their long-term survival rather than being beneficial to the tourism industry.

Finally, business rates typically account for between 3% to 4% of the turnover of accommodation businesses. To impose an accommodation tax of 6% as recommended in the Local Government Futures paper would, in effect, increase industry's contribution to local government funding by up to 200%. To impose such an increase on one specific sector of the local business community is neither warranted nor justifiable and would have a detrimental impact on local tourism businesses.

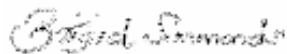
Although wider local government representative bodies have apparently indicated support for an accommodation tax, it is worth noting that many local authority tourism departments do not, because they fully recognise that the negative impacts on the local industry will almost certainly outweigh any advantage. In particular, the discretionary nature of an accommodation tax puts them in the unenviable position of knowing that it will harm local businesses if they support it but that they will not receive the funding they require to support the industry unless it is introduced.

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

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

Thank you for the opportunity to comment on your interim report. If the Tourism Alliance, or its members, can be of any assistance in providing further evidence, or expand and clarify any tourism-related issue, please feel free to contact us at the address below.

Yours faithfully



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Tourism Alliance Membership List

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