Next steps in exploring a tourism levy

Purpose of report

For decision.

Summary

At its November meeting the Board agreed to explore what a tourism levy in England might look like in practice. This paper suggests the next steps for this work and asks Board members for their agreement.

Recommendation

That members agree the commissioning of further research in this area, supported by an effective engagement strategy.

Action

Officers to commission research and develop a full engagement strategy in line with members’ comments.

Contact officer: Rebecca Cox

Position: Principal Policy Adviser

Phone no: 0207 187 7384

Email: rebecca.cox@local.gov.uk

**Next steps in exploring a tourism levy**

1. At its November meeting the Board agreed to explore what a local tourism levy in England might look like in practice as part of the LGA’s ongoing campaign for devolution and greater fiscal and financial freedoms. This paper suggests the next steps for this work and asks members for their agreement.
2. Given the need for this work to successfully land with a wide range of stakeholders, officers propose that this is made up of two strands: an independent analysis of the implications for the introduction of greater fiscal freedom in this area and an engagement strategy. As the original report to the LGA noted, these are interlinked: “Central government is open to the idea of a tourist levy - it would not require service devolution, there are many precedents for it and it is unlikely be politically unpopular (although, there may be push back from the hotel industry). The next stage is convincing government that parliamentary time should be dedicated to legislating for it – to do this requires fully worked up examples of the design and administration of the scheme.”

**Modelling work**

1. Initial independent research carried out on behalf of the City Regions and People and Places Boards found that:
   1. The potential **effects** of a tourist levy are many and varied, with little conclusive evidence on what the effects are on the visitor economy (or even the size of the effects). However, there is nothing to suggest that introducing a relatively low tourist levy – one that would be a small percentage of the typical tourist spend – as a starting point would cause any economic harm whatsoever.
   2. Unless a voluntary scheme is introduced – for which there is little precedent or evidence – a **legislative route or use of a Business Improvement District** would be needed. Proposing and implementing a Business Improvement District would be the shortest route to implementing a tourist levy, but it is more convoluted and restrictive than implementing a tourist levy through primary legislation.
   3. Different areas of the country have very **different capability to raise revenue** from a tourist levy. Using 20 anonymised functional economic areas of between two and 13 councils (excluding London), the researchers modelled a flat rate per room, per night of £1 and a 3 per cent levy on the nightly cost of the room. Average room rates tend to be less than £100 a night, meaning that a 3 per cent levy raises much higher projected revenues. Flat rate revenues vary across local area, from £238,000 at the lower end, to over £7 million at the upper end. The revenues from a percentage levy vary from £505,000 at the lower end to over £13.7 million at the upper end.
   4. One **administrative** issue to contend with is the growth of the **sharing economy** – such as Airbnb – which has disrupted the market for tourist accommodation. It would be unfair to levy a charge on more traditional accommodation and not on recent market entrants, as it would distort competition. But there is a question about how to make the new market entrants comply. This could be done by, for example, requiring the Airbnb platform to collect the levy itself. It should also be noted that a tourist levy would create a burden on hoteliers to collect and remit the tax, but this burden would likely be small given that it is a relatively simple calculation to make. Local areas would also need to employ people to administer the levy, with previous research suggesting that this would require three-quarters of a full-time employee’s resource.
   5. The **political** barriers to introducing a levy should be recognised. One way to ‘sell’ a new levy to businesses and residents is to hypothecate – at least in part – the revenues that are derived from it.
2. It is proposed that the next step in developing this work is to commission a report that contains fully worked up examples of the design and administration of a local tourism levy. This would need to draw on existing examples of introducing a ringfenced charge (such as the Nottingham Workplace Parking Levy) and as far as possible be consistent with local work underway in Bath, Liverpool, Edinburgh, Birmingham and London and within organisations such as Core Cities.
3. Following the Board’s earlier steer, members are asked to agree the commissioning of the above research, subject to members’ comments on the content and approach.

Engagement work

1. As noted in the commissioned report, the bar to introducing a tourism levy could be considered to be lower than for other types of fiscal devolution. However, given the UK’s long history of centralisation and the current lack of Government capacity and Parliamentary time, progress in this area will require making a very strong case backed up by a range of supporters. Additionally, tourism and hospitality bodies understandably have concerns about the introduction of anything that could have a negative impact on their business.
2. In this development phase, the three main audiences for engagement at this stage are:
   1. Tourism industry bodies and their members (including VisitBritain)
   2. Whitehall and Westminster, especially within HM Treasury, BEIS, DCMS and MHCLG
   3. Councils and combined authorities.

Obviously should this work proceed to a further phase, a clear plan of engagement with residents and a wider variety of businesses would also be very important.

1. Subject to members’ views and the structure of the research work, a full engagement strategy will be drawn up. In light of the Board discussion, it is proposed that the core elements include:
   1. An officer steering group drawing membership from the above stakeholder list. Members’ views on whether this should include civil servants at this stage would be welcome.
   2. A member sounding board, drawing on suggestions made at the November 2018 CTS Board. This would allow the officer steering group to test ideas at key points in the development process. In the first instance, this should include early testing of our ideas with senior members from authorities where tourism is an important economic driver. The mix of authorities should include different political leadership, geography and types of council, and ensure we have representation from, for example, coastal, urban, market town and rural authorities, among others.
   3. Bilateral meetings with Tourism Alliance, British Destinations, UK Hospitality, VisitBritain, National Parks England, UKInbound and other key stakeholders.
   4. Engagement with relevant APPGs, including on Reform, Decentralisation and Devolution (for which the LGA acts as Secretariat), and Tourism, Leisure and the Hospitality Industry.
   5. A media plan, subject to the findings of the research.

Financial Implications

1. Funding is available from the devolution policy workstream to commission this work.