

BBA

The Bed and Breakfast Association

The UK trade association for B&B owners

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Sir Michael Lyons
Room 3/12
Lyons Inquiry into Local Government
1 Horse Guards Road
London
SW1A 2HQ

10 March 2006

Dear Sir Michael,

**Submission by the Bed and Breakfast Association
to the Lyons Inquiry**

Your Consultation Paper and Interim Report of December 2005 invites submissions from interested parties as part of the consultation process which will contribute to your final report on local government finance.

This submission is from the **Bed and Breakfast Association** (BBA), the trade association for bed and breakfast owners in the UK, and addresses the issue of “tourist-related taxes” referred to from clause 2.98 on page 76 of your Interim Report, specifically “a local tax on hotel and similar accommodation”. You say that you are “interested in exploring this issue further” (although we note that you add that “considerable further work would need to be undertaken if new forms of taxation were to be contemplated”).

We believe that a tourist tax of the sort mooted in your report would be highly damaging to UK tourism, both inbound and domestic, and would be especially and disproportionately damaging to the B&B sector; that such a tax would be counterproductive and would depress total tourism-related revenue to the exchequer more than the amount raised by the tax; and that the introduction of such a tax would result in the closure of significant numbers of B&B businesses, especially in rural areas with already weak economies.

The BBA was constituted in late 2005 to represent the UK's bed and breakfast sector; previously no organisation represented this sector. The British Hospitality Association (BHA), for instance, represents the hotel and restaurant sector and has no significant bed and breakfast membership.

The BBA represents B&Bs serving the leisure (tourism) and business markets, **not** the multi-occupancy establishments often referred to as "bed and breakfast accommodation" used by some local authorities as temporary housing for disadvantaged people.

The B&Bs represented by the BBA typically have three letting bedrooms or fewer, and are owner-managed businesses carried on in the owners' homes.

The bed and breakfast sector in the UK has suffered in the past as a result of a lack of consultation by Government, which has in turn resulted in the impact on our sector of new legislation being under-estimated or overlooked.

Although the bed and breakfast sector is fragmented and consists of very small individual businesses, overall it forms a highly significant part of the UK's tourism bedstock; in 2003, stays at B&Bs represented 7% of stays and 8% of spending on domestic tourist stays by UK residents, compared to 29% of stays or 41% of spending being in hotels. So for every four hotel stays taken, there was one stay in a B&B in 2003. The stays in B&Bs represented £1.849 billion of tourism spend in the UK made by UK residents alone, a figure hugely increased once spend by foreign visitors to UK B&Bs are added.

(UK Tourism Survey)

The above figures underestimate the relative importance of the B&B sector in rural areas, where a higher proportion of bedstock will be represented by B&Bs as compared with hotels. In many of the UK's most sparsely populated and economically weak areas, the only accommodation available is in the B&B sector as many such areas would not commercially support hotels. The B&Bs in these areas will tend to be the most economically fragile, therefore the most likely to close as a result of any negative impact to the B&B sector. Thus any such impact will disproportionately affect such rural areas.

The Government has often emphasised the strategic importance it attaches to entrepreneurship, small businesses, the service economy, and tourism 'exports'; the B&B sector is a significant within all these categories, and is therefore a sector upon which the Government must be very sensitive as to the impact of any new tax.

Any tourist tax would in practice be regressive as it would bear especially heavily on lower-priced accommodation (for example, on the B&B sector as compared with the hotels sector), and in turn on lower earning consumers compared with higher earners.

Because the hotels sector is almost entirely operated using specialised IT-based booking systems, whereas the B&B sector is almost entirely operated by manual booking systems, a tourist tax would cause a huge new burden on the B&B sector, many times more onerous than its impact on the hotels sector. For the first time, B&B owners would have to create reporting systems specifically to cope with such a tax. Many have indicated to us that this alone would be sufficient to cause them to consider closure.

As B&Bs have no statutory registration system, any new tourist tax would effectively create a new national registration and regulatory system for B&Bs, requiring a new national database of B&Bs and all the requisite monitoring and administration this requires, which would in itself be a disproportionate cost to Government compared with the amounts of tax raised from B&Bs (especially if the reduction in other taxes, including income tax, resulting from a new tourist tax is taken into account).

The B&B sector has been disproportionately impacted recently by (amongst other things):

- increases in council taxes of up to 10% per annum,
- very steep increases in the fees for licences for smaller enterprises under the Licensing Act 2003,
- the new requirement for premises with under six letting rooms to carry out Fire Risk Assessments (due in October 2006 under the RRFSA introduced by the ODPM),
- a new food safety regime introduced in the UK under EU directive on 1 January 2006,
- steep increases in energy costs,
- costs incurred in compliance with the Disability Discrimination Act;

we could continue this list, which includes many new taxes and regulations introduced by this Government, but our point is that our sector has suffered very considerable cost increases and administrative burdens, often disproportionately compared with the economy generally. These are already tipping the fragile economic balance of many B&B businesses towards closure; if in addition, a new tourist tax were imposed which would vastly increase the administrative and reporting burden for B&Bs whilst simultaneously forcing a significant effective price increase to the consumer and thus reducing sales, the result would be that thousands of B&Bs would decide to close.

We would also make some wider points about a tourist tax: the UK already applies 17.5% VAT to accommodation and other tourist services, compared with say 5.5% in France (a major competitor for inbound tourism revenue), and about 8.5% on average in the EU for accommodation. The UK also lacks the financial support offered by Governments in many of our competitor countries for small-scale tourist accommodation in rural areas (for example, in converted agricultural buildings). The UK already overtaxes tourism spend compared with our key competitors.

We would also make a wider strategic and environmental point about the usage of existing buildings in the UK. The B&B sector represents a very efficient and sustainable usage of the UK's building stock, as it effectively represents a subsidy by the residential sector of tourist accommodation. Were this sector to be even further penalised by additional taxation and administrative burdens, the effect would be either to (a) reduce available tourism bedstock and hence damage the UK's £74 billion tourism economy, and/or (b) require replacement purpose-built commercial bedstock, and thus more new building, reduced sustainability, more damage to the environment, less open land, more usage of energy and other resources, and the under-usage of existing buildings. This factor is particularly important in historic villages, towns and conservation areas, where the cumulative loss of B&B bedstock could not in practice be replaced by new hotel accommodation.

B&Bs are small-scale, local, have low environmental impact, use housing efficiently, enable tourism to reach areas which could not be serviced by purely commercial accommodation, generate employment, and foster much of the entrepreneurial vibrancy and innovation in tourism which is often later emulated by the hotels sector. This is an economically fragile sector which has suffered a considerable number of negative impacts from recent new taxes and new regulations. It operates in a UK tourism environment already overtaxed compared to its key competitors in the biggest global service industry.

We cannot emphasise strongly enough our belief that, were the Government to introduce "a local tax on hotel and similar accommodation", the B&B sector would be very badly damaged and would contract significantly in size, to the detriment of Government revenue and of the UK economy.

We would be pleased to meet you to discuss and expand on any of the issues we have touched on in this submission, in order to enable you to make your recommendations to the Government in your final report.

Yours sincerely,

David Weston
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