



WTA Response to the Welsh Government 'Local Taxes for second homes and self-catering accommodation'

Consultation Response

Wales Tourism Alliance

Company No: 4449548

1. Industry Representation

The Wales Tourism Alliance

The Wales Tourism Alliance (WTA) is the recognised over-arching representative organisation for the tourism industry in Wales, liaising with and coordinating the

views of all concerned and informing and working with Government at Westminster, Cardiff and at Local Authority levels.

The WTA also acts as an intermediary between Government and all involved in tourism, disseminating information to the industry via our member organisations and working with colleagues in organisations in other parts of the UK.

The membership of the WTA includes sectoral, national, regional and local representative bodies comprising accommodation (hotels, small serviced, holiday parks, touring caravan and camping sites and self-catering cottages), attractions, activities, training and skills, tourism guides and transport.

The Wales Tourism Alliance is a pan-Wales umbrella group currently with 23 member organisations and forums resting within its general membership. This amounts to around 7,000 working operators and means WTA contacts and representatives are now found in every part of Wales.

The WTA therefore works with and on behalf of operators ranging from major industry players from across the UK to the numerous micro-businesses that make up so much of the tourism industry.

To achieve this the Wales Tourism Alliance brings together the most powerful private and public sector partnership of tourism industry interests in Wales, including some of the biggest industry members in the United Kingdom who add their voice to ours in Westminster as well as in Cardiff.

In that capacity the WTA remains committed to 'working together' with partners on an honest broker basis, only possible due to our trusted status and unique way in which we are supported. The Wales Tourism Alliance provides the mechanism to make a reality of the partnership concept.

The WTA Response

Position Statement - Whilst there has been considerable coverage and debate about the availability of affordable housing in Wales, the WTA considers that this is an issue that relates to second homes and not to legitimate self-catering businesses. If the definition of what constitutes a self-catering business can be agreed then we believe that Self Catering Businesses should be removed from the debate.

When it comes to impact on the Welsh language, the Brooks report is clear that commercial holiday lets are not, in themselves, a threat. The closure of local services such as buses, post offices, village schools - *which happens in smaller communities across Wales, not just holiday let hotspots* - has arguably had a greater impact on the viability of local communities than the commercial holiday letting of converted barns or derelict cottages.

If a self-catering business is registered for Non-Domestic Business Rates and the VOA is satisfied that:

in the 12 months prior to assessment, it has been available for letting commercially as self-catering accommodation for short periods totalling 140 days or more; and it has actually been let for 70 days, then it is currently regarded as a business. Genuine self-catering business premises should be excluded from any proposed changes to council tax or limits on numbers of second homes as they fall outside the scope of domestic taxation and housing provision.

Furthermore, we argue that such premises be excluded from liability to any further form of tourism tax. Concerns about second homes are most accurately characterised as challenges of housing supply. Imposing further taxes on that part of the economy which would allow more people *to work* as well as live in their home communities misses the point that self-catering businesses support service sector jobs both directly and indirectly.

It is worth pointing out the distinct danger that a genuine self-catering business will end up paying five levels of taxation to respond to the unrelated challenge of housing supply:

income tax on earnings from the property;
Non-Domestic Business Rates;
VAT
Capital Gains Tax on disposal
Potentially a future Tourism tax

It would also be poorly targeted and is neither just or proportionate and will see many businesses close. A potential further bedroom tax (as that is what is proposed) does nothing to address pressures on over-visiting by day visitors in a limited number of identifiable honey pot destinations. If we are to continue to grow the number of longer stay/higher spend visitors, who contribute more to the local economy, then we are confused by the suggestion of a tax which threatens that very area of supply and demand. A distinct and unique tax, regardless of actual quantum, forces up prices charged, skews the message of welcome, depresses demand and ultimately depresses the local economy.

The WTA does not support a local authority managed/run tourism tax. We have no confidence that it would be disaggregated for tourism mitigation or support. Should receipts be ringfenced, it is entirely foreseeable that this will result in displaced spending within the RSG; existing input from Welsh Government for destination management will either be spent on other local government priorities or diminish/cease altogether.

While the position is still not entirely clear, it looks as if local authorities will receive direct Prosperity Fund monies without coming via Welsh Government. We would hope that councils can work together, as well as with the industry, to support destination management.

As the first six questions relate to second homes, we have limited our replies to question 6 to 14 only.

Question 6 - What do you see as the impacts, both positive and negative, of self-catering accommodation?

The impact of the self-catering sector is overwhelmingly positive, particularly after the savage economic impact of the recent CV-19 pandemic. Firstly, it is worth pointing out that self-catering has proven to be one of the safest ways to take a holiday and nearly 40% of our visitors have been from Wales during the pandemic. While this has been a busy staycation summer, we recommend caution in assuming extraordinary levels of income based on a honey pots and coastal areas. Many inland or isolated properties have not witnessed the same level of business as proven in the recent

Visit Wales Business Barometer research report. We would not like to see the introduction of a new taxation system based on a spurious boom!

It was recently found that over 50% of self-catering properties, many located on the same property as the owner's home dwelling are owned by people in Wales. This can be a single unit bringing in a proportion of the family income, providing part time self-employment and, in some cases, work hours for housekeeping services. Bigger businesses with multiple units provide regular housekeeping employment locally, much of it for women and young people, as well as property repairs for building firms. There is also the contribution made by staying visitors to local shops and hospitality businesses, without high levels of demand being made on local health, education and social services.

Properly registered self-catering properties contribute to destination management through the payment of NDB rates and associated higher costs of services e.g.; waste collection. They also provide the data to assist local authorities to plan their destination management - and their housing supply targets.

Question 7 - What are your views on the current criteria and thresholds for defining property as self-catering accommodation and liable for non-domestic rates?

The WTA membership generally agrees the current criteria and thresholds need to be reviewed to avoid the ability of second homes owners being able to flip out of paying Council Tax and thereby take advantage of small Business Rates Relief and pay nothing to the community. ***The WTA gives no support to property owners who are playing the system for tax avoidance purposes.*** Without this revenue contribution it is recognised that there is a growing resentment by legitimate self-catering businesses, the community at large and a loss of revenue from 2nd home owners to support vital services within the community.

However, whatever the new tax it should be aimed squarely at second home owners we do not wish to see the collection of a new tax falling unfairly on property-based (job-creating) businesses at a time of potential hardship for many.

Across Wales only 7.9% of trips involve an overnight stay. If councils want to lower costs associated with visitors and to maximise the benefits to their local economy, it would make sense to encourage a higher percentage of overnight visitors to their destination.

However, increasing the cost of accommodation produces the opposite incentive – the higher cost of accommodation encouraging people to undertake a day visit rather than to stay overnight. This maintains the costs associated with visitors while reducing the revenue (and therefore employment) associated with visitors.

Question 8 - Do you think the self-catering accommodation thresholds should be changed and, if so, why?

We recognise the current system is unsustainable and needs to be changed. However, we must have parity with England. With such a porous border with England, businesses here may well be at a commercial disadvantage. We recommend Welsh Government seeks to establish the same or a similar position with Westminster as to the direction of any new criteria or threshold.

Question 9 - If the self-catering thresholds were to be changed, what do you suggest the new thresholds should be?

The number of days to qualify as a business needs to be re-assessed. Letting for 70 days out of 365 works out as only 19% occupancy on an annualised basis. Very few of our WTA DMOs would tell second homeowners that they will only achieve 19% occupancy in a 'normal' year. We note that HMRC currently has different thresholds for Furnished Holiday Lets which may be more appropriate. These criteria that must be fulfilled for a property to qualify as FHL.

Question 10 - What are your views on the eligibility of self-catering accommodation for Small Business Rates Relief?

Legitimate tax paying self-catering accommodation or furnished holiday lets are a business indeed in the recent report Economic Impact of Self-Catering Sector to the Welsh Economy (ASSC/PASC, August 2021) it found that 7895 properties account for £173 Mn worth of spend.

Our members understand their responsibility to contribute to the public purse, both directly through fair and non-discriminatory taxation, and indirectly through job creation and ancillary spend in other businesses. However, there still appears to be a body of opinion that lack the understanding as to the time and costs involved to market, service and maintain a self-catering unit. You cannot simply hand a key to a private individual and walk to the bank. These are businesses, and must be distinguished from second homes and casual lettings.

The very nature of earning a living in Wales means that our rural population in particular, cannot rely on a single source of income. Self-catering businesses fill a much-needed gap. Indeed, farm diversification, for example, has been actively encouraged by successive governments, with derelict or disused farm building conversions naturally favoured for commercial purposes rather than homes due to their location.

By their very nature, micro-business (and most are) are vulnerable to additional cost and administrative burdens. Whilst we want to see a fairer sustainable system, we do not wish to see this as a mandate to simply increase the tax burden on legitimate self-catering businesses.

An increase in local taxation will simply make many self-catering businesses unviable with a loss of revenue from both income tax and NDB rates. If the consequence is more property entering the local market, it would be a mistake to just assume that this will be snapped up by local first-time buyers. Sellers will want to recover the cost of their investment - no local authority should be seeking to introduce negative equity into their communities - and properties are just as likely to be bought by someone who will use it as a second home: the reverse of what is intended by this consultation.

Better these businesses are kept as part of the local economy and, therefore, SBRR is an appropriate incentive. Self-catering operators already attract money into the RSG, and pay toward the cost of visitors, via the enhanced population consequential paid through the annual local government in Wales settlement.

Question 11 - Are there other ways in which you think the local tax system could be used to support the sustainability of our communities?

It is also worth recording that, following UK government policy before the crash and when the stock market was sluggish, individuals were encouraged to make property-based investment (SIPPs etc), through purchase or inheritance. This means that there will be owners of self-catering businesses in their own localities, for whom this is the only source of income beyond a state pension. If we are talking about sustainable, inter-generational communities, we need to be thinking about all ages, not just the young. Further taxing those who have no other source of income should be a consideration, especially as there are now questions over the security of the triple lock on pensions.

Whilst we still see the need for capital investment in a balanced visitor economy, we do understand that public sector resources are set to continue diminishing and that someone has to contribute more. There needs to be a move toward more creative partnerships based on destination business plans which truly identify the product available (i.e., no of beds; tickets, etc) and establish what is required to build a balanced, sustainable 'tourism community' product and sell it. Unfortunately, we recognise that the current package travel regulations set up to protect consumers from airline package-based holiday failures has had a detrimental effect on local products as an unintended consequence.

Financial support for capital investment and product improvement by business assists everyone; its effects in a community are social (wellbeing, economic security, locally based career paths) as well as simply financial. A successful small business provides employment, self-employment, income or corporate tax and, of course, NDB rates. It also helps retain a permanent population who need a school, not just a shop, and where developers look more favourably on providing appropriate-sized housing developments with a proportion of affordable homes or occupation restrictions, and through-life properties.

The current level of Welsh Government support for capital investment in the industry from all its various support schemes has been running at around £10 million annually. This industry's capital investment is overwhelmingly supported from its own retained profits and bank borrowing, but innovative new tourism businesses, which will contribute to the over-all tax take, will not get off the ground without some government investment.

There have been good examples in recent years of such support, modest in scale, being crucial to the success of the development of new tourism businesses. We therefore propose that, post CV-19 and Brexit, the industry should have a specific allocation of funding linked to the Development Framework to support capital investment and product development in tourism businesses. Our members are keen to work with Welsh Government to identify ambitious, but realistic KPIs to accompany such funding.

The scheme rules should reflect the fact that the industry is mainly composed of micro businesses, mostly owner managed. An earmarked, easy to access development tourism fund of double the existing annual spend would not be out of place bearing in mind the £2.7 billion contribution of the industry to GDP and the acknowledged potential for further growth. Other regions and nations in the UK will also be looking at post covid recovery and growth, this investment needs to be swift lest we lose further ground post the Pandemic.

There is a case to explore in relation to larger businesses that have received public funds within the last five years and whether they should receive further government funds. Clearly it looks good for governments to reward already successful large businesses and point out the guaranteed success as one of government's making. Anchor businesses are just part of a joined-up tourism infrastructure: the inevitably fragmented nature of a micro-business sector does not exclude it from strategic investment. It is these businesses which are embedded in the community and are part of the circular economy.

Notwithstanding the over-tourism in specific locations, which needs a targeted remedy, the scope for growth in the visitor economy across Wales is under exploited. There is just as much under-tourism in Wales. It can grow in partnership with communities, add to their viability, and in a way which retains wealth. Micro businesses are not responsible for extracting money into distant big business coffers and they are the perfect contributors to the circular/foundation economy models. Don't tax away the opportunity.

Question 12 - We would like to know your views on the effects that these proposals would have on the Welsh language, specifically on opportunities for people to use Welsh and on treating the Welsh language no less favourably than English. What effects do you think there would be? How could positive effects be increased, or negative effects be mitigated?

That Wales is bilingual is a USP for all businesses in Wales, not just those in this sector. We are inclined to agree with the Brooks report that it is not self-catering businesses which limit opportunity for the daily use and treatment of Welsh. In helping provide work opportunities and ancillary spend in other businesses, they contribute to the viability of a community.

We are keen to play our part in achieving the 2050 target and very much welcome bilingualism in the workforce, reinforcing Wales's unique offer and supporting the living language in communities where it is an intrinsic part of their life and character.

Question 13 - Please also explain how you believe the proposed policy approach could be formulated or changed so as to have positive effects or increased positive effects on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language, and no adverse effects on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.

As we have had over 20 years of compulsory teaching of Welsh in our schools, we can see the argument for the communication elements of all post-16 vocational courses for front-facing careers to include sector-appropriate Welsh; for many it is a question of confidence not ability. We also welcome the work of Coleg Cenedlaethol Cymraeg to support Welsh medium courses post-16.

We also welcome the work being done with businesses to help them increase Welsh-speaking capacity in their workforce, but recognise that unless the business incentive/benefit is clear, such work may not see long term effects.

Question 14 - We have asked a number of specific questions. If you have any related points which we have not specifically addressed, please use this space to record them.

Exceptions to the rule: We obviously do not have a clear understanding as to what the Welsh Government conclusion from this initial research will be, but there are several areas which we feel need additional consideration:

- Properties that have planning permission which specifically allows them to only operate a property for self-catering, i.e., it cannot be used as a permanent dwelling without further permissions and/or additional development. For example, a barn suitable only for seasonal use.
- Buildings used within the curtilage of a listed building inhabited by the owner whereby the self-catering business generates income that supports the occupants and the listed building.
- Start ups that may not reach any new threshold within a given amount of time for example 3 years.

Tourism Training: EU nationals have played an important part in some sectors of the industry in Wales, as elsewhere in the UK, and they will continue to be needed. Our colleges and universities are playing a vital role in training for the needs of the industry and to cover the shortfall. There should be closer liaison with tourism businesses to maintain the relevance of the courses on offer and to develop programmes specifically tailored for the needs of the owner/managers of tourism businesses.

We value the training put in place in partnerships between post-16 education providers and large hospitality operations in particular, but there is also scope, with the new curriculum to introduce the idea of a route to a well-paid and rewarding career in our sector at an earlier age. Too often it is hidden from sight as an option for high achievers, and often overlooked as an incentive to improve the uptake of modern foreign languages.

Funding support is still needed for training programmes to fund widening gaps in the industry. But, whilst important, we also need to reach out beyond the traditional 'tourism' roles. We need other sectors to engage with the industry. Specialist builders, environmental scientists and electronic engineers for example. The Turing and what is left of the Erasmus programme in Wales are real opportunities here - and also need careful consideration and consultation with the industry. The sector is, by nature, made up of aspirational players and we are not making the most of its innate entrepreneurial ethos to inspire others cross-sectorally.

Finally, communication. There have not been any dedicated industry communication officers at Visit Wales for some time. It needs attention as communicating with a SME heavy sector needs energy and time. The WTA, as the collective voice of the sector in Wales, is here to help, but our clasp needs to find a hook in Visit Wales. The plans of Welsh Government and, indeed, councils, to grow this sector needs that strong link of intelligence sharing to develop informed input.

Wales Tourism Alliance – 8th October 2021