

Agenda – Economy, Infrastructure and Skills Committee

Meeting Venue:	For further information contact:
Committee Room 4 – Tŷ Hywel	Gareth Price
Meeting date: Wednesday, 9 November 2016	Committee Clerk 0300 200 6565
Meeting time: 09.15	SeneddEIS@assembly.wales

Private pre-meeting (09:15 – 09:30)

1 Introductions, apologies, substitutions and declarations of interest

2 Finance Wales' annual report 2015–16 – scrutiny session

(09:30 – 10:30)

(Pages 1 – 9)

Due to the size of document 'EIS–09–16 (p1) Finance Wales' Annual report 2015–16' a hyperlink has been included in a Word document.

Giles Thorley, Chief Executive

Gareth Bullock, Chair

Kevin O’Leary, Finance and Administration Director

Elen Jones, Deputy Finance Director

Attached Documents:

Research brief

EIS(5)–09–16 (p1) Finance Wales' annual report 2015–16

3 Paper(s) to note



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

3.1 Letter from the Wales Association of Self Catering Operators regarding business rates

(Pages 10 – 15)

Attached Documents:

EIS(5)–09–16 (p2) Letter from the Wales Association of Self Catering Operators regarding business rates

3.2 Letter from the Rosemoor Country Cottages and Nature Reserve regarding business rates

(Pages 16 – 19)

Attached Documents:

EIS(5)–09–16 (p3) Letter from the Rosemoor Country Cottages and Nature Reserve regarding business rates

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Break (10:30 – 10:40)

5 Business Rates in Wales – Consideration on the draft letter to the Cabinet Secretary for Finance and Local Government

(10:40 – 11:10)

(Pages 20 – 25)

Attached Documents:

EIS(5)–09–16 (p4) Draft letter from the Chair to Cabinet Secretary for Finance and Local Government regarding Business rates

6 Welsh Government Draft Budget 2017–18 – Consideration on the draft letter to Finance Committee

(11:10 – 11:40)

(Pages 26 – 29)

Attached Documents:

EIS(5)–09–16 (p5) Letter from the Chair to the Finance Committee

7 Forward planning – Alternative perspectives on the Economic Strategy for Wales

(11:40 – 12:00)

(Pages 30 – 31)

Attached Documents:

EIS(5)–09–16 (p6) Scoping paper

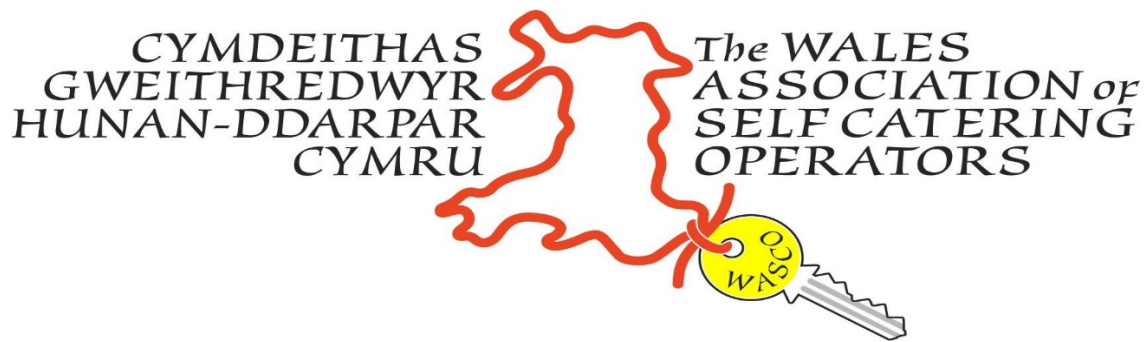
Agenda Item 2

Document is Restricted

Please find below a link to Finance Wales' Annual Report 2015-16.

<http://www.senedd.assembly.wales/documents/s55643/Finance%20Wales%20Annual%20report%202015-16.pdf> (7MB PDF)

Agenda Item 3.1



Dear Assembly Member,

At the end of September WAG put out to consultation proposed changes to the Small Business Rates Relief (SBRR) for 2017.

On behalf of the large numbers of self catering operators in Wales that are members of WASCO and also of those that are not, but who obviously have a similar interest in this matter, we should like to bring this consultation to your attention.

Business rates for self catering operators have shot up disproportionately compared to their earning capacity over the last ten years or so. The proposed 2017 rating list - again - shows substantial increases for most self catering businesses. This will take quite a few businesses out of the SBRR scheme. It will especially affect businesses whose owners are largely or wholly dependent on them for their income. This will lead to serious financial hardship.

The developments over the last decade or so worry WASCO greatly. Where there seemed to be a connect between business rates and the earning capacity of SC businesses around the beginning of this millenium, that connection has now been largely lost. The tourism market has changed enormously with the advent of the internet, and online companies dominating the booking market ever more, making it increasingly harder for smaller SC operators (that constitute the majority of our members) to get enough exposure and compete successfully.

Although WASCO is pleased that the WAG proposes to extend the SBRR for

another year, including some transitional relief, the proposal does not address the real underlying issues for self catering businesses. It also differs negatively from the English SBRR: the consultation does **not** propose to increase the threshold for full relief to £12,000 and tapered relief between £12,000 and £15,000 like that proposed for England.

We are confident that you count numerous self catering operators amongst your constituents, whose livelihoods will eventually be badly affected should there be no political intervention. In WASCO's opinion, this intervention should take two forms:

1. bring the SBRR for Wales in line with that of England
2. create a framework in which business rates for self catering businesses are based on a **realistic** assessment of earning capacity, in contrast to the current approach which is wholly unrealistic

In WASCO's opinion the SBRR cannot be separated from the actual values in the 2017 rating list; after all, the combination of the two will determine business costs in real terms.

We respectfully ask you to use your powers as an Assembly Member to have the proposed changes in Small Business Rates Relief subjected to the scrutiny they deserve, in order that the interests of your constituents will be safeguarded.

We take the liberty of copying WASCO's response to this consultation for your information below, and include the link to the [consultation document](#).

We hope you will see fit to follow this up, through the channels that are open to you, and would like to express our hope that, as a result, changes will be effected.

On a practical note: responses to the consultation are to be received by 4 November 2016. Should you wish to receive additional information, please do not hesitate to contact me; by email, or on 01437 781326.

Thank you for your attention.

Yours sincerely,

Jacqueline Janssen,
WASCO Secretary

WASCO response to the Welsh Assembly Government Consultation on Proposed arrangements to provide transitional relief to support small businesses adversely affected by the 2017 non-domestic rates revaluation

1. WASCO, the Wales Association of Self Catering Operators, is the only membership body specifically representing self catering operators in Wales. Its members operate/represent approximately 1500 self catering properties (units) in Wales.
2. WASCO has disseminated the consultation documents and links to relevant web pages to its members. This response collates the remarks and observations it received in reply – orally, as well as in writing.
3. WASCO has conducted a survey under its members to establish changes in the 2010 rateable values and the proposed 2017 rateable values, changes in turnover for the relevant years (2008 and 2015) for the establishment of these rateable values, and the impact the proposed 2017 rateable values will have on business costs. This response incorporates the outcome of this survey as to date.
4. Before going into detail WASCO should like to sketch the background against which it feels (its response to) this Consultation should be seen:
 - a. Self catering is an extremely important constituent sector of the tourism industry in Wales;
 - b. Therefore self catering in Wales is an important business sector in its own right;
 - c. Self catering in Wales employs large numbers of people directly, and acts indirectly as a source and safeguard of employment for large

- numbers of suppliers and providers of services;
- d. Much of the economic benefit created by self catering businesses in Wales remains in their direct vicinity, often rurally, where other sources of economic activity are frequently in short supply;
 - e. In doing so self catering in Wales acts as a creator and safeguard of wealth for local/rural communities;
 - f. Self catering has proven to be a saviour of large numbers of often rural and often dilapidated buildings – that would otherwise through lack of economically viable use have remained unused, have remained in a state of disrepair, be and remain economically unproductive;
 - g. Thus, self catering generally contributes to the quality and continued appeal of many (rural) areas;
 - h. More specifically, self catering acts as counteractive force against depopulation and general impoverishment of the countryside;
 - i. Many buildings, especially rural ones, that have been converted into self catering properties come with planning conditions that limit their use as ordinary residential properties, for instance through “non-occupancy” requirements for certain periods of the year;
 - j. Though the majority of Welsh self-catering customers come from other parts of the UK, there is a considerable number coming from abroad, making self catering in Wales a positive contributor to the UK balance of payments;
 - k. Equally importantly nowadays, with the majority of its customers travelling in ways other than by air, Welsh self catering adds to the “green” balance of payments, for Wales, and the UK;
 - l. Finally, the self catering sector in Wales does not operate in a vacuum; it competes with other self catering businesses in the UK, and the rest of the world.
5. WASCO feels that any measures proposed/enacted as a result of this Consultation should, as much as possible, safeguard the positive contribution self catering makes to the Welsh economy – if not for the self catering sector *per se*, then at least for the sake of the economy in general

- and its competitive position should not be negatively affected.
6. The UK Government has extended the threshold for full SBRR to £12,000 with tapered relief above £12,000 up to £15,000. It also makes provision for transitional relief.
 7. The Welsh Assembly Government does **not** propose the increase of the current thresholds for SBRR (£6,000 and £12,000), but does propose to grant transitional relief for businesses currently receiving full SBRR but no longer able to do so from 2017 onwards. The WAG does **not** propose any other distinctions.
 8. In the last two revaluations (2005 and 2010) the rateable values for self catering businesses have increased significantly for most self catering operators.
 9. The unfavourable economic climate and changing market forces tourism has experienced since 2008 make it much harder for self catering businesses to make a decent return, and by implication, profit.
 10. The survey of WASCO members clearly shows that the proposed 2017 revaluation once again increases their rateable values. For the vast majority (80%) of respondents' businesses with 31% or more, of which one third is even hit with increases of 71% or higher! It also shows that for the relevant years, for a majority of the respondents turnover decreased or stayed the same. For the remaining respondents reported growth is less or very little more than 10%. As a result, business rates increasingly make up an even larger proportion of the business' running costs, to unsustainable levels. There is a "disconnect" between turnover, let alone profit, i.e. business performance, and rateable values. According to the Rating Manual, volume 4, section 6 *"The Receipt and Expenditure method is likely to be the preferred method of valuation in those cases where rental evidence is sparse or non existent and the rent is likely to be dictated by the actual or anticipated profit of the business carried on at the hereditament."* Where reasons for changes in rateable values should always given to be changes

in profitability for businesses in sectors that normally do not provide so called 'rental evidence', such as self catering, WASCO cannot see that the VOA is or has been doing this properly for the self catering sector.

11. It is WASCO's distinct impression that in the past ten years or so the (lead officer for the Wales self catering sector of the) VOA seems to have singled out self catering pan Wales as a cash cow for business rates. In doing so, the VOA is seriously threatening the viability of small self catering businesses, especially ones that have several units within the same curtilage, who are largely or fully dependent on their self catering business for their income, and whose rateable value exceeds the current threshold for full SBRR of £6,000.
12. In WASCO's opinion, there can therefore be no doubt that, in combination with the proposed 2017 non-domestic rates revaluation, and if enacted as proposed, the proposed arrangements to provide transitional relief to support small businesses – with no increase in the SBRR thresholds and no guarantees for the years after 2017 – will severely and adversely affect the self catering sector in Wales which, on the whole, is run on very tight margins. The proposed transitional relief for businesses with a rateable value of £6,000 or below currently, but with a rateable value above £6,000 in 2017 – although not unwelcome – does not in any way, shape or form address the fundamental imbalance between set rateable values for and the earning capacity of self catering businesses. And last but not least, the 2017 SBRR proposal for Wales creates an unlevel playing field for Welsh self catering businesses in a pan UK competitive market.
13. WASCO would respectfully suggest that (more) debating time and efforts in the Welsh Assembly and the lawmaking process be spent addressing the fundamental imbalance referred to under 12. above.

Agenda Item 3.2

Economy, Infrastructure and Skills Committee
Russell George AM, Chair

SeneddEIS@Assembly.Wales

Rosemoor, 2 November 2016

Dear members of the Economy, Infrastructure and Skills Committee,

Thank you for the opportunity to be present at your Business Breakfast Meeting on 5 October 2016. As that was only a short session, we asked you if we could send additional information afterwards, as we thought (think) the subject of business rates is a very important one for small businesses such as ours. You said you would be more than happy to receive as much information as possible.

We at Rosemoor Country Cottages and Nature Reserve have more experience of Business Rates and the process of appealing them than we would like: we had to appeal our 2010 Valuation, and took that all the way to the Lands Tribunal.

A short history

We took over Rosemoor Country Cottages in 1998 and our predecessors had been running it as a holiday complex for almost 25 years before that. It is an old Victorian estate that would have gone to rack and ruin had it not been converted into holiday accommodation in the seventies. It is a place that needs a lot of maintenance, as it concerns old buildings in (soft) red sandstone. Despite the fall out of the Sea Empress (just before our time) and the Foot and Mouth outbreak, we were doing OK, keeping up as much as possible with changing market conditions and changing customer requirements. Then the recession of 2008 hit, topped off by the Valuation Office Agency (VOA) increasing the Rateable Value (RV) for our place by more than 100%, from £5,400 to £13,000. In one fell swoop, we not only had to deal with a decrease in bookings but also with a substantial amount of extra outgoings, not helped by the fact that we were no longer eligible for small business rates relief.

The years that followed were the worst years we have ever had at Rosemoor. We were used to having next to no income during the winter months (eating into our built up reserves as during those months maintenance project costs are high) but we now encountered the new situation that cash flow in the summer months was becoming equally precarious. This meant that building up a reserve for continuous maintenance was almost impossible. Business rates were THE costs that drove us almost over the edge.

Appealing business rates

When we decided to try to get our business rates changed, we followed the predetermined procedure.

1. Discussion with the local Valuation Officer (VO)

It proved difficult to arrange a meeting with the VO, and once eventually arranged, it proved wholly unproductive. A token reduction was offered – peanuts really – to £11,750.

2. Appeal to the local Valuation Tribunal (VT)

We provided the VO with the outline of our case, as required by the Valuation Tribunal for Wales publication “Non-Domestic Rating List 2010 A guide to our Notice of Hearing”. We did not get anything in writing or otherwise from the VO before the hearing took place.

At the hearing the VO produced a file stating his case, none of which we had seen before – in contravention of the relevant rules (page 2 and 3 of the aforementioned guide). This was not deemed to be such by the VT, which thereby allowed us to be confronted with information we had not had a chance to study or prepare ourselves for beforehand. (We sat on the public gallery while somebody else’s case was heard just before ours, and the same thing happened to this lady defending her business case – it was heart breaking to watch her being overwhelmed.)

Our case was heard on the 3rd of October 2013 and, after several months of delay, we finally got the VT decision. They dismissed our case out of hand. This was at the end of January 2014.

At this point we had to think long and hard about our next step:

- As a small business owner one is up against the full might of the VOA – a large government agency whose daily work is dealing with this kind of thing;
- The subject matter is extremely complicated;
- Professional/legal help is available, but essentially out of financial reach for small businesses, as the sums involved, though vital and very big for us, are far too small to warrant the expense – without any guarantee of success;
- Recent changes to the law allow VOA to counterclaim *increases* in the RV appealed, greatly increasing the risk associated with the appeal for appellants.

As not appealing the VT’s decision would mean slow but certain death of the business we decided we simply had to take our case to the Lands Tribunal.

3. Appeal to the Lands Tribunal

This involved presenting the Tribunal with a complete and fully fleshed out Statement of Case, within 28 days of the VT decision to be appealed.

We had no money to hire a barrister or any other form of legal advice / support. We would need to do it ourselves.

Writing the Statement of Case, and writing up the documentation for various follow-up steps in the preparation for the hearing took almost all of our time for the following four months.

At the hearing in July 2014, which took a full day, we had to confront the VO defending the VOA’s position (incidentally, the lead officer for self catering for

Wales) – one of the most stressful situations we have ever encountered. The next day the Judge came out for a site visit, so he could get a feel for our business, our premises and our work.

Appeal: the final outcome

In September 2014, the Lands Tribunal ruled in our favour, and very decisively so. We managed to convince the judge that our Rateable Value should be reduced from £11,750 to £6,000. This reduction shows that the increases applied to the whole self catering sector by the Valuation Office Agency for the 2010 List (in our case from £5,400 to £13,000 originally, then reduced to £11,750 – generally in line with average increases for the sector) were highly questionable. The reasoning of the Tribunal¹ in our decision was such that it would most likely apply to many more self catering businesses, should they (have) appeal(ed).

Unfortunately, not many businesses do appeal, and very few appellants take their case all the way to the Lands Tribunal. (In Wales appeals to the Lands Tribunal against the 2010 List for self catering have been very few: just two or three.)

This is very likely related to size of business: having to face the extreme complexity of the matter, and the high /unaffordable cost of professional legal advice / representation – without any guarantee of success.

We would not be surprised if the VOA relies on this in its drive to increase RVs for self catering in Wales.

The future, 2017 onwards

This drive is reflected in average increases for the 2017 List for self catering businesses in Wales upwards of 40%, and very often more than 70%. To illustrate: our RV for 2017 has been determined at £11,500; i.e. almost a doubling again.

RV increases could perhaps be justified if business and the sector would have seen a strong and sustained upturn between 2008 and 2015 (the years taken as reference for the compilation of the 2010 and 2017 Lists respectively).

This is clearly not the case. The 2008 recession bit very strongly from 2009 onwards (there is always a delay, both up and down, in the way national indicators show on the level of individual self catering businesses). Most self catering accommodation providers have seen strong dips, and have only recently seen business return to levels on a par with, but often still below, or only very little above 2008.

We are a case in point: our 2008 turnover (ex VAT, as we were VAT registered back then) was approximately £73,000, i.e. £86,000 including VAT.

Our 2015 turnover including VAT (as we were forced to deregister for VAT because of lack of sufficient turnover/income) was appr. £ 72,000.

This was not through lack of trying; the market has become very much more difficult, for a great variety of reasons, completely outside of our control.

¹ Should you wish to find out more about our case, you can find the decision on the Lands Tribunal website, with reference RA/2014/15.

In all likelihood, it will mean that we, once again, have to appeal this rating, something our business can definitely do without. We never expected to have to go to court every five years or so, just to defend ourselves against unrealistic tax demands.

What can we say as a result of our experiences with Business Rates Revaluations and Appeals?

The appeals process is generally stacked against small businesses appealing. This shows itself in two ways.

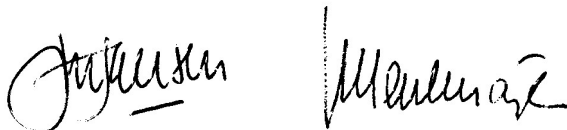
In our experience, and from studying large numbers of decisions of other cases, the Local Valuation Tribunal (the first appeals level) is virtually incapable or unwilling to go against the Valuation Officer, ever. They merely check whether the appealed RV is materially different from that of competitor businesses, and if not, the appeal is denied, no matter how well argued. In other words, the Local Valuation Tribunal does not (want to) or cannot judge cases on their true merits, if it should mean querying the validity of the approach taken by the VOA.

The second appeals level is a hair-raising process for small businesses. It either costs vast sums of money for professional representation, or requires quite unusual levels of knowledge on the part of the appellants themselves.

We sincerely hope you are able to use our experience to highlight the difficulty and heartache business rates can (and do!) cause small businesses such as ours in general, and Welsh self catering businesses in particular. We hope this will eventually lead to a situation where we (and many more) do not have to fear the day the new lists are being published.

We are happy to speak to you or give you more information should you wish so.

Yours sincerely,



Jacqui Janssen & Jan (John) Meulendijk

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Agenda Item 5

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