



WRC response to the Local Government Finance (Wales) Bill - as referred to the Local Government and Housing Committee for Stage 1 scrutiny of the general principles of the Bill.

Introduction

1. The WRC welcomes reform which will ensure that action is taken to address business rates which remains an unsustainable and contentious tax. UK commercial property taxes are the highest in Europe. Furthermore, for every £1 retail pays in corporation tax it pays £2.30 in business rates, with retailers accounting for a quarter of all business rates paid. Over recent years the WRC has been in the vanguard calling for reform of the out-dated rates system and a more conducive climate for commercial investment.
2. The retail industry is overtaxed. It represents approximately 5% of the UK economy by Gross Value Added (GVA) but pays approximately 10% of business taxes and 25% of business rates. This over-taxation relative to other industries has been driven in recent years by the inexorable rise in business rates, the multiplier for which in Wales has risen from 34.8p in 1990 to 53.4p in 2023. This is a 50% rise in the tax rate over 30 years – an unsustainable increase in the cost of occupying property. As the burden of business rates falls most heavily on shops, it is clear that this over-taxation has a harmful impact on store viability. Fundamental reform is needed to bring the burden back down to 34.8p.
3. Following many years of campaigning for more frequent revaluations, which would align with England and Scotland in terms of frequency, we are encouraged by a commitment to action on moving to three yearly revaluations.
4. We welcomed the actions on business rates and other areas by the Welsh Government in the context of Covid-19. The early and decisive move to offer retail and other sectors a 100% business rates relief in 2021 (for businesses with a RV under £500k) was, for many, the difference between trading and ceasing trading entirely.
5. Whilst we welcome the Welsh Government cap on the increase to the NDR multiplier in Wales of 5% for 2024-25, this does not go far enough given that the multiplier remains higher than anywhere else in GB and continues to place significant disproportionate burden on the retail industry.
6. Business rates are a material consideration for retail companies when deciding whether to remain in a location or expand into new areas or indeed to invest instead online. There was an oversupply of retail space in the UK before Covid-19, and trends since have only increased this as shoppers increasingly shop online with 38% of non-food retail sales now online, compared to circa 30% pre-pandemic.
7. Footfall in Wales during November was down over 16 percent compared to pre-Covid levels and shop vacancy rates continue to be higher in Wales than elsewhere in the UK, with one in eight shops lying vacant.



8. Retailers have already been facing immense cost pressures from high energy bills, commodity prices and transport costs, in addition to a tight labour market; cost pressures which are being exacerbated by a sharply depreciating pound. It is inevitable that unless these pressures ease, some of the costs will have to be passed on to consumers in the form of higher prices. Despite these challenges, retailers are doing their best to support their customers, expanding value ranges, fixing the price of essentials, and absorbing price rises where they can.
9. Action is needed as soon as possible. Retailers are making decisions now on store closures and redundancies on assumptions of increasing cost pressures and weak consumer demand.

WRC priorities for business rates

10. The WRC's comments on the bill are below. However, we preface our responses with our overall priorities for business rates' reform.
 - The multiplier should be fixed (and reduced) with no variation based on geography, type of property or value.
 - The range of reliefs should be reduced and simplified, and remaining reliefs aligned to wider policy objectives incentivising investment to improve sustainability. They should be determined by the Welsh Government, but we remain cognisant of the need for the retention of the hospitality and retail discount in particular given the ongoing impacts, and impact of Covid, on these sectors.
 - More frequent revaluations based on more transparent, publicly available data on freehold and leasehold property values.
 - The Valuation Office Agency should be fully resourced, and its processes modernised.
 - Acceleration of the immediate resolution of the backlog of appeals, and scrap or radically improve the Check, Challenge, Appeal process.
11. Whilst not in the scope of the Bill as written we believe that additional/alternative taxes (with recognition of the devolved context where there is limited scope to impact some of the below, but will be impacted by the Barnett consequential)
 - The WRC opposes any new/supplementary taxes that would give rise to an additional tax burden on consumers and the retail industry, which is already overtaxed.
 - We would engage with any proposals for replacement taxes, if they came forward.
 - While the burden of taxation falls unevenly across the retail industry, this is due to the overreliance on property in the UK's taxation system and because of problems with tax base erosion and profit shifting. International agreement through the work of the OECD should be the mechanism to tackle this and this should be progressed urgently to raise additional tax revenue.

Why a healthy retail sector matters?

12. The story of the UK's retail sector in recent years is one of success – it is one of the most competitive markets in Europe and provides customers with phenomenal choice, value and convenience.



13. Retail is Wales' second largest private sector employer, with roughly 130,000 employed. The sector substantially adds to the performance of the UK's economy as a whole - its productivity increased by 85% between 1990 and 2014, faster than the rise in productivity for the UK as a whole (40%) and this progress has continued in recent years. This activity supports a significant share of the Government's tax revenue and supports wider employment market flexibility.
14. Retailers invest huge amounts in their business and their workforce. The speed at which many grocers and others scaled up their operations, or pivoted to increased levels of online market sales, during the Covid-19 pandemic is testament to their capacity and resourcefulness.
15. However, the impact of business rates threatens this success story. Business rates particularly affect retail, which is overtaxed relative to other business asset classes such as offices or distribution and other sectors of the economy. For some larger retailers, business rates account for half of their total tax bill. For one major national supermarket, business rates account for 57% of their total tax bill. The importance of keeping this tax at a sustainable level to the health of the retail sector in Wales cannot be overstated. Business rate liability is the difference between trading and unnecessary store closures and job losses for many retailers.
16. The burden of rates falls particularly on those locations that attract higher rental values, such as town centres, but the businesses bearing the tax occupy a wide diversity of property types, from shops to offices and distribution centres. This said, high streets and town centres across much of the country are facing enormous challenges. Even before Covid-19, the demand for retail space was falling dramatically, with some estimates putting the oversupply of retail units as high as 20%.
17. The closures are not evenly spread geographically, with so called secondary and tertiary high streets being particularly hard hit – autumn figures show that one in six stores remains vacant, with vacancy rates in some locations exceed 25% or even 45% of floorspace, taking the heart out of these town centres. At the same time many retail locations are flourishing, suggesting an increasing polarisation between 'successful' and 'declining' locations.
18. Retail employment matters because it offers particular advantages compared to other sectors of the economy. Retail has been a haven for people wanting to work locally – it is the biggest employer of people who walk to work. Retail also employs a disproportionately higher percentage of women than their share of the workforce would suggest (60% compared to 48%), aiding social mobility. By their nature, many jobs in retail also offer flexibility in hours, which are valued by those with caring responsibilities (either looking after children or other adult members of the family) who are disproportionately women.
19. Retail also has a relatively young workforce. 24% of the workforce in 2018 was aged 24 and under, compared to 12% of employees in Wales as a whole. Through providing a variety of entry-level roles, retailers enable many young people with a



range of qualifications to access the labour market. Retailers' apprenticeship schemes and employer-funded workforce training offer huge opportunities for career progression, further boosting labour market flexibility, skilling up the UK workforce, and improving the country's productivity.

20. It is accepted that there will be fewer jobs in the retail sector in the future as industry adapts to changing shopping habits. However, these jobs will require greater skills and training, and will be better paid on average than existing roles. As the industry transforms this process should be a managed one that supports a smooth transition. An unsustainable business rates burden risks undermining the vitality of retail and its contribution to Wales' and the UK's GDP in the coming years.

The principles of good taxation

21. Before setting the WRC's views on the questions in consultation, it is useful to set out the principles against which 'good' taxation should be judged. Taxes should be:
- Efficient – they should minimise impact on people's behaviour
 - Fair – how different taxpayers are affected by a tax
 - Sustainable – resilience to changes in demography or society
 - Simple – straightforward to understand, administer and collect
 - Predictable – allowing people and businesses to make decisions in a stable and certain policy environment
 - Competitive – ensuring our businesses are not unfairly disadvantaged compared to those elsewhere in the UK.
22. Business rates do not meet all the principles above. The response will refer to how these principles are not adhered when commenting in the Bill below.

The Bill proposes in respect of the non-domestic rates system:

Increasing the frequency of revaluations to three-yearly, and a power for the Welsh Ministers to amend the revaluation year and interval between revaluation years through regulations.

WRC: Valuations need to be more closely linked to market values; revaluations should be at least every three years, and more frequently if/when systems and technology allow. When a property tax is based on values that are many years out of date it creates particularly adverse impacts and undermines the sustainability of the tax system.

A number of reports and commentators, including the WRC, have argued for more frequent revaluations, although views differ as to the preferred frequency. Some argue for annual revaluations, which have much to offer. They would negate the need to design transitional relief schemes and would significantly reduce appeals as valuations would only be for one year and would in any event be based on more recent data than valuations up to seven years out of date.

However, we have reservations about the capacity of the Valuations Office Agency (VOA) to undertake annual revaluations at this time, and about the administrative impact on ratepayers



of having to engage in an annual revaluation process, whether by submitting data and/or self-assessment.

The WRC considers on balance, therefore, that a reduced valuation period of three years strikes the right balance between a link to market values, predictability, and administrative burden.

This support is caveated however – should VOA capacity and/or systems of data collection be modernised to the extent that annual revaluations are possible and practical for the VOA and ratepayers alike, then we would be open to supporting an annual revaluation. This is predicated on the basis that data/information disclosure burdens on large retailers not becoming onerous and overly burdensome.

A central problem with the business rates system as currently constructed is the disconnect between valuations and actual market values. With Antecedent Valuation Dates (AVDs) occurring two years before a new list starts, and five-year valuation list periods (which have now twice been extended to seven-year periods) the difference between notional rateable values and actual market rents is substantial. Scotland has now moved to one year, and there is scope to explore this further.

Conferring regulation-making powers on the Welsh Ministers to confer, vary or withdraw reliefs.

Removing a timing restriction on the awarding and varying of discretionary relief by local authorities.

Conferring regulation-making powers on the Welsh Ministers to confer, vary or withdraw exemptions.

WRC: The system should not be required to be self-financing and should not seek a fixed income. In these circumstances, there would be no need to relate the multiplier or any supplements, to reliefs. Any reliefs that remain should apply on their own terms and be funded through general taxation just as, for example, tax allowances and tax-free thresholds are.

Reliefs must be reviewed for efficacy and centralised to ensure greater consistency in Application. The range of reliefs should be reduced and simplified, and remaining reliefs aligned to wider policy objectives incentivising investment to improve sustainability. They should be determined by central government or in line with central government guidance.

The number and variety of reliefs suggest that the business rates system is not fit for purpose and runs counter to the good tax principle of simplicity. The retail industry does not benefit from most of the reliefs, except insofar as they are owners of empty properties or small businesses, and therefore we do not offer a view on the effectiveness of particular reliefs.

However, there is a case for some reliefs. Where they contribute to economic productivity, help bring empty properties into use, or support SMEs, there is a case to be made for favourable treatment in the tax system. In the WRC's view, the currently available reliefs in Wales do not sufficiently incentivise investment in property.



As currently constructed, the business rates system disincentivises occupiers of commercial properties from making improvements to them as they will consequently bear the burden of the increase in rateable value that they have created through their investment.

The effects of this are: reduced economic activity related to the improvement work itself; fewer benefits flowing from the work, whether a more efficient store, a higher level of energy efficiency, improved anti-crime measures etc; and, in turn reduced income for Government from business rates as investment that would otherwise have increased a property's rateable value in the long term is disincentivised.

There should be a new 'Improvement Relief' for any improvements in a property made by ratepayers that increase its rateable value. This already happens in Scotland where such measures do not contribute to the rateable value of a property for 12 months through the 'Growth Accelerator'. In the WRCs view, this period does not give a sufficient amount of time in which to recoup the cost of many improvements and to therefore justify the investment. There should instead be a three-year period of relief from any increased rateable value due to improvements made. This period would incentivise improvement work, supporting the economy in the short term as the work was undertaken, and supporting Welsh Treasury revenues in the longer term once the three-year period exemption expired and higher rateable values became applicable.

The logic of using Improvement Relief to support wider public policy priorities could be extended so that it applied to any measure that met objectives such as improving public safety (through installation of CCTV, for example).

It is the experience of our members that local authorities, where responsible for deciding whether to award discretionary reliefs, are extremely reluctant to do so. MGCLG statistics show that, in the five years to 2019/20, only 0.36% of gross rates payable in England and Wales were given out as discretionary reliefs. Hardship relief, in particular, was rarely given in this time, with only £2m out of a gross business rates income of over £26bn awarded in hardship relief in each of the three years from 2015/16. None at all was awarded in 2018-20.

WRC members, and other businesses that operate across the UK, will often occupy hereditaments in tens if not hundreds of local authorities. Each issues their own business rate bills, with their own formatting and payments systems. It is complex enough simply administering the payments - hence the use of agents in many cases to do so. To add further complexity to this through greater reliefs and/or exemptions being able to be set locally would add even less predictability, simplicity and fairness (as different local authorities applied their discretion in different ways) to the business rates system, again running counter to principles of good tax design set out earlier in this document.

There is clearly a restricted appetite on the part of local authorities to award discretionary rate relief when they have to fund it, which is understandable given calls on limited local government finances. Furthermore, even if ratepayers felt that there was an appetite to award discretionary reliefs, it is not always clear what the criteria are for any such awards, particularly hardship relief.

Although we support clear guidance on how and when local authorities should determine and



allocate discretionary reliefs, the WRC believes that, as far as possible, central government should determine and set any reliefs. The principles of simplicity and fairness which sit at the heart of good tax design should direct the Welsh Treasury to a system where scope for local variation on business rate liability should be restricted to that allowed for in guidance.

Conferring a regulation-making power on the Welsh Ministers to set differential multipliers based on the description, rateable value or location of a hereditament on the local list, or the rateable value of a hereditament on the central list.

WRC: The principles that underpin decision-making should include setting a rate that:

- Supports business investment and economic activity
- Makes the Wales' property tax regime competitive
- Does not create perverse incentives or encourage avoidance

In the WRC's view the current level of the multiplier is such that none of the above principles are satisfied.

The business rates system is already too complicated, evidenced by the scale of the industry of agents and advisors employed by ratepayers to administer their business rate valuations and payments. Adding further variations on the basis of geography, property value or property type would only add to this complexity, rather than simplify the system, which should be a core aim of this review.

The problem with multipliers based on geography, value or type is how to avoid cliff edges, and how to ensure consistent and workable definitions. For example, regionally based multipliers would create anomalies along the borders between regions, which in turn would drive investment decisions that would otherwise appear perverse, for example businesses locating on one side of a road in order to avoid crossing a 'multiplier border', or business with a high rateable value in a lower value multiplier region paying an artificially low rate.

Equally a multiplier that varies by property value, for example in a banded system, would create 'bunching' or cliff edges at the limits of each of those bands, meaning that businesses that needed to expand and move to larger (i.e. high value) premises, would face a high marginal tax rate for doing so. This would penalise success and deter investment and economic growth.

The WRC believes that, rather than increasing annually, the multiplier should instead be a fixed rate and should only rise if/when the Welsh Government decide it should, just as the Corporation, Income and VAT tax rates do (for UK Government). This would better meet the good tax principles of simplicity and predictability set out above.

The Welsh Government itself, in a recent consultation document noted that: "The main purpose of revaluation, and the associated setting of the multiplier, is to adjust the liability of properties relative to others within the non-domestic rates (NDR) tax-base. This ensures the rates liability is spread fairly between ratepayers and is based on up-to-date rental values". This effectively recognises that more frequent revaluations would reset the liability of each premises and create a fairer system.



If Welsh Government want to help small firms through the NDR system then there should be a consideration of expansion or reform of small firms rates relief rather than through different multiplier levels.

Adding to the argument that there should be no variations in the multiplier, removing the automatic annual rise in the multiplier would allow Government to raise or lower it in line with economic circumstances. This in turn would allow business rates to be set at a level that, in Government's view, supports growth and is relevant to the economy's needs at that time.

Beyond this principle, the rate at which the multiplier is set is obviously key. It has risen by 50% since its inception in 1990, albeit having fluctuated within this time. If income tax had risen at the same rate, the basic rate would be 37.5%, not 20%. This increase has been particularly pronounced since 2010, since when business rates have risen 20%.

During this period there has been a significant fall in retail rents, resulting in situations where, for many retailers, a significant proportion of their stores pay more in business rates than they do in rent. For example, one retailer with 100 stores across the UK pays more rates than rent in 60% of them. Business rates for many retailers are now at a level where they determine whether or not a store will remain open. As such, the higher the multiplier, the more likely that a store will become unviable and close, with all the attendant loss of jobs and associated economic activity, as well as the impact on the wider viability of that shopping location.

The question here should not be about adding more complexity to an already outdated and complex system but moving to a fairer system which flexes with the economic climate.

A central factor driving the requirement for annual automatic increases in the multiplier is the legal obligation for the Welsh Treasury to receive a fixed income from rates – another unique and anachronistic characteristic. No other tax has this requirement, and some of the adverse elements of the system derive from this, such as downwards phasing of Transitional Relief in order to fund upwards Transitional Relief, or the precepts on the multiplier to cover appeals or small business rate relief.

In addition to letting the multiplier float in the same manner as other taxes, the Welsh Treasury must therefore also amend legislation that requires fixed income from business rates. This single measure would substantially reduce the need to reverse engineer the business rates system to be self-financing, allowing greater flexibility in designing reliefs and removing the need to automatically increase the multiplier every year. This would also mean that the multiplier would not automatically reset at revaluations as there should be no need to ensure a consistent take from rates between lists.

Removing the requirement for a fixed income and letting the multiplier float would of course not preclude Government from setting the multiplier at revaluations to achieve fiscal neutrality between lists, or changing it annually to increase the revenue raised, but at least these would be political decisions actively made and therefore subject to scrutiny, rather than being automatic regardless of wider economic circumstances.

Placing a duty on ratepayers to provide certain types of information to the Valuation Office Agency, and making provision for the associated compliance regime and:



making provision about counteracting advantages arising from artificial avoidance arrangements.

WRC: The VOA should move to a system that uses data already submitted by ratepayers (either through Land Registry records or Land Transaction Tax (LLT) returns, or through rent data specifically submitted to the VOA) to determine rateable values (see below). The VOA would be able to make assessments of value based on relatively up-to-date real-world information, negating the need for banded valuations and enabling it to focus resources on providing accurate valuations for hereditaments that don't have such data.

The VOA should use data that ratepayers already provide to the state to help in assessing rateable values. These are:

- SDLT returns – required for leases over seven years, with Stamp Duty payable subject to the rent paid
- Land Registry records – most leases over seven years must also be registered with the Land Registry

If the above sources of rent data were routinely able to be accessed by the VOA in the course of revaluations – they could be combined with data submitted by ratepayers directly to the VOA to enable a more accurate valuation to occur than is currently the case. This would enable faster valuations and reduce the risk of appeals, further reducing the resource requirement to the VOA.

We recognise that for the system to work there needs to be an element of sanction. The penalties set out at first seem proportionate as they are based on rateable value (RV). However, if the information required is the same for different properties regardless of RV, then the fine for not providing that information should be the same regardless of RV.

Larger businesses with multiple stores might have as many 60 lease events a month, particularly if they have a store refit programme. It would be difficult to track all these individually, and it can take up to 20 days for businesses to register on their systems that work has been completed, particularly when completed by agents on their behalf. It also needs to be understood that it can take months, if not years, to conclude these lease events, so the time limits should only apply from completion not the date of the event.

Given these challenges, it would be proportionate to suggest that businesses with multiple properties should be given adequate time to submit relevant information to the VOA. I

It is appropriate for ratepayers with more than 100 hereditaments to be given 60 days to submit the necessary information to the VOA. Any less time, ratepayers will struggle to meet the proposed deadlines, mainly due to the transfer of information internally and agents being occasionally imperfect, which will risk deadlines being breached without intention of doing so. In this scenario, there is a high risk the system will be slowed down, meaning penalties are not recovered and taking the VOA away from assessment of rateable values. This in turn may well hinder the goal of the VOA to deal with all appeals before the next list and impact the issuing of the draft valuation list for subsequent valuations on time.

A problem with the business rates system is the time lag between valuations, which means that rateable values are two years out-of-date by the time they come into effect and up to



eight years out-of-date by the time the next list comes into effect. This distortion is compounded where valuations are incorrect and/or based on poor data on comparable properties.

The two-year gap between the AVD and the start of a new list is partly due to the need for the VOA to gather the data on which to base valuations. If it had access to more recent market data, supplied at points such as new leases or lease renewals, this would reduce the time needed to estimate rateable values, as well as increase their accuracy. This would consequently save the VOA time in producing a new list following an AVD and result in fewer appeals and less ratepayer frustration with the system. The WRC therefore supports a requirement for ratepayers to provide the VOA with relevant rental data, subject to the following caveats:

- That it is only used for purposes of determining rateable values and not made publicly available
- That the process for providing such information is not administratively burdensome for ratepayers
- That there is no penalty for not supplying such data (the risk of incurring an inaccurate valuation should be incentive enough for ratepayers).

It is likely that a system that moved liability for tax from tenant to landowners would be less administratively burdensome by virtue of reducing the number of taxpayers and bills by two thirds given the lesser number of landowners compared to tenants. We do not propose any particular means of effective revenue collection and compliance by taxpayers.

More generally, the multiplier should be set at a level (as outlined above) that does not create perverse incentives or encourage avoidance.

It is essential that occupiers pay the Business Rates for which they are liable and that councils have effective powers to enable them to counteract any evasion effectively. The WRC is fully supportive of such powers being used to combat deliberate evasion. Our members invest considerable resource in ensuring they meet all NDR obligations across their estates. Any additional powers given to local authorities to help ensure compliance should take a principles-based approach of being straightforward and not adding extra burden, but there should be full consultation with businesses and representative organisations on the detail of any proposed powers.

About the WRC

As the trade association for retail businesses, our purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic and diverse industry. It is a driving force in our economy, a hotbed of innovation and Wales' second largest private sector employer, with 130,000 people employed. Retailers touch the lives of millions of people every day, supporting the vibrancy of the communities in which they operate.

The industry today is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.



Retailing will continue to evolve and advance. Online retail will continue to grow as retailers invest in new emerging technologies; there will be fewer stores in some sectors and those stores remaining will offer new experiences; there will be fewer, but better jobs and a career in retail in the future will be very different to today.

We are committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit.

We do this in a way that delivers value back to our members, justifying their investment in the WRC. UK wide this membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.