

## **Finance Committee Inquiry into the Collection and Management of Devolved Taxes in Wales**

### **Introduction**

1. The WLGA welcomes the opportunity to give evidence to the Finance Committee. We will respond to the detailed questions below but, as we did when we responded to the recent White Paper, it is important that we set out our general position in respect to the new tax environment, and the importance of controlling resources close to communities, where this is best to do so. Much of our response to the Finance Committee's questions underline the expertise which Local Government brings as a local tax administrator.

### **WLGA's general position in the new tax environment**

2. An essential part of our vision is that local government should have maximum freedom and flexibility to control the resources needed to deliver services locally to communities. The tax raising powers which local government already possesses are a key feature of the resource landscape at the local level and are a key element in our vision for greater local control of resources.
3. The WLGA would argue that in the new tax management environment, local democratic responsibility for taxation remains a key feature. Just as there is recognition in the Welsh Government's (WG) consultation proposals that the new devolved taxes should be brought together, there must equally be recognition of the link between nationally devolved taxes and their administration with the management and control of local taxation. Gerry Holtham's paper to the Institute of Welsh Affairs<sup>1</sup> recognised the strategic links between locally collected property taxes, newly devolved taxes and taxes that have the potential to be devolved.
4. The WLGA has welcomed invitations already made to participate in the Tax Advisory Group and our officers are contributing constructively in other fora. We believe that there is a need for Local Government to have a close relationship with the WRA and a means for high level and meaningful interaction with the new body. We will address each of the Committee's questions in turn.

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<sup>1</sup> IWA Senedd Paper 2: Taxation in Wales, Spring 2014 (<http://www.iwa.org.uk/en/publications/view/233>)

## **Who do you think should be responsible for the collection of Welsh taxes?**

5. In our response to the White Paper we set out a series of principles for any tax system:
  - a. Minimise leakage and avoidance
  - b. Maximise collection
  - c. Minimise burdens on businesses / taxpayers
  - d. Minimise complexity
  - e. Minimise administration costs
6. One of the main features of a new system for these taxes is that the administrative costs should be kept as low as possible so that as much of the tax receipts as possible are used to fund services. This is also linked to an ability to keep collection rates high (and improving) over time. A track record in both these areas should be a precondition of any organisation that takes up this role in the future. Processes should be automated wherever possible and there should be a single registration process for taxpayers or their agents.
7. In the initial years there should be no significant differences in cost to taxpayer between England and Wales given the porous nature of a relatively long border (this is particularly relevant to Landfill Tax). There should be minimal change from existing practice from taxpayers' experience (except where improvements can be made) to ensure smooth transition.
8. Our default position is simple: Local authorities in Wales are best placed to collect and manage devolved taxes. They already have systems in place to undertake the management and collection of taxes and/or sundry debtor accounts
9. There is no up-to-date contemporaneous cost benchmarking data. However the last time that an exercise was carried out by CIPFA in 2011, the costs of collecting CT and NNDR were significantly lower in Wales than England.
10. The track record of local authorities in Wales in collecting taxes and income due is good. Collection rates for council tax are at historic highs. Compared to unitary authorities in England and Scotland collection rates here are higher. Outstanding debt is falling and revenues practitioners are constantly striving to improve their service.

11. Unfortunately, there are a number of factors that mitigate against local authorities putting forward a proposal to undertake the management and collection of Welsh devolved taxes at the current time:
- The future shape of local government is not yet determined, but the transition process will encompass April 2018 when the Welsh devolved taxes become operational. The degree of uncertainty means that it is extremely difficult for individual authorities to commit to new responsibilities from 2018;
  - Timescales have not allowed for the development of a sufficiently robust proposal with all of the consultation that this would require. Councils are focused on achieving balanced budgets for 2015-16 and implementing savings plans. The level and scale of cuts that need to be addressed means that there is not the capacity at the senior level required to give this proposition the serious consideration needed within the timescales available;
  - A detailed process map would need to be developed which sets out all the steps involved, what can be provided within current systems and what needs to be developed separately;
  - Discussions would need to take place at an all-Wales level at both political and officer fora to agree whether one or more authorities should seek to provide these services, and which authority(ies) this should be;
  - Further work would be required with the authority(ies) to discuss the details of how this might work and to provide robust estimates of the potential costs involved.

### **Should Welsh taxes be collected by one organisation or different taxes collected by different organisations?**

12. There is a case for taxes being collected by different organisations so long as they are the most effective at doing so. We mentioned above that Welsh local authorities perform well in a UK context but there is inevitably a degree of variation across the 22 authorities, it may shape the type of model that is adopted, for example given the low level of transactions it could be done by one authority nationally, or by one authority in each region. What is clear is that one or more local authorities could play a significant role in the management and collection of newly devolved taxes given that they already collect £1,300m in Council Tax, £895m in NNDR and similar levels in sundry debtors.

13. Further work would be required with local authorities to discuss the details of how this might work.

**How can the experience and expertise of organisations which already collect some taxes in Wales, such as Local Authorities and HMRC, be utilised?**

14. Local authorities have experienced staff with relevant qualifications from the Institute of Revenues Rating and Valuation (IRRV) who have practical experience in all aspects of collection, minimisation of tax avoidance, revenue leakage and managing outstanding debt. Experienced staff would ensure a smooth transition and utilising existing systems would keep costs to a minimum. Obviously HMRC similarly have a vast amount of experience in these areas also.
15. There are a number of ways of harnessing this expertise as the new systems for the collection and management of devolved taxes are developed including involving these organisations and their staff in early discussions or inviting them to join project groups through to arranging secondments for key roles.

**How can the collection of Welsh taxes be future-proofed – should solutions be such that they can be adapted to accommodate future taxation changes?**

16. It is difficult to envisage in detail what future changes there may be to the tax system beyond the current proposals. The organisations, systems and processes put in place to manage and collect the taxes that are to be devolved currently need to be flexible enough to allow them to be adapted to encompass any further devolution of taxes.
17. Radical changes to the system of local property taxation have been well managed by local authorities and authorities are willing to work with Welsh Government in order to share this expertise.
18. The Council Tax revaluation in Wales in 2005 was managed extremely well by Welsh Local Authorities and the billing systems were flexible enough to cope with the significant number of dwellings that changed band.
19. Over recent years there have been numerous initiatives affecting Business Rates that have been introduced by Central Government that have required software changes as a wider variety of reliefs have become available. Recent examples in

the Retail Relief Scheme, the Open for Business Scheme, the New Development Scheme and the Small Business Rate Relief Scheme.

20. In the instances above Welsh Government and Welsh Local Authorities have worked together to ensure that these Policy decisions have been successfully implemented in a timely and cost effectiveness manner.

**How do you think Welsh taxes can be collected in such a way that service standards remain at a consistent level?**

21. As mentioned above, the minimisation of complexity, utilisation of existing expertise and automated processes will all contribute towards maintaining service standards in terms of tax collection.
22. From the taxpayer perspective, the system should be simple as possible in terms of registration, calculation and payment of tax to encourage compliance. All taxpayers should have a consistent, high quality experience that is transparent and predictable.
23. A phased approach to significant change will minimise any reduction in collection rates, as will working closely with existing providers and avoiding significant differences from the English regime, given the porous nature of the border, particularly in relation to Landfill Tax.

**Do you have any other comments relating to this inquiry which are not specifically addressed above?**

24. We agree that a Welsh Revenue Authority (WRA) will need to be established as these taxes are devolved. Our view is that the WRA will become a key player in our financial landscape and will have substantial powers available to it. We believe that the new body should be independent of the Welsh Government and that there is strong accountability to National Assembly. In our response to the consultation on the White Paper, we pointed out that a decision to go with the preferred approach should be fully tested against the benefit of alternative models. We note, for example, that in some responses to a similar consultation by the Scottish Government that a Revenues Commissioner was proposed by some.

25. The devolution of these taxes does provide an opportunity for a more coherent approach to all taxation in Wales, as put forward by Gerry Holtham's paper cited above. There may be a role for the WRA, perhaps advisory in nature, to keep overview of all property taxes in Wales and in examining and developing different approaches to National Non-Domestic Rates (NDR) and Council Tax, while recognising and retaining the local decision-making in terms of Council Tax rates is the cornerstone of local democratic accountability.
26. It is important that the size of the authority and its costs are proportionate to the scale of the taxes that are devolved to Wales, although we recognise that there is a minimum size and cost to establishing the authority. We also recognise that whatever is established needs to be suitable for the potential for devolution of further taxes.

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