

Economy, Infrastructure and Skills Committee, 5 October 2016

**Written Evidence Paper about Non-Domestic Rates
by the Cabinet Secretary for Finance and Local Government**

1. Introduction

- 1.1 The purpose of this paper is to assist the Economy, Infrastructure and Skills Committee with its scrutiny session on Non-Domestic Rates (NDR).
- 1.2 While this paper seeks to address the areas identified by the committee as being of particular interest for this scrutiny session, timings unfortunately hamper this as the 2017 Draft Rating List will not be published by the Valuation Office Agency (VOA) until 30 September 2016. Furthermore, the UK Government frequently uses the Autumn Statement to announce NDR policies which often have implications for Wales. As such, I felt it would be helpful to set out my priorities for short-term improvements and ambitions for longer-term reforms.

2. Background

- 2.1 In evidence to the Equality and Local Government Committee before the summer recess, I was clear that the finance system for local government will need to change to support the wider reforms for local government and to make councils more sustainable and self-sufficient.
- 2.2 I also have ambitions to improve the local government finance system, including local taxation. There are opportunities to make the local tax liability across businesses, other ratepayers and households fairer. There are also steps which could be taken to simplify the system of local government funding so people can understand and engage with how and where decisions are made about the funding and delivery of local services.
- 2.3 Non-domestic rates are one aspect of the local government finance system but they are an integral part of it, raising an estimated £1.06bn towards the funding of local government and police services in 2016-17. All the money raised from non-domestic rates in Wales is redistributed to fund these services. Any reforms must seek to maintain this funding stream and to build on the positive aspects of the NDR system, such as the collection rate which, at 97.5%, is one of the highest among all UK taxes.
- 2.4 There have been a number of wide-ranging publications setting out different stakeholder views, academic analysis and policy recommendations about the reform of non-domestic rates. This includes the report of the Independent Commission on Local Government Finance Wales, the Business Rates Panel Report, the Business Rates Task and Finish Group and the evidence review about systems of local government finance, which was published by the Welsh Government earlier this year.
- 2.5 The Independent Commission on Local Government Finance Wales recommended the full retention of non-domestic rates income by local authorities. The Business Rates Panel Report made a number of recommendations about the design of the system and administrative

improvements. It highlighted the need for stability in the short term following the financial devolution of non-domestic rates to Wales, while exploring improvements and new approaches in the medium to long term. The Welsh Government's evidence review looked more broadly at the principles of tax design and theory, suggesting systems that are more diverse, including a mix of taxes and income sources. This suggests governments should consider the overall shape and composition of finance systems rather than focus on any single component.

- 2.6 I am keen we examine the real-world impact of such ideas to ascertain the balance of costs and benefits from such alternative approaches for the Welsh economy, ratepayers and local services. This work will be carried out with the practical advice of experts through the Local Government Finance Reform Working Group.

3. Short to medium-term priorities

- 3.1 Businesses and other ratepayers may be anxious about the forthcoming NDR revaluation, which will be announced on September 30 and will come into effect in April 2017. The postponement of the 2015 revaluation means that properties are still valued according to 2008 values. I will make a statement in due course about Welsh Government support for small businesses which are negatively affected by the VOA's revaluation exercise.
- 3.2 In this context, my immediate priority is to provide certainty and security to small businesses to enable them to plan for the future with confidence. On 15 September 2016 I announced plans to extend the existing Small Business Rates Relief (SBRR) scheme to 2017-18. This will provide 100% relief to businesses with a rateable value of up to £6,000 and tapered relief to those with a rateable value of between £6,001 and £12,000.
- 3.3 More than 70% of business premises in Wales will be supported by the small business rates relief scheme – more than half will pay no rates at all.
- 3.4 Extending the SBRR arrangements to 2017-18 provides a year in which to thoroughly examine the effectiveness of the scheme and to consider how best to target more than £98m of Welsh Government funding to ensure those small businesses most in need are properly supported.
- 3.5 From 2018, I will implement a new permanent scheme aimed at supporting diverse and sustainable small businesses, as this contributes to the wellbeing of our local communities. As non-domestic rates can, in some instances, represent a higher proportion of the running costs for small businesses compared to larger businesses, this relief means these businesses will have more available money to invest in staff, products and increased productivity to help grow their business.
- 3.6 Alongside this work, I will consider proposals to help reduce avoidance within the system so all ratepayers contribute their fair share to the funding of local services. While this may only involve a small minority of ratepayers, this is a particular issue which stakeholders highlighted in responses to the consultation

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on the draft Local Government Bill, citing anomalies between relief schemes, and difficulties in obtaining verifiable information.

- 3.7 I am keen to pursue administrative changes which can be implemented to improve the efficiency of the system and where possible reduce the impact on ratepayers. These measures will include implementing more comprehensive data-sharing arrangements between local authorities and the VOA, enabled by the Welsh Ministers' powers contained in the Enterprise Act 2016. In addition, we will explore the opportunities afforded by the establishment of the Welsh Revenue Authority and provisions being developed in the UK Digital Economy Bill to enable the sharing of data between different government departments and other public bodies for the purposes permitted by the Bill.
- 3.8 Improving data-sharing within the NDR system will reduce the administrative burden on ratepayers having to provide similar information to different organisations and will help local authorities' fraud investigation, collection and enforcement activities.
- 3.9 Improvements can also be made to the appeals system. While a mechanism for challenge and redress is an integral part of any taxation system, under the current system more than two-thirds of challenges brought against a NDR liability result in no change to a property's rateable value and only 15% of all the appeals listed by the Valuation Tribunal for Wales are actually settled by the tribunal. This cannot be an effective use of scarce public resources and the strain it puts on the system means that, on average, ratepayers can be engaged in the process for more than a year before their case is resolved. This means appeals can subsequently result in significant back-dated changes in liability which creates financial uncertainty for businesses and local authorities. I am considering proposals for reforming the appeals system and will consult on reforms later in the year.

4. Longer-term considerations

- 4.1 The above proposals can all be delivered over this Assembly term. More fundamental changes to the NDR system require primary legislation and could therefore only be delivered in the longer term.
- 4.2 There are calls from some in local government and in the business sector for rates retention. While I recognise it can benefit those areas which have strong local economies, we must also be aware that only a few local authorities in Wales raise more in non-domestic rates than they receive from the pool. I am committed to exploring the feasibility of rates retention and other NDR flexibilities.
- 4.3 I will also commission work to explore alternative methods of taxation, including looking at mechanisms such as land value tax as a possible longer-term replacement for non-domestic taxation in Wales. This will examine the real-world impact of the ideas rehearsed in academic literature to ascertain the balance of costs and benefits from such alternative approaches for the Welsh economy, ratepayers and local services. This work will be carried out with the practical

advice of experts through the Local Government Finance Reform Working Group.

- 4.4 This would be a fundamental change in our approach to local taxation and would require new primary legislation. My aim is to be in a position, before the end of this Assembly term, where I can present emerging proposals for longer-term reforms for wider discussion and debate.
- 4.5 The current approach in England is very complex, with a partial localisation of rates overlaid by nationally-mandated relief schemes and complicated tariff and safety nets systems to support those authorities with less capacity to increase their NDR revenue. Crucially, it is linked to the phased reduction of the revenue support grant. As it has only recently been introduced, there is limited data available about whether it has effectively incentivised local economic growth. Anything we do in Wales would need to be simpler, grounded in clear evidence and framed within our approach to funding local government.

5. Conclusion

- 5.1 Improvements to the NDR system in the short, medium and long term are part of plans for the wider, and integrated, reform of the local government finance system to ensure it supports greater resilience and new ways of working among local authorities.
- 5.2 Local government is a vital partner, providing public services to tens of thousands of people every day. We must continue to support this sector and enable it to deal with future challenges. In return, local government must view its communities and businesses as assets.