

Written Response by the Welsh Government to the Report of the Economy Infrastructure and Skills Committee entitled Business Rates in Wales

9 January 2017

I welcome the report of the Economy, Infrastructure and Skills Committee.

The Welsh Government intends to take steps 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 that people can understand and engage with how and where decisions are made about the funding and delivery of local services.

The feedback provided by this report, as well as from the wider business community and other stakeholders adds to the evidence base to inform this policy development.

My detailed responses to the recommendations in the report are given below.

Recommendation 1

The Committee recommends that the Welsh Government should commit to improving the transparency and consistency of business rates.

Response: Accept in principle

The non-domestic rates (NDR) system in its current form has operated since 1990 and, as such, many aspects are well understood by ratepayers and other key stakeholders. Nevertheless there are aspects which are inherently complex.

The Valuation Office Agency (VOA) is responsible for assessing and determining the values of individual properties. It is recognised that on occasion ratepayers, or their agents, seek further information in order to understand their rateable value and how it has been determined. However, as an executive agency of HMRC, the VOA is bound by the Commissioners for Revenue and Customs Act 2005 which prohibits the disclosure of certain taxpayer information. Furthermore, certain valuation data is commercially sensitive and cannot therefore be published. Despite these limitations, the VOA is working to facilitate the provision of more information to ratepayers in respect of their valuations and the Welsh Government will continue to work with the VOA to enable this. The provisions taken by the Welsh Government in the Enterprise Act 2016 to facilitate the sharing of more information between the VOA and local authorities are a clear example of this.

Regarding the provision of temporary relief, the Welsh Government acknowledges the Committee's comments that such schemes can add to the complexity of the rating system. From 2018 onwards, the temporary small

business rates relief scheme (SBRR) which has been extended to 2017-18 will be replaced with a new scheme which will be permanently provided as part of the NDR system.

Financial Implications

Any additional costs associated with the provision of data by the VOA will be determined as part of the annual funding discussions between the VOA and the Welsh Government.

The costs of providing a permanent SBRR scheme will be considered in drawing up the proposals in developing the new scheme.

Recommendation 2

The Committee recommends that the Welsh Government should provide clarity on future direction.

Response: Accept

The Welsh Government has been clear that supporting small businesses is the immediate priority for the NDR system. This is being delivered through the extension of the Small Business Rates Relief scheme to 2017-18 and the commitment to develop a new permanent scheme from 2018, as well as the provision of transitional rate relief to help mitigate the impact of the revaluation exercise.

In the medium term, the focus will be on delivering administrative improvements to lessen the burden on ratepayers. This will include measures to tackle abuse within the system, to improve data-sharing and to reform the appeals process.

In the longer term, the Welsh Government will explore more wide-ranging and longer term reform of the local government finance system, looking internationally at the best examples. This work will concentrate on the applied and practical exploration of ideas rehearsed in academic literature to determine what the benefits might be for the Welsh public service and wider economy. However, it is important to recognise that primary legislation would be needed for many changes. Therefore, the Welsh Government aims to get to a position by the end of this Assembly term where the range of possibilities, including alternative forms of taxation, have been assessed with a number of options emerging for consultation early in the Sixth Assembly. A working group of external experts has been established to provide advice and the Welsh Government is committed to open discussions about this work.

Financial Implications

The financial implications are specific to the individual policy measures. The short-term priorities and exploratory work can all be met within existing budgets.

The associated financial implications will be a key consideration of the longer term proposals for reform, including possible alternative taxation systems.

Recommendation 3

The Committee recommends that the Welsh Government should fill the data gap around the businesses benefitting from the major reliefs funded by the Welsh Government by collecting this information centrally and publishing headline data.

Response: Accept in principle

The Welsh Government already collects and publishes a wide range of data in relation to non-domestic rates collected in Wales. This includes the amount of support provided to ratepayers under each of the relief schemes prescribed in legislation, with the data broken down to local authority level. Data has also recently been published in relation to the temporary relief schemes provided by the Welsh Government between 2012-13 and 2015-16. This is available at the following link:

<http://gov.wales/docs/det/publications/161229-business-rates-relief-scheme-data-en.pdf>

The Welsh Government will explore the feasibility, administrative implications, and benefits of collecting and publishing additional data on NDR reliefs, as part of the annual returns submitted by local authorities. It will be important to secure clarity about the benefits to be derived from adding to data already available, and to be confident that these benefits exceed the costs of securing and publishing that data.

The Valuation Office Agency also publishes a range of statistical reports in relation to the non-domestic rating list. This includes the regular 'stock of properties report' which details the number of hereditaments across England and Wales, and provides an analysis of the distribution of properties across rateable value ranges and market sectors. As mentioned above, there are statutory restrictions on the publication of certain data relating to taxation.

Financial Implications

Until the feasibility work is undertaken, it is not possible to assess the financial implications of collecting additional NDR data as part of local authorities' annual returns. There may be associated administrative and/or software development costs.

Recommendation 4

The Committee recommends that the Welsh Government should reform the appeals process in Wales so that it is faster and fairer.

Response: Accept

While a mechanism for challenge and redress is an integral part of any taxation system, under the current NDR appeals process more than two-thirds of challenges brought in Wales do not result in any changes to the rateable value of a property. Furthermore, only 15% of all the appeals listed by the Valuation Tribunal for Wales are actually settled by the Tribunal.

This does not represent an effective use of scarce public resources and the strain it puts on the system means, on average, ratepayers can be engaged in the process for more than a year before their case is resolved. This creates financial uncertainty for businesses and local authorities. As such, the Welsh Government is committed to bringing forward proposals for reforming the appeals system where possible within the legislative competence of the Assembly.

As NDR appeals comprise three-quarters of the Valuation Tribunal for Wales' (VTW) workload, regulatory changes are necessary to provide the VTW the necessary powers and flexibility to adapt to more fundamental changes to the wider appeals process and the associated impact on its workload. Consequently, as the first step in reforming the NDR appeals process a consultation is being published regarding the operation and governance of the VTW.

Regarding more fundamental changes to the wider appeals process, specifically the roles and responsibilities of ratepayers (and their agents) and the Valuation Office Agency, the Welsh Government is aware of the UK Government's reforms to the appeals system in England and has taken powers in the Enterprise Act 2016 to enable similar reforms to be implemented in Wales. However, the Welsh Government is also conscious of the concerns that some of the proposals in England have generated, in particular the criticism that the changes tip the system too far in favour of the Government rather than the ratepayer. As such, the Welsh Government intends to carry out as full assessment as possible of the potential changes and, while a consultation on appeal reforms will be published in the Spring, it is not proposed that any changes will be implemented until the 2018 financial year.

Financial Implications

Any associated costs will be drawn from existing programme budgets and will be considered as part of the annual funding discussions between the Welsh Government, the Valuation Tribunal for Wales' and the Valuation Office Agency.

Recommendation 5

The Committee recommends that the Welsh Government should move revaluations to a three-year cycle.

Response: Accept in principle

The Welsh Government is aware of calls from some stakeholders for more frequent revaluations, particularly following the 2017 revaluation exercise where, in some areas, fluctuations in rateable values appear to have been more marked as a result of the length of time since the previous revaluation exercise in 2010.

At the same time, the VOA has indicated that more frequent revaluations could potentially result in increased volatility in ratepayers' bills as the revaluations could hit different points in the property market cycle.

It is also clear that, due to the number of practical and administrative issues that would need to be addressed, more frequent valuations would not simply equate to simply shortening the revaluation cycle in its current form.

The UK Government has also considered the potential for shortening the revaluation cycle and, before the summer, consulted on proposals for delivering more frequent valuations. Given the complexity of making changes in this area, it will be important to draw on lessons that can be learned when the UK Government publishes its consultation response.

As such, the Welsh Government will continue to explore with the VOA the possibility of providing more frequent revaluations, including the associated administrative, legislative and financial implications, and the likely impact on ratepayers.

Financial Implications

Any additional costs associated with this exploratory work will be met from within existing budgets.

Mark Drakeford AM
Cabinet Secretary for Finance and Local Government