Business Rates Policy in Wales

An Outline of the Institute of Revenues, Rating and Valuation's (IRRV) Evidence to the Economy, Infrastructure and Skills Committee of the National Assembly for Wales
5th October 2016 from 10.00 – 11.15am

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Introduction

The IRRV is the professional body concerned with all aspects of local taxation, valuation, appeals, financial management and local benefits administration in the United Kingdom. It has members within both the public and private sectors, including ratepayers and their agents. Institute members are engaged in local taxation collection, property valuation, the appeals process, advising and representing ratepayers and financial management within local government.

We are an Institute that represents the professional interests of members who work within a broad church. The Institute is the only professional body in the United Kingdom which specialises in the law and practice of local authority revenues and local taxation, together with the valuations, appeals, reliefs and benefits which support these processes.

The approach taken to modelling the costs and economic benefits of business rates policy options

The Institute often models the impact of government policy and in recent months has looked critically at the government's proposals for 100% rate retention in England. This modelling approach takes account of the impact of rate liability and its effect on both the ratepayer and local economic conditions. This approach is partially helpful when dealing with issues such as; local discretions, particularly those related to stimulation of the tax base, regeneration and local economic activity.

What should the Welsh Government's priorities for business rates policy be for the Fifth Assembly

The Assembly should move forward on a retention scheme designed specifically for Wales. Whilst the English model can be used as a guide there are some aspects that can be improved particularly the level of discretion and the scheme of equalisation. The Institute supports a number of the recommendations of the Task and Finish Group and these should be given priority particularly

<u>In the 2012 report</u>

Recommendation 2: There is a piece of work needed to be completed in conjunction with the Climate Change Commission, the Welsh Government and Business regarding the issues and needs surrounding sustainability and its impact on NDR.

Recommendation 3: A thorough review of the use of hardship funds by Local Authorities. Currently, the vast majority of Local Authorities do not admit to having a hardship fund, and those who do admit that the chance of receiving a hardship fund is very slim.

Recommendation 4: A thorough review of rates holidays and what the business community needs. Should business rates relief be targeted?

Recommendation 8: Is there a need for a central database for NDR statistics? Is this possible? Research during this report and throughout the Task and Finish Group has highlighted the clear lack of statistics available. This is worrying in terms of policy development and has hindered the Task and Finish group's work in some aspects. Asking each individual Billing Authority in Wales for statistics appears to be a cumbersome task. A central database could provide the data needed on which to base NDR policy, its impacts and then have the intelligence to target relief/multipliers.

Recommendation 11: Review of the multiplier and its possibilities. Should the multiplier be increased for all businesses, and could this fund a more generous rates relief package? Is this possible or desirable with regards to the devolution settlement? Should the annual link with the RPI change? Data is not currently freely available to research this subject.

In the 2013 report

Recommendation 1: The Task and Finish group reiterates previous recommendations that planning authorities should consider incentives, such as targeted grant funding in preference to NDR relief, in those town centre areas that have suffered significant decline as retail centres. However, in other areas of the town centre, carefully managed NDR relief packages may be created particularly for empty, refurbished and newly built property.

Recommendation 2: The Task and Finish group recommends that local planning authorities should be encouraged to be flexible in the way that 'change of use' consent is granted, to enable and encourage alternative use of vacant and surplus retail space, including temporary 'meanwhile use'.

Recommendation 5: To assist in raising awareness of the role that the Hardship Relief scheme can perform, the Group recommends that clear and consistent guidance notes should be drawn up that reminds local authorities of the criteria by which they may judge an application for relief (based on the points enumerated in paragraph 34 below), and highlights best practice in publicising the relief.

Recommendation 6: The Task and Finish Group has, in previous reports, noted the negative impact that the reduction in EPR relief, introduced in 2008, has had and the avoidance practices that have arisen in its wake. The Group, therefore, recommends consideration should be given to reviewing the existing 100% charge on longer term empty premises.

Using our experience from England, it is important that business ratepayers are given a reasonable lead time in order to take into account of any adjustments in their outgoings. This is particularly important with rate liability because it is regarded by business as the most significant outgoing after all the costs of employment. We would therefore suggest that a lead in time of at least 12 months is essential to give business the opportunity to make these adjustments.

How should the recommendations made by the Business Rates Task and Finish Group and the Business Rates Panel in the last Assembly be prioritised and taken forward

The Institute was actively involved in giving evidence to the Task and Finish Group. We support a number of the recommendations as above

How can business rates be used to drive economic growth, and how should performance be measured against this;

We believe the application of differential tax rates for rate liability would give local authorities and the Welsh Assembly Government the opportunity to introduce innovative approaches to encourage businesses to relocate in Wales. This will be particularly important if it were to be considered alongside any potential changes in the levels of Corporation Tax. This will also give a possible incentive for dealing with the porous nature of the border between England and Wales.

The introduction of retail incentive schemes is an approach that has been used to reverse the decline in high street retail activity. The Institute is not convinced that this approach works and is exploring other options particularly the introduction of internet sales levies and more innovative schemes of State Aid which should be part of the Brexit provisions.

The potential implications of recent changes in English business rates policy for Welsh businesses and the Welsh economy, such as planned changes affecting small businesses such as reliefs and multipliers; more frequent revaluations; proposals for 100% local retention of business rates and for local authorities to be able to set their own business rates multiplier;

The Institute has taken a positive stance on the introduction of business rates retention schemes. There is no doubt in our mind that it has encouraged billing authorities to take a more active role in the administration of the tax which has led to an increase in yield. The localisation mechanism and the potential to retain income have also begun to yield results particularly in relation to the funds available to improve the infrastructure in areas of economic decline such as the traditional high street. The move to 100% retention will generate more activity in the rate tax base however care must be taken to fairly equalise the financial resources.

One of the disadvantages of five yearly revaluations is that where there is a large swing in rental or capital values inter-quinquennium, this is not reflected until the following revaluation. Where rents and costs are increasing, the ratepayer is unlikely to be upset; however, where these values fall, dissatisfaction can arise (notwithstanding provisions relating to material change which may assist in these cases).

We contend that shorter periods between revaluations would be preferred by the majority of ratepayers as this would help to even out some of the changes in levels of value which can occur within the revaluation cycle.

The revaluation cycle has traditionally lent itself to a five-year valuation cycle, due in part to the timescale required to handle large volumes of appeals between revaluations.

It may assist ratepayers to move towards a three-yearly revaluation cycle; possibly as a stepping stone to annual or two-yearly revaluations. We accept however that these changes would probably only be achieved if all leases are supplied as a matter of course to the VOA (direct or via Land Registry). Such a move to more frequent revaluation would generally reduce the number of appeals, keep rateable values more aligned to passing rents and could negate any need for transitional relief schemes.

More frequent revaluations would generally result in a more acceptable change to rate poundage levels; thereby giving rateable occupiers a greater degree of certainty. Three-yearly revaluations could level out the appeal workload for rating surveyors, minimise increases / reductions in revaluation assessments for occupiers and allow the Government and billing authorities a greater degree of certainty of income level.

In the context of non domestic rates the introduction of variable local multipliers in Wales could influence the relocation of business activity from England to Wales. If this is the case it raises the potential for increased revenue as the tax relationship between Wales and the Treasury matures

Your views on taking forward localisation/regionalisation of business rates policy in Wales, particularly in the context of the Cardiff Capital Region City Deal and the proposed deals for Swansea Bay and North Wales;

As previously stated the Institute has taken a positive stance on the introduction of business rates retention schemes. The localisation mechanism has the potential to stimulate growth. The creation of City Deals and Combined Authorities will enable the creation of unique locally based regeneration schemes and could improve the deliver of local services. There is also early evidence of retained income beginning to yield results particularly in relation to the funds available to improve the infrastructure in areas of economic decline such as the traditional high street. However these arrangements must not be at the expense of other local authorities who rely upon the equalisation process to balance the resources generally available to local government.

The potential impact of the revaluation of rateable values currently being conducted by the Valuation Office Agency (VOA) for the Welsh Government.

It is early days. There have been broad indications from the VOA of the movement in value over the various classes of property. My Institute will be carrying out an authority by authority comparative analysis for English local government. This will enable them to adjust provisions for the Retention Scheme and check the Governments adjustment of baselines.
The revaluation also will undoubtedly shift the incidence of liability in Wales. This shift will benefit some and penalise others. Those who see a shift upwards need to be protected. This protection traditionally takes the form of transitional schemes that are either financed by Government or by phasing the gains.

Any other issues you think are particularly relevant.

The condition of the Rating List for Wales

We have carried out a study of the quality of rating lists in England and Scotland which has revealed a significant incidence of missing rateable value. This situation has been fuelled by the "nationalisation" of the non domestic rate in 1990 which led to billing authorities reducing the administrative effort in relation to the maintenance of the rating lists. We believe there is significant missing value in Wales.

The introduction of an incentive scheme to Billing Authorities in England was probably the most significant change to the non domestic rate since its inception in 1990. It introduced two major challenges to Billing Authorities (BAs), firstly it demanded improved budgetary forecasting in an area generally unfamiliar to finance managers, but it also gave financial encouragement to BAs to improve resource commitment to the rating team. In England this incentive has already realised over £50m of missing value

Rates Avoidance

The Institute fully supports the premise that clarification and/or change is required regarding aspects of empty business rating, both in terms of its application and its administration. The Institute also fully supports the Government commitment to "continue to support law abiding ratepayers who are genuinely entitled to the reliefs and exemptions". This support should apply to all who work by legal means to minimise business rates liability; and by extension it should not include those who adopt practices by which they seek to evade tax liability.

Tax avoidance is, of course, a strategy which involves exploiting legal means of reducing taxes with the goal of minimizing tax liability. Avoidance is a perfectly legal approach to handling taxes. There is a point at which practices of a minority stray into the realm of being abusive; and thereby cross the line into tax evasion. It is important to emphasise however that there is nothing illegal in seeking to minimise that tax liability, either for oneself or on the behalf of others. To state that avoidance places an unfair burden on the "honest majority" could be seen to portray those who seek to minimise liability legitimately as 'dishonest' and this is not the case.

It is felt that avoidance is "undermining confidence in the rates system". It could well be argued that the interaction of the empty property rating system as introduced from 2008, with the now high level of business rates multiplier are also contributory factors to any perceived undermining of confidence in the system.