

Written Evidence Paper on Business Rates Devolution in Wales from the Minister for Economy, Science and Transport

1. Introduction

- 1.1 The purpose of this paper is to assist the Enterprise and Business Committee with their scrutiny session on Business Rates Devolution in Wales.
- 1.2 The paper addresses the areas identified by the Committee as being of particular interest for this scrutiny session, including potential for changes and options under consideration.

2. The costs and economic benefits of policy options

- 2.1 Consideration of costs and benefits is a central part of the development of policy options. This helps determine, alongside consideration of other matters such as the competitiveness of the business rates regime, whether proposals are feasible, worthwhile and appropriate.
- 2.2 Valuation Office Agency (VOA) data on the rateable value of non-domestic premises is used for the development and costing of policy options. This data is checked against that held locally by Billing Authorities. Depending on the nature of the scheme, assumptions may also be applied to this data, for example, vacancy rates were used in the case of the Open for Business Scheme.
- 2.3 Steps are taken when developing policy options to consider alternative interventions, to estimate the anticipated costs and benefits, and to look at sensitivity analysis to reflect, for example, varying levels of take-up. This proportional approach is consistent with the approach taken to non-domestic rates ('business rates') elsewhere.
- 2.4 Data is also gathered on the schemes at implementation to monitor take up and impact. However, it is not always straightforward to quantify or even identify all potential costs and benefits, and they often extend beyond just economic factors.

3. Timetable for changes

- 3.1 Changes to the core administration of business rates need to be determined well in advance of the financial year in which they are to take effect. This is to allow Billing Authorities to make the necessary arrangements and for any necessary sub-ordinate legislation to be prepared.
- 3.2 Grant-based temporary rate reliefs can in some cases be applied with shorter lead-in times, due to their more targeted nature, although there is still a need to ensure that Billing Authorities have sufficient time and information to introduce the changes.

4. Potential for differential tax rates in Wales

4.1 Whilst the UK Government has announced that it will abolish the Uniform Business Rate and allow Billing Authorities to decrease the multiplier in order to attract investment, this decision has not been taken in Wales. The potential exists to introduce differential tax rates but this is not without issues, for example, it would require primary legislation and would have implications for local tax revenues. In addition to this, as the Business Rates Panel concluded, implementing differential tax rates within Wales could create a complex system of varying rates and reduce budgetary certainty for occupiers.

5. Local rates retention

5.1 Local rates retention can be a tool for incentivising local authorities to focus on growth. The Business Rates Panel was supportive in principle of a system of local rates retention.

5.2 However, there are currently a number of factors to be addressed in considering the possibility of rates retention in Wales. For example, there is an uneven distribution in the amounts of rates revenue which can be raised by the Welsh local authorities. In addition to this, business rates provide a core component of the funding for local services across Wales.

5.3 The risks of variation in the yield from local rates retention and in the funding that would consequently be available for local services, as well as authorities' potential to achieve a net increase in the amount of rates generated, would vary significantly between local authorities. Protections would need to be considered for authorities that are heavily reliant on a small number of ratepayers, and these could reduce the incentive that local rates retention would otherwise bring. They could also add further complexity to the system.

5.4 It is important that local rates retention is therefore considered in the context of wider proposals for reforming local government in Wales and in conjunction with the rest of the system for financing local services.

6. Revaluation

6.1 The most recent revaluation in England and Wales was 1 April 2010, and the next will be in 2017. The Business Rates Panel considered the length of the revaluation cycle and the impact this has on business. In its report, the Panel reflected on a consensus from business and commercial ratings professionals that more frequent revaluations could ensure that the tax base better reflects economic circumstances.

6.2 The frequency of revaluation is being considered at a UK level and the VOA has undertaken a detailed analysis of this issue. The VOA concluded that more frequent revaluation would not necessarily increase the stability of bills, and that this would depend on changes in property values across the market and the extent to which these follow a steady trend.

6.3 There are clearly advantages and disadvantages to more frequent revaluations and to adopting a different approach in Wales from that in England. Consideration is needed in any change of approach to factors such as the benefits to business, the cost to the Welsh Government and the impact on the yield and stability of this source of revenue for local services.

7. Integrated economy and porous border

7.1 The economy in Wales is very highly integrated with England; goods and services are freely traded across the border within a framework of a common set of capital market and uniform labour laws.

7.2 The England-Wales border is more porous than the England-Scotland border. For example, 16.4 million people live within 50 miles of the England-Wales border; 6.3 million people live with 25 miles of the border. In contrast, only 3 million people live within 50 miles of the England-Scotland border; and only 0.5 million live with 25 miles of the border.

7.3 The commuting flows across the Wales-England border are also more significant than those in Scotland. Census data show that in 2011, over 75,000 people travelled from Wales to work in England and 44,370 people travelled from England to work in Wales. In contrast, commuting flows between England and Scotland were much smaller. In 2011, around 16,000 people lived in Scotland but worked in England, whilst around 26,000 lived in England but worked in Scotland.

7.4 In light of this, it is important that decisions on business rates, and the competitiveness of our regime, are not considered in isolation.

8. Contribution to economic growth and measuring performance

8.1 The Task and Finish Group and Business Rates Panel have been clear in their advice that business rates policy is not a panacea for economic growth. They also commented that there was limited evidence on the impacts of changes to the rates system on the wider economy. However, they recognised that rates tend to form a higher proportion of total operating costs for smaller businesses and there is evidence that business rates remain a major concern for SMEs.

8.2 Rate relief schemes have been shown to help certain ratepayers with cash flow, sustainability and keeping costs down, and I am clear from discussions with business how important this is.

8.3 Performance is measured on a scheme by scheme basis, and we work with local authorities in this regard. Data is routinely collected, including the number and level of reliefs awarded. This helps us understand the nature of take-up. It is also important that we recognise the potential burden that reporting requirements place on business and local authorities.

9. Business rates relief schemes

- 9.1 A number of important business rates measures have been taken this year to support business. For example, the Small Business Rates Relief Scheme enhancement has been continued for a further year. This scheme provides support for around three quarters of business premises in Wales, reducing their liability to nil for approximately half of those eligible.
- 9.2 The Wales Retail Relief Scheme was extended and enhanced in 2015-16. In 2014-15, this scheme provided up to £1,000 off the rates bill for over 10,500 business premises in Wales, and cost £9.5m. Building on this, the Scheme in 2015-16 offers up to £1,500 off the rates bill and is providing important support to small businesses and town centres.
- 9.3 A further cap was also placed on increases to the business rates multiplier, at 2% in 2015-16. This measure reduces business rates bill increases for all non-domestic ratepayers, and will cost an estimated £4m in 2015-16.
- 9.4 The New Developments scheme was introduced in October 2013 and is aimed at stimulating construction and encouraging development in Wales. This scheme exempts all newly built, vacant commercial property from business rates for the first 18 months following completion, if completed on or after 1 October 2013 and before 1 October 2016.
- 9.5 A further round of the Enterprise Zones Business Rates Scheme was opened in 2015-16. Across four financial years, the Enterprise Zone Business Rates Scheme has supported 136 businesses and has resulted in more than £8m in funding being offered to business.
- 9.6 We are supportive, in principle, of the continuation of the enhanced Small Business Rates Relief Scheme for 2016-17. However, this and other reliefs will need to be examined in light of the UK Government's Spending Review and wider pressures on the Welsh Government's Budget.