

# Business Rates in Wales

## A one-day inquiry

On 5 October the Economy, Infrastructure and Skills Committee held a one day session looking at business rates. This included a breakfast event with a range of stakeholders, and a series of interviews with businesses across Wales

To ensure we got the view from businesses across Wales, we also produced a [short video](#), summarising some of the key issues, which we played at the breakfast event to help stimulate discussion.

## Aims

The Committee's aims for the day were to:

- Obtain more detail on the Cabinet Secretary's priorities for business rates in Wales, and providing clarity to businesses across Wales on these.
- Understand witnesses' experience of the upcoming 2017 business rates revaluation.
- Scrutinise how the Welsh Government intends to implement the Welsh Labour manifesto commitment to give a business rates tax cut to small businesses.
- Find out more on the Cabinet Secretary's plans to consider replacing business rates with a land value tax in the longer term.

## What we heard

During our breakfast session, we discussed the impact of business rates on a range of businesses including retail, small city centre traders, tourism and manufacturers.

Members and business people discussed how rates are calculated, what the money is spent on, whether and how rates could be reduced to promote economic development, as well as specific issues relating to the cost of investment in equipment (eg by major industries like steelworks), high street vs. out of town retail, and how holiday homes should be assessed.





All photos taken from the Committee's breakfast stakeholder event to discuss business rates in Wales on 5 October at World of Boats, Cardiff Bay.



# Recommendations

The Committee makes five recommendations for Business Rates in Wales.

The Welsh Government should:

01. Commit to improving the transparency and consistency of business rates;

Our evidence suggests that despite efforts to educate and inform, there remains little understanding of how business rates are collected and what their purpose is.

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“One of the issues that constantly come across in my discussions with businesses and ratepayers is not understanding the system and the basis of the tax, which is the rateable value: ‘What does a rateable value mean... I think it’s incumbent upon Welsh Government or the Valuation Office Agency, which sets the new assessments, to explain how that assessment is arrived at.”

- Andrew West from the Royal Institution of Chartered Surveyors Wales (RICS Wales)
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The disagreement between the Welsh Government and the FSB over whether the continuation of the current small business rate relief scheme is in fact a tax cut, is symptomatic of the problem: the cabinet secretary is correct that people who *might* have paid more in 2017–18 will now not; but the FSB are also correct that no-one will pay less than in the preceding year as a result of the Welsh Government’s actions.

Temporary rebates – even ones which continue for many years – do not amount to a transparent system. We heard that there is a trade-off between simple and regressive reliefs and complex and fair ones.

We heard praise for the simplicity of Wales’ business rates regime, and there is much to commend this approach. But there are also elements of the schemes running in the other UK nations which have attractions too.

However, it should be acknowledged that the simpler the system, the harder it will be to target specific sectors or businesses for relief.





## 02. Provide clarity on future direction;

The Minister indicated a willingness to fully explore the potential of alternative forms of taxation for business including Land Value Tax. We welcome this open approach, which contrasts with that of his predecessor. However, there is a danger that this process results in uncertainty for business – so we would wish to see this work completed quickly.



03. Fill the data gap around businesses benefitting from the major reliefs funded by the Welsh Government by collecting this information centrally and publishing headline data.

The Cabinet Secretary challenged the evidence received by the committee which suggested that there were significant data gaps when it comes to business rates. He indicated that he was open to filling data gaps, where it could be shown that having additional data would lead directly to an improved system.

He said:

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“Well, Chair, this is an issue where I will be very interested to look at what the committee concludes, having heard the evidence that you will have heard. I would be particularly interested in specific suggestions as to where data gaps might exist. I’d also need to see what the committee said about the difference that filling those gaps might make. In other words, how significant a gap is this, because it isn’t as though we are without information in this field?”

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Evidence the Committee received from the Institute of Revenues, Ratings and Valuation (IRRV) stated that:

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“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.”

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The Cabinet Secretary made the point that, during the review of small business rate relief, he was looking to consider the extent to which large businesses that operate from multiple premises can claim a relief for every premise that they occupy, and to see the extent to which the scheme is actually not benefiting ‘small’ businesses in that sense, but large businesses that operate from small premises.



This is one way in which a central database of statistics would be extremely useful in helping the Welsh Government develop better-informed policy. Clearly there also would need to be a balance struck between any additional information published from this database and commercial confidentiality.

While the Welsh Government does publish information on businesses benefitting from grant-funded relief schemes such as the Enterprise Zones scheme, this does not cover the three reliefs that the Welsh Government spends most on – small business rate relief, charitable rate relief and empty property relief. The Welsh Government has estimated it will spend almost £180 million in providing these reliefs in 2016–17.

If statistical information on businesses benefitting from these reliefs was collected and published, this would increase understanding of the value for money achieved by reliefs, and provide useful information on what types of business benefit from reliefs and which areas they are located in. It would also provide a useful base from which to model future policy changes. Data is already published for England and Scotland on this topic which could be a starting point for the Welsh Government to consider.





#### 04. Reform the appeals process in Wales so that it is faster and fairer;

There is a clear consensus among businesses, umbrella organisations and the Cabinet Secretary for Finance that the appeals process is too slow and bureaucratic. The Committee has also heard directly from small businesses the lengthy processes they have been through.

The Cabinet Secretary's evidence notes that the process has a low success rate, which suggests that the basis for calculation are not well understood.

The introduction of a new appeals system in England was subject to considerable criticism by witnesses, anxious that Wales does not replicate the English scheme. Concerns focussed on the new system in England making it more difficult for businesses to have their appeal considered, the length of time that it could take to resolve appeals and the introduction of a fee for cases to be heard at Valuation Tribunals. The Cabinet Secretary indicated in his evidence that he would be bringing forward a consultation during the next half term on a revised appeals procedure for Wales. The Committee welcomes this announcement and looks forward to considering the Cabinet Secretary's proposals when published.



## 05. Move revaluations to a three year cycle;

The committee heard contrasting views on revaluations, but hold firm to the belief that regular revaluations are essential in order to ensure the system is and remains fair.

Three yearly revaluation was recommended by many of the witnesses we heard from, including FSB Wales, the IRRV and RICS Wales. In order to deliver this, there will need to be a change to the way that valuations are conducted, for example through introducing self-certification or greater automation.

By moving to a more regular set of revaluation, there is likely to be more frequent but smaller variations in business rates. We think this is preferable to larger changes on a five or six yearly cycle. It should also allow the Welsh Government to do away with transitional arrangements (which can be complicated to administer).





## Conclusion

Business Rates are a perennial issue among small business owners. Even those who currently pay nothing, are concerned that should their business grow they would cross the threshold and start to pay.

The Cabinet Secretary has taken an open-minded approach at the start of his term of office, and we look forward to hearing his approach to further reforming the system of appeals in due course.

In the meantime, we would urge him to look again at the various reviews and task and finish groups conducted in the last Assembly and give as clear a steer as possible to businesses in Wales that taxes will be transparent and consistent.

