



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Menter a Busnes **The Enterprise and Business Committee**

Dydd Mercher, 11 Mawrth 2015
Wednesday, 11 March 2015

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal,
cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mick Antoniw	Llafur Labour
Rhun ap Iorwerth	Plaid Cymru The Party of Wales
Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Yr Arglwydd/Lord Elis-Thomas	Plaid Cymru The Party of Wales
William Graham	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Tracey Burke	Cyfarwyddwr Strategaeth, Adran yr Economi, Gwyddoniaeth a Thrafnidiaeth, Llywodraeth Cymru Director of Strategy, Department for Economy, Science and Transport, Welsh Government
Iestyn Davies	Pennaeth Materion Allanol (Gwledydd Datganoledig), Ffederasiwn y Busnesau Bach Head of External Affairs (Devolved Nations), Federation of Small Businesses
Edwina Hart	Aelod Cynulliad, Llafur (Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth) Assembly Member, Labour (Minister for Economy, Science and Transport)
Josh Miles	Cynghorydd Polisi, Ffederasiwn y Busnesau Bach Policy Adviser, Federation of Small Businesses
Chris Sutton	Cadeirydd y Panel Trethi Busnes, Llywodraeth Cymru Chair of the Business Rates Panel, Welsh Government

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Rachel Jones	Dirprwy Glerc Deputy Clerk
Andrew Minnis	Y Gwasanaeth Ymchwil Research Service
Gareth Thomas	Y Gwasanaeth Ymchwil Research Service
Marc Wyn Jones	Clerc Clerk

Dechreuodd y cyfarfod am 09:30.
The meeting began at 09:30.

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **William Graham:** I welcome Members, witnesses and any members of the public. Can I just welcome also Martha Howells, who joins the team as second clerk, sitting here behind us? I have apologies from Eluned and Gwenda and from Jeff. Members might know that Jeff has undergone a minor operation on his knee and will out for about two weeks. Hopefully we'll see him before the end of term.

[2] The meeting is bilingual. Headphones can be used for simultaneous translation from Welsh to English on channel 1, or for amplification on channel 2. The meeting is being broadcast, and a transcript of the proceedings will be published later. May I remind Members and witnesses that there's no need to touch the microphones? They should come on automatically. In the event of a fire alarm, I ask people to follow directions from the ushers.

09:31

**Polisi Ardrethi Busnes—Ffederasiwn y Busnesau Bach
Business Rates Policy—Federation of Small Businesses**

[3] **William Graham:** Our main business this morning is business rates policy. We are grateful to the Federation of Small Businesses for coming and giving evidence to us. The Welsh Retail Consortium are unable to attend, but they have submitted a paper. I welcome the witnesses and ask them to give their names and titles for the record.

[4] **Mr Davies:** Thank you, Chair. I'm Iestyn Davies, senior head of external affairs for the devolved nations of the UK for the Federation of Small Businesses.

[5] **Mr Miles:** I'm Josh Miles, policy adviser for Wales.

[6] **William Graham:** Thank you very much. So, we'll go straight to questions, if we may. The first question is from Mick Antoniw.

[7] **Mick Antoniw:** Good morning. We've been obviously looking at the whole business rates issue since 2011. Have we made any progress since then?

[8] **Mr Davies:** Well, I think, Chair and Mick, that what is good is that I don't think I have to rehearse the arguments in this meeting. I think over the last few years we've moved collectively, and I should thank the committee for their continued interest in this issue, and indeed the Assembly as a whole. What I don't want to do today is kind of go back over where we were in 2011. We're very much in a situation where we accept a number of givens in terms of policy. We accept the one major given, which is now that the devolution of business rates has happened, and it's now the Welsh Government's responsibility both to set up and administer its schemes, and we certainly welcome that. I guess we're probably more in discursive mode, trying to find a constructive and realistic way forward, but some questions still remain over efficiencies of reliefs and the extent to which there is a consensus that we can take the opportunity, now that business rates have been devolved, to be creative. And indeed, using that well-used phrase 'powers for a purpose', when it comes to business rates the purpose is that we want to develop a more fair and progressive system that enables not just some of our members to have, perhaps, a better deal, but more importantly to use business rates at the heart of community regeneration, so that, more widely, the people of Wales benefit from the devolution of these powers.

[9] **Mick Antoniw:** I think the FSB's position was really that Wales, of all the countries

of the UK, had the most burdensome system on small businesses for a whole series of historical and structural reasons. Is that still your view, that that is the case, that the challenges for Wales are particular, but are greater in terms of the burden on small to medium enterprises?

[10] **Mr Davies:** Yes, I think that's still the case. I think there are two answers to that question. Josh is probably better placed to answer the first part about the exact nature, particularly, of the multiplier and the impact that has, and then perhaps if I can return to the way that the relief system is working to give the second answer.

[11] **Mr Miles:** It's quite interesting in that we talk quite a lot about consistency with England in terms of business rates. One of the areas that isn't consistent is the multiplier, so we've got the uniform business rates multiplier in Wales, whereas in England they've got the UBR and a small multiplier. So, really, I think most of the issues we're talking about in terms of the word 'settlement' relate to that issue. We'd certainly like to see an element of progressivity identified in the business rates system, as they've done in England and Scotland, and perhaps that's what we're trying to get at with that particular phrase: can we reform this to be a more progressive tax going forward?

[12] **Mick Antoniw:** Did you have a particular view on the multiplier, particularly with the retail price index, the consumer price index, and so on?

[13] **Mr Miles:** Yes, I think CPI is definitely a better measure. It's the one that's being used for a lot of Government spending at the moment, and RPI tends to go up by a higher rate. So, from our point of view, CPI would be better. In terms of the multiplier, we would definitely like Welsh Government to have a look at splitting it maybe, with a view to setting out different rates for small and large businesses, where that would be appropriate. In particular, you could use some of the revenues, if you do split it, to fund things like business rate relief for small businesses, but we've got to really get the evidence base and look into this in more depth before we come to any firm conclusion on it.

[14] **Mr Davies:** So, the second answer is that we see a use of discretionary reliefs and specific reliefs, such as the Open for Business scheme, which the Minister for enterprise announced, I think, a year ago, which is coming to an end at the end of this month. So, the question is: are reliefs like that, and discretionary reliefs and a lot of local reliefs, a more efficient way of ameliorating the bad aspects of, particularly, the lack of a multiplier? I don't think we've got enough evidence to show, actually, that it is or isn't the case at this point in time.

[15] **Mick Antoniw:** Is one of your big issues, though, in terms of any progress since 2011 and where we are now, still the enormous discrepancy in the burden of business rates on small enterprises as opposed to, I think, your position previously, which you said was that the larger businesses aren't bearing their fair share?

[16] **Mr Davies:** Yes, that's a first principles position, then there are subsidiary questions that flow in terms of administration and the efficiency of reliefs. I think the Government—and I think all parties—support the use of reliefs, but are the current reliefs sufficiently efficient to be able to bring about a balancing effect? Of course, the other main problem is that there's a discrepancy between the amount of rent a particular commercial property would charge in the market and what the rateable value is. That hasn't been addressed and is not going to be addressed for some time.

[17] **Mr Miles:** We have to acknowledge that things like extensions to small business rate relief would have made a big impact on many of our members, and they are definitely things to be welcomed. I think what we're trying to look at is what happens in the longer term.

Those are temporary reliefs; they expire every year, we have a debate every year about whether we should continue with those, but the kind of thing we'd like to look at is whether the actual tax is applying its burden in a way that is progressive and fair, and I think, with the devolution of business rates now, we've got a fantastic opportunity to look at this in a wider way in Wales and perhaps take forward a solution that would help the Welsh business stock.

[18] **William Graham:** Thank you. Rhun.

[19] **Rhun ap Iorwerth:** Diolch, Gadeirydd. Gwnaf i ofyn ychydig o gwestiynau ynglŷn â'r adroddiad ar ddatganoli ardrethi busnes i Gymru. A gaf i ofyn ichi yn gyntaf i wneud ychydig o sylwadau cyffredinol ynglŷn ag a ydy'r adroddiad a'i argymhellion yn mynd yn ddigon pell, ac a oes yna ambell agwedd ar yr adroddiad sy'n eich plesio chi yn arbennig?

Rhun ap Iorwerth: Thank you, Chair. I'll ask a few questions about the devolution of business rates to Wales report. May I ask you first to make a few general comments about whether the report and its recommendations go far enough, and whether there are a few aspects of the report that please you in particular?

[20] **Mr Davies:** Diolch, Rhun. Ydym, rydym yn gefnogol iawn o'r adroddiad presennol. Mae'n rhaid imi gyfaddef ei bod hi wedi bod yn siwrnai hir i gyrraedd y sefyllfa yma, ond mae'r ffaith ein bod ni wedi cyrraedd yn rhywbeth i'w groesawu.

Mr Davies: Thank you, Rhun. Yes, we are very supportive of the current report. I have to admit that it's been a lengthy journey to get to this point, but the fact that we have got there is something to be welcomed.

[21] Yn amlwg, mae yna elfennau positif—y ffaith bod y gwaith yn barod yn symud tuag at CPI a'r syniad am hyd yn oed ystyried trethu'r tir yn hytrach na'r adeiladau. Mae lot o syniadau da yn yr adroddiad. Efallai'r hyn sydd braidd yn anffortunos i ni yw ein bod ni'n dal yn credu bod yna ddiwylliant o 'peidio â newid gormod'—y syniad yma o'r *long and porous border*. Rŷm ni'n gallu clywed adlais o hynny yn dod trwy'r adroddiad, rwy'n credu, yn rhinwedd yr adroddiad, er bod yna elfennau yr ydym ni'n eu croesawu. Felly, ar y lefel hynny, mae hynny'n fy ngwneud i'n nerfus.

Clearly, there are positive elements—there is the fact that we've moved towards CPI and this idea of even considering land taxes rather than taxes on buildings. There are many good ideas in the report. What is perhaps a little unfortunate in our view is that we still think that there is a culture of not wanting to change too much—this idea of the long and porous border. You hear that constantly echoed throughout the report, I think, even though there are elements that we do welcome. So, on that level, that does make me nervous.

[22] I don't know whether Josh has any specific things he would like to raise in particular to the report.

[23] **Mr Miles:** No, I think the report is very comprehensive, to be honest, and I think it's a good look at some of the issues now that business rates are going to be devolved. The one issue that wasn't treated in there with any real detail was this issue around the multiplier. Certainly, from our perspective, we would've liked to have seen that looked at in greater depth, but I think, on the whole, a lot of the issues raised there are very relevant to the reforms that could take place. But, again, as Iestyn says, it's the tone that's important, and, from our point of view, there's a lot of caution in here about diverging from England. I think that's to be welcomed in the short term, but, really, in the medium to long term, we need to be thinking about what's best for businesses in Wales, and if we could do things that are innovative and would make things better, and make our companies more productive, then we should certainly look at doing them.

[24] **Rhun ap Iorwerth:** I don't know, Chair, if now's the time for me to ask some questions about the long and porous border. I've heard you talking about this before, and it's clear that the Minister, I think—and we'll be speaking with her later—has concerns about how change could disadvantage Wales, because of what she calls the 'long and porous border'. Why is that not a concern of yours?

[25] **Mr Davies:** One, I don't think it's that long. Two, I don't think it's that porous. Is that sufficient? [*Laughter.*]

[26] **Rhun ap Iorwerth:** No, it's not sufficient. [*Laughter.*] Obviously, there is a lot of porosity: a lot of movement back and forwards. Why do you not think that the kind of movement that we have cross-border is an issue that should be a barrier to change?

[27] **Mr Davies:** In the first instance cross-border flows of capital is essentially what you're looking at, and the potential for business to move as well, so the actual physical movement of business stock based on the nature of business in Wales. Whilst capital is equally mobile across the world, the kinds of businesses that we are looking at are less mobile. It's often the larger businesses that are more likely to be mobile, and our concern is smaller businesses. Quite simply, I don't think there's enough empirical evidence to say, 'Here is where capital flow or business flow is likely to take place across the border of Wales'. There is no counter proposition that says it's not likely to take place the other way, because of the potential beneficial effect of a different tax or business rate regime. I think, ultimately, it's a very easy phrase to use but a much more difficult one to substantiate in terms of any economic empirical data.

[28] **Mr Miles:** There are two issues I would pick up on in a bit more detail. One is that this is a property tax, and you can't move properties, so, you know, you're not going to have buildings moving across the border—we know where it applies. The other thing is the size of most of the business stock in Wales. There are 219,000 businesses, I think, and 96.4% of those are microbusinesses that have probably got one premises, if they do have premises, and that premises is going to be probably one site that isn't across the border. So, I think the important thing with this is to get the issue of the border—because there are some issues with how we are perceived compared with England that we need to take into account—into perspective and realise that, for most people paying business rates, it's not going to be an issue, I think. It's also worth pointing out from the other side of the border that the Institute for Public Policy Research put out a report on the impact of tax devolution in Wales on the west of England two weeks ago, and they came to the conclusion that, 'You can do what you want, really; it doesn't matter to us' with the kind of minor exception of air passenger duty. So, we need to put the issues into perspective, I think, and do a bit more research.

[29] **Rhun ap Iorwerth:** Yes. Have you done much research specifically in the north-east and south-east into attitudes among your members?

[30] **Mr Davies:** Yes, in the context of the further devolution of powers. It's probably safe to say that some of our members in north-east Wales were actually more inclined to want to see the use of differential tax or other forms of powers than they were in, say, south-west Wales, when we met in Swansea. Whether that was just a quirk of the people we had in the room or whether it was more widely indicative of what members feel is probably not a question we can answer, based on trying to pull together as best we could a particular focus group there—and it was some time ago, obviously. What I would point out is that there doesn't seem to be any problem in terms of public policy in Wales in granting business rate relief to an enterprise zone that virtually straddles the border in the north-east, but when it comes to the principle more widely, we do hear time and time again the rehearsing of the long-and-porous-border argument. I do not think, and it's a point we made to the second Silk commission, that there's sufficient evidence to justify that as a particular mandate on which to

form or to progress Welsh Government policy.

[31] **Rhun ap Iorwerth:** I had a question about the timetable, but I don't know if Mick wants to come in.

[32] **William Graham:** A short supplementary.

[33] **Mick Antoniw:** This is a really important point about the border and what the variability of approaches might be for businesses. Doesn't the enterprise zone example actually show that that's exactly what does happen, and that the reason why you actually have a particular relief applying to an area is in fact to actually make it more competitive? What our concern might be is that it might not be certain types of business that are static within a town centre or wherever, but they do have greater mobility, and it's those that might be looking to set up in Wales, in a close-to-border area, that are clearly going to be looking at this. So, it's the evidence base that concerns me on this.

[34] **Mr Miles:** Yes. We've got to have an evidence base before we make these kinds of decisions, and we're very much in favour of making decisions on informed policy positions, but what I would say is that you can see the long and porous border as a reason not to do something or you can see it as an opportunity for just those very reasons. I think, too often, it's deployed as a reason not to do something rather than a reason to do something better in Wales, and that's the way we like to look at those particular issues, I think.

09:45

[35] **Mr Davies:** I think, more widely, Chair, that the question of whether the particular kind of business stock that we have in Wales is more susceptible to the spatial argument—that we will create relief or advantage X in this particular area—I still think is probably untested. There's a wider conversation we could have perhaps around the efficiency of enterprise zones, but given the business stock that we've got, and our main concern, clearly as the FSB more widely in terms of the Welsh economy, is the kinds of businesses we have, which are largely small or micro, then actually something that is supporting them is probably going to be in the greater public good in the medium to long term than simply saying, 'Well, actually, we will avoid this question because maybe some larger businesses, who could move and have the capacity to move, might do just that'.

[36] **Mick Antoniw:** But isn't the crux of what you're saying that we need to know a lot more because there are risks there? I'm just thinking it's a rather black-and-white position that you presented, and it's not quite as clear cut as you suggest.

[37] **Mr Davies:** I think binary propositions are always attractive to lobbyists and campaigners, but in the absence of a definitive position that says, 'There are capital flows in these areas across allegedly a long and porous border', since we don't assert that there is a long and porous border, I don't think it's for us to defend that actually is what's happening. I think it's for those who hold that position to demonstrate there is porosity and there's capital flow.

[38] **Mick Antoniw:** Okay.

[39] **William Graham:** Rhun?

[40] **Rhun ap Iorwerth:** The only other question I had was about the timetable as set out in the devolution of business rates to Wales report, and whether you had any thoughts on that.

[41] **Mr Miles:** Yes. I think the terms used are 'short', 'medium' and 'long'. They're quite

vague terms, as you know. From our point of view, in our reading, and when we contributed to the review, 'short term' is probably in the next year or two, you know, when devolution happens from April. As for 'medium term', I think we would start the work for some of those medium-term issues for implementation now so that, you know, in a two or three-year period, we're ready to implement those in full. Then, 'long term' would be some of the more systemic changes: things around potentially moving to another form of tax. Again, we'd start the work and the research around that now with a view to having that debate so that we can inform the position in a few years' time. But that's the way we would see it. The imperative is to get the evidence base. There's a danger, if we say changing the frequency of revaluations for instance is a medium-term aim, that we do no work on that until three years' time, at which point we're starting afresh again. So, from our point of view, you start all those actions now. It's the implementation that needs to be looked at in the short, medium or long term.

[42] **Rhun ap Iorwerth:** Diolch.

[43] **William Graham:** On the point of implementation, as you say, the next one is in 2017, but it'll be based on next year's rents. Okay? So, as you say, and I think we'd all support, it should be looked at as closely as possible. But, in terms of the FSB, do you suggest there should be a shorter period for revaluation? If so, do you also suggest other arrangements? There's a very large backlog of cases outstanding. The fact is you also have to pay the new rate until the assessment is agreed or reduced even when there's an obvious error in the assessment. Would you think that's the way forward?

[44] **Mr Davies:** I think trying to come up with the amount of times is a bit like the public policy version of pin the tail on the donkey. Wherever you stick it, it runs the risk of being too short or too long. There was definitely consensus on Monday when we discussed this with our policy unit, for more frequent ones, even with some saying, 'Well, actually, an annual revaluation, if there's some form of indexation being built into it, then we anticipate this being the direction of travel with rents'. When we started to discuss it in more detail with our members just earlier this week, we were discussing the context of the potential move towards a land value rather than a property value, which, as many people might be aware, is a position that Gerry Holtham is introducing to us at a seminar he's running for us tomorrow. So, I think, once you're looking at a much less volatile asset in terms of land price, it becomes easier to index, and to do it automatically more frequently, rather than have to send out valuers in the field to literally look at what property changes have taken place. So, I think that's where the members stand, but I couldn't give you a definitive year, two years or three years at this point in time.

[45] **Mr Miles:** What we're concerned with, first and foremost, is how fair this tax base is. What happens is, when you increase the length of time for revaluations, you increase the chances that the tax base doesn't reflect actual trading conditions. That's something that's undesirable, we think, from a business rates perspective. So, certainly reducing the terms of each on the list would make it more reflective of current market situations. We would avoid situations like we've got at the moment where business rates in some towns, for example, are running at 60 per cent or 70 per cent of rents, because rents have come down. That's clearly not a good situation to be in for many of our members.

[46] **William Graham:** Quite, so on that point then, it looks like, for the next revaluation, there'll be a substantial reduction in the actual tax base, won't there? That'll mean the multiplier will have to increase to provide the same amount of money to Government.

[47] **Mr Davies:** Yes.

[48] **William Graham:** It doesn't help small businesses, does it, in any way there? You end up with the same payments—

[49] **Mr Davies:** Same amount of money, yes, but the valuation is different. I think we're back in the situation where we're then looking at the role of the multiplier and the role of relief. Indeed, a principle, again looking long-term, that we've always suggested—and I couldn't say categorically this is FSB, if you like, doctrine on this, but it's a general principle—is to say that what we need to look at is a more progressive system, one where the asset being valued doesn't have the fluctuations or is not as elastic, possibly, as property prices or rents, but also, more importantly, is a situation where, quite likely, you're looking at more businesses individually paying less in business rates, if that makes sense. You're widening the tax base rather than focusing on a very narrowly defined cohort of businesses.

[50] **William Graham:** In a past life, as a previous practitioner, don't you feel that what is good about the system is that at least you've got plenty of evidence? Those are the rents in the high street. You know exactly what they are and you can argue with the district valuer accordingly. That's at least one of the principles of the system, that there is a fair playing field for both sides. You can see what the evidence is and you can make your case accordingly.

[51] **Mr Miles:** It's a good principle of the system when you have regular revaluations. When you end up with a situation like we've got now, that principle takes a back seat, to be honest. To go back to your point about it not helping small businesses, it doesn't really help anyone, revaluation: it's revenue neutral. It's not giving Government any more money; it's not giving anybody else any more money. But what it is doing is reassessing the tax base and assigning that to the areas where it should be, so you're not having these mismatches. So, I think it's important we keep that in mind when we're talking about revaluations.

[52] **William Graham:** Yes. My last question is that the British Retail Consortium suggests that, for some of their businesses, business rates are more worrying than corporation tax. Now, again, that comes back to your point about the tax base. What is your view on that?

[53] **Mr Miles:** It's certainly the tax that our members talk to us most about—those that do have properties. It's interesting in that, one of the reasons for keeping the uniform multiplier in one of Brian Morgan's report was that the current situation in Wales is more attractive to large inward investors. I'd have to question that logic, to be honest. If you asked an inward investor what their top five priorities were, I'd be surprised if you saw business rates as No. 1. So, from our point of view, it's something that is very much of concern to our members, but it may not be to the same extent to large businesses, and we think it's important we see business rates in that context, as well.

[54] **William Graham:** Just to ask you, from your point of view, in terms of the rates levied on empty premises, what are your members' views on that?

[55] **Mr Davies:** Many of our members would be tenants of properties. Again, I couldn't put a figure on it, but my general feeling would be that many of them would not be necessarily property owners themselves. So, I think it would probably, again, be a lower-order concern for them. Where it exhibits, or—'*amlygu*' is the word I'm looking for. Where it demonstrates itself is where we see businesses alongside an empty premises, where they feel it's dragging down the general, if you like, ambience of a village or town centre. So, that's where the question comes up and, of course then it does take us back into the long-argued issue around charity shops and diversification and all that sort of stuff. So, it takes us in that direction rather than the burden on them as businesses.

[56] **William Graham:** Thank you. Keith.

[57] **Keith Davies:** There's a House of Commons select committee looking at business rates. It looked at the retail industry and decided that perhaps it would be better to tax on sales

rather than on property, especially when you've got all these internet sales. So, what's your view on that, then?

[58] **Mr Davies:** As FSB Wales, we don't have a view, largely because we've constrained ourselves to looking at the powers or the future powers of the Assembly and Welsh Government. Our colleagues in the Westminster office are looking at just that question. I have to say again that, on Monday, there were some members for and some members against. Adding an extra level of consumer-fronted tax or cost, such as a sales or transaction tax, was welcomed by some who have very limited transactions with the general public. Unsurprisingly, those in tourism, for instance, or in retail didn't like the idea. So, I don't think you're going to get a perfect tax answer. There are generally two things in life that are true, of course—three in Wales: death and taxes and referenda. But, generally speaking, however you try to answer this question, there will be winners and losers, as the Chair has pointed out. Our principle then is that it has to be fair, it has to be progressive, and it has to contribute, not just to supporting businesses, but to the wider economic regeneration prospects for Wales as a whole.

[59] **Mr Miles:** I would make two further points on that issue. One is the constitutional issues in terms of the EU. We can't, as it is a devolved tax now—. You can't devolve VAT, because of the Azores judgment and all the rest of it. So, the ability to introduce an extra sales tax in Wales, I'm not sure whether that would be within the competence of the Assembly. So, we might not be able to have that debate anyway.

[60] The other point is that, quite often, organisations in Westminster forget that business rates are devolved elsewhere. So, they suggest perhaps we should get rid of business rates in England, essentially, and put it into VAT. That would have the effect of increasing VAT in Wales, Scotland and Northern Ireland whilst our members are still paying business rates in Wales. The only option then for Welsh Government would be to remove business rates completely, if they wanted to be consistent, and lose £1 billion of revenue. So, from our point of view, I think the constitutional issues in terms of VAT are probably a little bit too complicated to talk about that in any real way.

[61] **William Graham:** I think one of the other issues raised at Westminster was that, if you had a sales tax and the actual retail volume reduced dramatically, the reduction in tax would be particularly worrying to any Government.

[62] **Mr Davies:** Whilst Professor Holtham's report, which he's introducing today, but speaking to tomorrow at our seminar, we probably wouldn't say is FSB policy, we do accept the initial principle that he sets out, which is, actually, there needs to be a fairly fixed, assured tax base, given the kind of sort of double jeopardy, really, in terms of moving towards a sales or a VAT tax. So, we accept that. It probably wouldn't be the ideal way of moving forward, keeping what is really a dysfunctional tax base, because of the problems that we are all aware of, but we accept that it's of necessity, and that £1 billion contributes to not just business support services but the wider benefit of citizens in Wales. You know, we are realistic about that. That's again where we would have some concerns about moving towards a sales tax model.

[63] **William Graham:** Keith. Oh, Mick, you had a short question.

[64] **Mick Antoniw:** So, you don't actually have a fixed view on the land tax proposal by Gerry Holtham—

[65] **Mr Davies:** Not yet, no.

[66] **Mick Antoniw:** —as proposed in the *Western Mail* today.

[67] **Mr Davies:** Yes, it's almost policy by headline, to a degree, but it's also the best way to capture people's attention. We will respond to it. I guess we're probably inclined to see some virtue in it, because it addresses the whole issue of elasticity: the fact that you can improve a property as the tenant, for instance putting CCTV cameras in or shutters to protect the business, and you then take that burden on yourself of basically trying to run your business, whereas the landlord or the landowner—the building owner—just gets away scot free, if you like.

[68] **Mr Miles:** Again, I'd make the point that the business rates reports dealt with this issue in quite a bit of depth, actually, which was really good to see. But there's a recommendation in there that Welsh Government should undertake research into alternative methods of local taxation, such as land value tax. So, from our point of view, we are trying to create the debate, we're getting Gerry to speak at a seminar tomorrow on this, but I think Welsh Government needs to start looking at this. We've got the powers now; we've got the opportunities. So, from our point of view, we'd like to see Welsh Government researching this and providing that evidence base so that we can have that discussion.

[69] **William Graham:** Keith, were you going to ask some questions on this?

[70] **Keith Davies:** No, it's fine.

[71] **William Graham:** Happy?

[72] **Keith Davies:** Yes, thank you.

[73] **William Graham:** Byron, please.

[74] **Byron Davies:** Thank you. Good morning. I've got a fairly straightforward question, and it's: are there any specific examples of good practice in Scotland, Northern Ireland or England that the FSB would like to see replicated in Wales? You know, are there any lessons that can be learned from developments in business rates elsewhere in the UK? I'm also wondering whether you could comment as to whether it affects you or not. Is it overcomplicated here in Wales in that responsibility for business rates is split between three of the Welsh Ministers? Does that in any way affect you?

[75] **Mr Davies:** Perhaps I'll answer that question first. I think we would much like to see all issues around tax and revenue located in what we have termed in the past as a Welsh treasury, so we are seeing the extent to which Welsh taxation is a wider burden, the extent to which it's being used creatively to create economic opportunity, and there's a greater accountability for what the Welsh Government raises, the powers it exercises, and the impact it has more widely on the economy. Again, we are in favour of principles such as the GERS—the Government Expenditure and Revenue Scotland—reports, where we get a fairly detailed analysis of tax raised, spending committed, and what the economic impact is. So, I think, to answer that question, we'd like to see it located as a policy front, if you like, within Treasury, which is where it sits in the UK Parliament, rather than something that is on the margins of a wider business portfolio. Because, obviously, business rates, as you say, impact a whole number of kinds of individuals, businesses and practices—the charitable sector and, you know, leisure infrastructure projects, as well as individual businesses.

10:00

[76] In terms of examples that are used elsewhere, again, on the issue of land value tax, there are some good examples in Gerry's paper around the situation in Denmark and parts of the States. Josh already mentioned that in Scotland they use the multiplier. So, I think there

are good examples and we shouldn't be blinkered and constrain ourselves to just saying, 'Well, what's happening in England?' I think that's probably our wisest position. Yes, there are good examples. Perhaps there are some bad examples and it's probably worth learning from them as well.

[77] **Mr Miles:** I think the other thing we need to look at in this context is local government reorganisation and really the role of local government in business rates. We know there's going to be a lot of change over the next five years in this area so we need to ask—form follows function—what we want our local authorities to do on business rates. At the moment, they administer and collect the rates, they administer some reliefs around hardship, and I believe the Welsh Government's given a certain amount of funding for discretionary rate relief. But I think we need to put that into the debate as well—the role of business rates in the Williams commission.

[78] Just to turn to Scotland and to the business rate reports here, you'll know that assigning income to local authorities is something that's happened in Scotland and is again raised in this report. Gerry has done a bit more work on this for us as well, which you will see in the paper tomorrow, but I think we need to really think about that in the context of local government reorganisation and perhaps not rush into anything in the short term, because we need to know what kind of incentives we're creating with local authorities and whether that's really going to have an impact on their economic development ambitions, really, for their areas. So, there's a bigger picture, I think, we need to see is the main message there.

[79] **Byron Davies:** Okay. Thanks.

[80] **William Graham:** Thank you very much. Dafydd.

[81] **Yr Arglwydd Elis-Thomas:** Diolch yn fawr, Gadeirydd. Yn amlwg, mae'n rhaid inni aros yn awchus am un arall o bapurau rhyfeddol Gerry Holtham, a byddwn ni'n ddiolchgar iawn o dderbyn y papur yna, yn amlwg. Mae nifer o'r pwyntiau roeddwn am godi rydych wedi cyffwrdd â nhw. Fe garwn ddatblygu'r peth ymhellach—sef siarad rhyw gymaint am ddiben trethiant a diben trethiant datganoledig. Un pwynt yn gyntaf, sy'n mynd nôl i ateb blaenorol: nid wyf yn siŵr a ddylem fod yn dweud ein bod yn sicr beth yw cyfyngiadau ein cymhwysedd deddfwriaethol ym maes trethiant erbyn hyn, o ystyried beth yw'r sefyllfa sy'n datblygu yn yr Alban. Felly, rwy'n meddwl y dylem geisio edrych ar drethiant sydd wedi cael ei ddatganoli, neu'n mynd i gael ei ddatganoli mis nesaf, mewn perthynas â ffurfiau eraill o drethiant a beth yw'r blaenoriaethau yn y defnydd o'r rhain.

Lord Elis-Thomas: Thank you very much, Chair. Obviously, we'll have to eagerly await another of Gerry Holtham's wonderful papers, and we'll be very grateful to receive that paper, obviously. Many of the points I wanted to raise have already been mentioned. I'd like to develop them further—namely talking about the purpose of taxation and the purpose of devolved taxation. One point first, which is linked to what has arisen already, is that I'm not sure that we should be saying that we are certain what the limitations of our legislative competence are in the area of taxation now, considering the situation developing in Scotland. So, I think that we should be looking at the taxation that has been devolved, or will be devolved next month, in relation to other forms of taxation and what the priorities should be in the use of these.

[82] Y cwestiwn sy'n fy mhryderu i ydy, os edrychwch—. Rwy'n gwybod nad ydych eisiau edrych yn ôl dros hanes treth busnes, Iestyn, ond mae'n wir fod lot o'r amrywio mewn treth busnes wedi digwydd yn y tymor byr er mwyn cael effaith wleidyddol byr

The question that worries me, if we look—. I know you don't want to look back over the history of business rates, Iestyn, but it's true to say that much of the variation in terms of business rates has happened in the short term in order for short-term political reasons on

dymor a'r canfyddiad o beth roedd Llywodraeth Cymru, neu'r Cynulliad fel yr oedd cynt, yn gallu ei gwneud. Felly, mae yna gwestiwn: beth yw'r berthynas rhwng casglu trethi a'r gwariant? Oherwydd i ba raddau y mae trethi a gesglir yn sefyll tu fas i gyfyngiadau gwariant adrannol y Llywodraeth, ac, i ba raddau y maen nhw'n rhan o'r gwariant sy'n cael ei reoli'n ychwanegol? Mae hynny'n effeithio ar ganfyddiad y cyhoedd: 'Os ydym ni'n talu trethi, beth ydym ni'n cael mas ohono fe?' A ydych chi'n deall o le rwy'n dod?

[83] **Mr Davies:** Ydw. Pan ydych chi'n siarad â busnesau, rydych chi'n gofyn, 'Faint chi'n talu?' a'r cwestiwn cyntaf maen nhw'n gofyn nôl yw, 'Beth rwy'n ei gael am y trethi hynny?', yn enwedig pan fo costau eraill, pan ydych yn denant, sydd ynghlwm â rhedeg eich busnes—dywedwch y tu fewn i ardal manwerthu neu hyd yn oed mewn parc busnes rhywle; mae, o bryd i'w gilydd, costau eraill sy'n codi. Un o'r ffeffrynnau presennol, wrth gwrs, yw'r BIDs, *business improvement districts*. Mae yna gost ychwanegol er mwyn ychwanegu at ac ategu'r ddarpariaeth sy'n cael ei rhoi ar hyn o bryd gan yr awdurdod lleol.

[84] I fynd yn ôl at beth mae Josh wedi crybwyll, rydym yn gweld diben trethi busnes tu fewn i'r berthynas rhwng busnes, ei gymuned a'r awdurdod lleol, yn nhermau trio gwreiddio'r datblygiad economaidd hynny tu mewn i gynefin, tu mewn i ardal arbennig: beth maen nhw'n galw yn Saesneg *economies-of-place principle*.

[85] Felly, dyna pam rydym yn ystyried hyn ar hyn o bryd a dyna pam nad ydym yn orawyddus i fentro'r hyn rydym eisiau ei ddweud ynglŷn â treth ar dir, oherwydd rydym yn ei weld y tu mewn i'r cyd-destun hynny, bod yn rhaid creu perthynas glosach rhwng busnes a'r awdurdod lleol, a hyd yn oed ystyried pethau fel rhoi rhyw fath o ofyn statudol ar yr awdurdod lleol. Ond, os ydych chi am wneud hynny, mae'n bwysig eich bod chi'n ei ariannu a rhoi cyllid yn ôl i'r awdurdod lleol i weithredu er lles y busnesau a lles yr economi lleol. Felly, yn y berthynas hynny rydym yn trio ateb y cwestiwn hyn bellach.

the basis of what the Welsh Government, or the Assembly previously, believed that it could do. So, there is the question: what is the relationship between collecting taxes and expenditure? Because to what extent do the taxes that are collected stand outside the Government's departmental expenditure limits and, to what extent are they part of the additionally managed expenditure? That impacts on what people think: 'If we pay taxes, what do we get out of it?' Do you understand where I'm coming from?

Mr Davies: Yes. When you speak to businesses, you ask them, 'How much do you pay?' and the first question they ask back is, 'What do I get back for those taxes that I pay?', particularly when there are other costs, when you're a tenant, related to the running of your business—you may be within a retail area or a business park; there are occasionally other costs that can arise. One of the current favourites, of course, is the business improvement districts, the BIDs. There are additional costs in order to add to the provision currently made by local authorities here.

To go back to a point made by Josh, we do see the purpose of business rates within the context of the relationship between business, the community and the local authority, in terms of trying to root that economic development within particular areas: what they call, in English, the economies-of-place principle.

So, that's why we're considering this at present and that's why we're not particularly eager to say too much about a land tax, because we see it within that context, that we need to create a closer relationship between business and the local authority, and even consider things such as placing a statutory requirement on local authorities. But, if you're going to do that, it's important that you fund local authorities to take action that benefits business and the local economy. So, it's in that context that we are trying to answer your question.

[86] Ar eich nodyn ynglŷn ag a yw trethi busnes a pholisi busnes ar hyn o bryd yn cael eu gyrru gan agenda wleidyddol, wel, rwy'n gobeithio, achos rydym ni'n hala lot o amser yn lobbio'r Llywodraeth a'r Cynulliad yn ehangach ar hyn, ac rwy'n credu bod trethi busnes yn bwnc gwleidyddol. Felly, rydym ni'n disgwyl i blaid neu hyd yn oed glymblaid yn San Steffan ymateb ar lefel wleidyddol, ond yr hyn yr ydym ni i gyd eisiau, wrth gwrs, yn y tymor hir yw system gynaliadwy, system sy'n creu effaith economaidd positif, ond, yn bwysicach, un sy'n gadael inni yng Nghymru i dyfu ein busnesau cynhenid er mwyn cael cydbwysedd rhwng y busnesau hynny sy'n dod i mewn o'r tu fas i Gymru a hynny sy'n cynyddu yn fwy ac yn fwy yn fewnol hefyd.

[87] **Yr Arglwydd Elis-Thomas:** I grynhoi'r pwynt yma, fe fyddech chi'n dweud, felly, fod gan unrhyw dreth—ac rydym ni'n sôn am dreth fusnes yn benodol—o leiaf dri neu bedwar amcan, ac felly bod yn rhaid cydbwysu pa rai o'r amcanion hyn sy'n weithredol ar hyn o bryd gan y Llywodraeth.

[88] **Mr Davies:** Yn amlwg, rydym ni'n derbyn y ffaith a'r angen economaidd o ran arian yn dod i Lywodraeth. Mae eisiau sicrhau bod pobl yn teimlo bod y dreth hynny'n un deg ac, wrth gwrs, yn y tymor hir, weld budd hynny yn eu cymunedau. Fel y dywedais i ar y dechrau, nid ydym yn gweld hwn dim ond fel rhywbeth sy'n fater i fusnes, ond, yn bwysicach, yn fater i'r cymunedau lleol lle mae'r busnesau hynny'n cael eu gwreiddio.

[89] **Yr Arglwydd Elis-Thomas:** A fydddech chi'n dweud un peth arall, yntê, yn olaf? A ddylai fod unrhyw Lywodraeth sy'n trethi—ac, wrth ddatblygu trysorlys Cymreig a 'chyllideb' flynyddol lle mae yna wir bwrpas o ran casglu yn ogystal ag ar wario arian, a fydddech chi'n dweud bod eglurder amcan unrhyw drethiant yn rhan hanfodol o'r drafodaeth?

[90] **Mr Davies:** Buaswn i'n dweud hynny, ond nid yw hynny'n rhywbeth sydd yn benodol yn gyfrifoldeb ar Lywodraeth, ond ar holl bleidiau Cymru, sydd ar hyn o bryd yn paratoi'u manifestos ar gyfer 2016,

In terms of your question on whether business rates and business policy are driven by a political agenda, well, I hope so, because we spend a great deal of time lobbying Government and the Assembly more widely on this issue, and I do think that business rates are a political issue. Therefore, we would expect a party or even a coalition at Westminster to respond on a political level, but what we all want in the longer term is, of course, a sustainable system, a system that has a positive economic impact, but, more importantly, allows us here in Wales to develop our indigenous businesses in order to get that balance between those businesses that come in from outwith Wales and those that grow more organically within Wales.

Lord Elis-Thomas: To summarise this point, you would therefore say that any taxation—and we're speaking about business rates specifically—has at least three or four aims, and so we have to balance out which of those aims the Government is currently operating.

Mr Davies: Clearly, we need to look at the fact and the economic imperative of funding coming into Government. We need to make sure that people feel that that tax is fair, and, of course, see the benefit of it within communities in the long term. As I said at the outset, we don't see this as something that is simply a matter for business, but rather an issue for local communities where those businesses are rooted.

Lord Elis-Thomas: Would you just say one final thing, then? Should any Government that taxes—and, in developing a Welsh treasury and an annual 'budget' that truly has a purpose in terms of collecting as well as spending money, would you say that clarity of purpose for any taxation would be an essential part of the debate?

Mr Davies: I would say that, but it isn't specifically a responsibility of Government, but of all parties in Wales, which are currently preparing their manifestoes for 2016, of course.

wrth gwrs.

[91] **Yr Arglwydd Elis-Thomas: Lord Elis-Thomas:** Very interesting. Thank Diddorol iawn. Diolch. you.

[92] **William Graham:** On that point, what are your views—or your members' views, shall we say—on the situation in England where some business rates are shared with the local authority? Birmingham has done wonders with this money, for example. Is that a view that you share?

[93] **Mr Davies:** Again, I don't want to defer everything to Professor Gerry Holtham, but it is a question we asked him to engage with us on. I think he probably would say that it's almost a case of 'be careful what you wish for'. That might distort some elements of behaviour, but, again, we were thinking, well, if it were to distort it in a positive way, that it would encourage local authorities to be more proactive, and then that would be a good outcome. But, based on the economic analysis—the very basic analysis—he's done for us, it's almost a political, rather than an economic, question of would you want to put that responsibility on to local authorities as almost a reward for taking other responsibilities in terms of economic development, as we're certainly starting to consider, or the extent to which it would actually not really help in that matter and there'd only be marginal gains—because no-one would sign up to the full retention of business rates; you're talking partial retention. So, where I think the paper and the debate are leading us is towards the issue of tax increment finance at this point in time.

[94] **Mr Miles:** Yes, but, again, it needs to be seen in the context of local government reorganisation, I think. You wouldn't want to introduce an assignment situation and then look at completely different boundaries in the next few years. I think it would be better to wait until we're looking at new local authorities, when we know what their functions are going to be, and to give them the powers accordingly. As Iestyn mentioned briefly there, we should also look at issues like tax increment financing to see whether there are tools that can be used around business rates to give local authorities—sometimes, in some instances—a little bit more room to manoeuvre so they can improve their local economies.

[95] **Mr Davies:** It's most important to note that that power has existed for partial retention for some time in England and, in 2010, to answer Lord Dafydd Elis-Thomas's general question, that power was transferred to local authorities—or the potential for that power was transferred, in terms of TIF, to local authorities—in Scotland. So, we're already five years behind actually accessing and accepting this as a policy or lever, if you like, in Wales.

[96] **William Graham:** What about going back to what used to happen for most of rate collection, where the local authority set the rate anyway?

[97] **Mr Miles:** Well, it's interesting; Northern Ireland's got a kind of split system, where they've got a regional rate for half the business rate and then a band within which local authorities can set the business rate there. So, they do have different rates for each local authority. They've also gone through a period of local authority reorganisation, so perhaps we can learn something from that, and look at the experience that's gone there in going forward in Wales.

[98] **William Graham:** Touching again on the constitutional point, in terms of assessing rent or, for that matter, land values, you'd have to look at landlord and tenant, for example, and the various covenants, and the way that they operate. So, it's not one thing that is simply devolved, is it?

[99] **Mr Davies:** No, it's quite a complex area of law. The last thing that we want is to create a charter, with the greatest respect for two people in the room, for surveyors and solicitors. We don't particularly want to be driving more and more businesses down the route of having to find some sort of dispute resolution that could be costly, notwithstanding that we ourselves also provide some of that support to our members. What we do know is that, where there are complex revaluations and there are discrepancies between a clear valuation of a particular building and the rate that's currently paid in business rates, often members are subject to quite heavy hard selling by individuals trying to say, 'Well, give us £2,000 and we'll sort this problem out for you'. So, any solution you come up with has to be in keeping with our wider principles of better regulation. It allows a positive business culture whilst protecting both the tenant and the landlord, of course.

[100] **William Graham:** Fine. Any other questions on this one? Joyce.

[101] **Joyce Watson:** We've had a wide discussion this morning about what business rates might look like, so are you able to sum up what you think a good business rate policy might look like—according to your members, of course?

[102] **Mr Davies:** If I was to venture an opinion on behalf of the members, it would probably be a career-limiting move at this point in time. So, any opinion I give in the next few answers would probably be my perspective, with Josh's, on the level of debate we're having with them, and more widely, in terms of public policy. So, if I can put that caveat on it, I would appreciate it. I enjoy my role and I don't want it to come to an early decline or end.

[103] We've mentioned the idea that there is some support for some form of entrepreneurship tax, or an additional transaction tax. It doesn't seem to me that that is viable in the long term, unless there are considerable changes at a Westminster level to allow this double jeopardy to be removed. So, I think the margins of debate we need to approach with caution. I think, looking at the issue of whether we value property or land, it seems to me to be common sense that we move in a transitional way, rather than simply saying, 'It's property today and land tomorrow'. We should look at a situation where we begin to see land as a very important asset and a determinant of rents, and actually use it in a very positive way to ensure that we are seeing a fair spread of economic and commercial development outside of the city centres, and, indeed, outside of what is becoming a much more desirable semi-urban hinterland, if you like. If you think about Newport or Tonyrefail, or if you think, I'm sure, of districts of north Wales as well, and west Wales, the prime area for development is often outside the town centre, and it's clearly not going further into the more rural areas; that's the same, historically, for manufacturing sites and facilities. This has clearly been the vogue in the last 15 to 20 years for retail. So, looking at the role of land and land taxation, again in this context, as Dafydd Elis-Thomas looked at more widely in terms of fiscal responsibility, we're looking at stamp duty land tax already, and there seems to be some sense in looking at that.

[104] I think then the final point to make is that that is only possible, conceptually, in terms of public policy, if you accept that there is a principle that, sometimes, doing things differently in Wales might aid the people of Wales. That does not mean that we start on a slippery slope of ultimate and complete devolution, or separation, but rather that we understand the needs of businesses, people and communities in Wales, and build our tax policy on that basis, rather than on the assumption that it should not be different to England.

[105] **Joyce Watson:** And you've mentioned several times that this is a political decision. So, in that respect, do you think that the decisions that have been made by the politicians so far in terms of business rates, according to their policy, are working?

[106] **Mr Davies:** I think, first of all, they've been made with the best intent. I think there's a general acceptance that we do need to advance in terms of business rates and business

policy more generally. It does seem to me that they're being done not so much in an ad hoc way, but in a very short timescale, in order to comply with the previous regime, which was that any reliefs were Barnettised from Westminster and a decision had to be made in time for 1 April. That no longer applies, because we've had a settlement in terms of our budget, and it's now up to the Government of Wales to ensure that it collects the highest amount of business rate revenue, because not doing so would leave it with a deficit in its budget. I think now we need to think much more long term about how we do that and how we do it sustainably. So, I don't particularly, perhaps, want to comment on whether it's party-politically driven. I think it's driven by necessity, by the constitutional settlement. Now we're in a different place; we've a much more medium to long-term approach, rather than doing it every year.

10:15

[107] **Joyce Watson:** On reflection, because part of this is looking forward and looking back, have the short-term interventions that have been put in place in your opinion worked?

[108] **Mr Miles:** I think it's quite difficult, because of the constrained nature of the devolution settlement beforehand. Things like the extension of business rate relief every year was obviously good for our members, but we were, kind of, a victim of the situation in terms of the constitution, really, in that you'd have a decision in Westminster, you'd wait for the Barnett consequential to come through, and then you'd have a decision in Wales. That time lag created a lot of uncertainty, so we'd get members phoning up in about January/February saying, 'What's going to happen with business rate relief, because we don't know?' So, hopefully, a lot of those issues will be resolved now and we can start to have a more mature debate, perhaps, widen our horizons a bit and look at what really is going to be fit for purpose for Wales and what's going to be fit for the kind of Wales we want in the future.

[109] **Joyce Watson:** Thank you.

[110] **William Graham:** Thank you very much. Your attendance today was well worth while. A copy of the Record will be sent to you to check for accuracy later. Thank you very much for attending today.

[111] **Mr Davies:** Chair, if I could just give a formal invitation to members of the committee or their representatives to join us tomorrow, at 7.30 a.m., for the presentation. We will ensure that a copy of the paper, not just the *Western Mail* reporting of it, is sent to you when it goes public at 9 o'clock tomorrow morning.

[112] **Mr Miles:** You should have all been invited already, but if you need—

[113] **William Graham:** Thank you very much for the invitation. We look forward to seeing a copy of the policy.

[114] We'll bring the formal proceedings to a close for 10 minutes now.

*Gohiriwyd y cyfarfod rhwng 10:17 a 10:39.
The meeting adjourned between 10:17 and 10:39.*

**Polisi Ardrethi Busnes—Craffu ar y Gweinidog
Business Rates Policy—Ministerial Scrutiny**

[115] **William Graham:** Welcome back. I welcome the Minister and her officials. Thank you very much for coming today. Could I ask Members to note that the Minister for Finance

and Government Business has submitted a paper on business rates policy, which covers her areas of responsibility, which is not the subject of our questions, really, today? We're very grateful to have the Minister with us. Could I ask the Minister and her officials just to give their names and titles for the record?

[116] **The Minister for Economy, Science and Transport (Edwina Hart):** Thank you. Edwina Hart, Minister for Economy, Science and Transport.

[117] **Ms Burke:** I'm Tracey Burke, director of strategy in the Minister's department.

[118] **Mr Sutton:** I'm Chris Sutton, a chartered surveyor working in Cardiff, but I was on the board here as chair of the Confederation of British Industry Wales.

[119] **William Graham:** Thank you very much. Good. We'll go into questioning, if I may, and our first question is from Rhun.

[120] **Rhun ap Iorwerth:** Bore da. Mi wnaf i ddechrau, os caf i. Yn eithaf cyffredinol, gofynnaf i chi, Weinidog, rhoi amlinelliad i ni o'ch bwriad chi i ail-lunio trethi busnes yn y tymor canolig fel y mae'r panel yn ei hargymell ar hyn o bryd.

Rhun ap Iorwerth: Good morning. I will start, if I may. Speaking very generally, I ask you, Minister, to give an outline of your intention to reshape business rates policy in the medium term as the panel recommends at present.

[121] **Edwina Hart:** Thank you very much. I think, as I've outlined previously, in discussions within the Plenary debate, we've got to be very cautious about how we approach this in the first instance. We haven't yet received the final settlement from the Treasury. I understand that the Chancellor will be announcing that next week. We're also very aware, of course, that the UK Government is doing that review of business rates within England, and we have a porous border. I'm also aware that, if there's a change of Government, there could even be another review that might be more radical about business rates policy. I don't want to destabilise, in any way, what we're doing currently in Wales. However, we've obviously got some schemes in places that we continue to support, and we are very much aware of the needs of small business and we will have to look very carefully at how we deal with some of the issues on the agenda. But, as far as we're concerned, we want to keep the regime flexible and responsive to business needs but, also, we don't want to frighten the horses, because, already in discussions I've had only with local authority leaders the other week, they have raised with me the porous border issues. Look at Deeside—something happens one side and we don't want to be losing any business because of this. Also, there are issues around what we do about the multiplier. We've got a very simple scheme in Wales—it's the same multiplier; it isn't the same elsewhere, but you'll actually find voices across the border who'd like our scheme because it's a simple and very tried and trusted scheme.

[122] But there are issues that we are going to have to look at, and one of them might be more frequent revaluations, because of what happens at a certain point, and then your business rates are on it—the speed that these are done with. So, all of these will have to be looked at. There are, of course, very big issues that people are raising all of the time about whether you should have a fundamental reform of it. I am aware this morning there was something raised about land tax, quite amusingly so, really, from our perspective, because there are problems associated with land tax: what you mean in terms of what you are going to tax on it. I understand that that was some piece in the *Western Mail* today ahead of some Federation of Small Businesses conference, but I suppose everybody's got to earn a crust somehow, haven't they?

[123] **Rhun ap Iorwerth:** The FSB were in with us this morning prior to this scrutiny and question session. They also have a very different standpoint to you on the issue of the long

and porous border in that (a) they say they don't believe it to be that long, and (b) they don't believe it to be that porous. What's your response to that?

[124] **Edwina Hart:** The FSB were part of the panel that I put together, and it is interesting and perhaps a little discourteous to other panel members that they've gone out and made statements today, when there is a report that's here for discussion. But, as far as I'm concerned, I do regard it as a very porous border. Of course, it's not only small businesses that are interested in business rates. I can assure you that the amount of lobbying that we have from large retailers and the amount of lobbying that we have from industry, for example, high-energy users, asking if we can do schemes et cetera—. So, it isn't just small businesses that are impacted by business rates. Of course, on some of the larger businesses on our borders, if they were to move, the business rate take would change dramatically in terms of the Welsh taxpayer, if we were to do anything that would destabilise any of those particular issues. Do you want to add anything, Chris, because I know that this has been discussed in business quite widely?

[125] **Mr Sutton:** Okay, thank you. The purpose of the last study that we did and the panel that I chaired was to review the four reports that had been carried out previously. Professor Brian Morgan led the task and finish group and I was on that task and finish group for the first three reports, and then Professor Morgan did a final report as well. So, there were 50-odd recommendations in total coming out of that, and it was a case of standing back and looking at it from a business perspective about what are the main key drivers here. I think the key point about the whole of this study is that, there is a fundamental dilemma here: are business rates a lever for economic growth or are they a stable source of funding?

[126] In 2013-14, they raised a £960 million contribution to the pool; in fact, we actually collected just over £1 billion. So, there is a good reason for us to take direct control of those business rates, but we also then look at that and think, 'Hang on a minute, with reward comes risk.' So, fundamentally, if you see something significant happening that leads to a downturn in business rates, we could end up being significantly down. So, the key issues then, I think, are that you need to maintain the reputation of Wales as a good place to do business, therefore the fundamental point is that we have to transfer this in a stable, transparent manner and don't mess it up; we really can't mess it up. So, that's the short-term priority.

10:45

[127] The medium-term priority is to look at how we can tweak the system, which is built for England and Wales, to perhaps better reflect the needs of Wales, but also maintaining that consistency of understanding that uniformity for larger investors, the cross-border investors—. Rightly or wrongly, businesses large and small understand the business rates system; they do, and they can actually work it out. They may not agree with it—there's lots of people that say they should be the special case—but it does happen to raise £1 billion a year.

[128] So, to go on to some of those areas that we were particularly looking at, I do think, for me one of the key points is the revaluation cycle. The business rates system is based on rental values. What happens is that, over a period of time, some rents go up, some go down, and it may be across the board when we have an economic downturn, but even then you'll find that certain sectors do relatively better than others and certain geographical areas will do better. So, for example, since the last revaluation in 2010, which was based on values in 2008, probably offices in Cardiff have gone up recently, but secondary and tertiary retail has fallen away. That's just an example.

[129] If you have a revaluation that allows you to rebalance the yield so that the yield is consistent, next time around we're still going to raise £1 billion but it will be made up in a different way—these people will pay slightly more, those people will pay slightly less. I think

the UK Government got it wrong when they postponed the 2015 revaluation. They said it was—. Well, the reasons didn't wash, in my view. We took a view then as to whether Wales could go its own way, but there are two reasons potentially why that would be a problem. Firstly, the cost—£6 million to £9 million for us to do our own revaluation, so it'd be a significant figure. Secondly, there are certain classes of property that are difficult to value in isolation. For example, Port Talbot steelworks will be looked at in the round with perhaps Scunthorpe steelworks, and so it goes on. Cardiff Airport would be looked at in relation to East Midlands Airport; I know those two are actually twinned. So, there are issues here of going our own way in terms of the practicalities of setting rents in certain areas.

[130] So, for me, the revaluation cycle—getting more regular revaluations—would be, I think, a really good win, but in the first instance, surely, it's better to get the UK Government to accept that in their review. If I just sort of swap disciplines, on the stamp duty land tax, we came up with a criticism in Wales of the slab structure of stamp duty land tax, and now you see the UK Government adopting it. To me, that's the best of both worlds; we don't create that sort of divergence, but we get what we want. So, here, on business rates, if we can get, say, a three-yearly revaluation, then I think that would be worth while, but, if we can't, then we ought to think about going our own way.

[131] There are other issues in terms of the uniform business rate and how that goes up year by year. There are issues on the reliefs and exemptions, and, as the Minister mentioned, representations come in—town-centre regenerations, small businesses, tourism, manufacturing, high-energy, developers, charities—and everybody's got a special case. But, at the end of the day, the theory of incidence means that if somebody gets less, somebody else's got to pay more. So, there has to be a balance there.

[132] We also looked at some other areas—sorry, I'm going on a bit here—but we also looked at some other areas, which is the administration of business rates, and there are some clear things that we should be doing, such as a common format for bills. There is no reason why a ratepayer gets one form from one local authority and a different form in a different format from a different one. But there are also other areas that go back to Professor Morgan's study relating to retention; greater retention by local authorities. There have to be safeguards there, but, in the round, the view was that a greater level of retention would allow local authorities to perhaps grow their rate base and incentivise them to grow their rate base. It may also lead to greater collection of rates, but perhaps our view on that one was that, again, it's the medium-term measure, bearing in mind other things that are going on with local authorities.

[133] **Rhun ap Iorwerth:** In general terms, it's a very conservative approach and I'm sure we'll explore later ways of concentrating a little bit more on using business rates as economic levers, and taking perhaps slightly more of a risk. In terms of the recommendations that have crossed your table, Minister, what would you say are the priorities for you as you look to instigate change, or not?

[134] **Edwina Hart:** I think my priority now is to keep everything on an even keel until we see developments elsewhere. I think that Chris has alluded to the fact that we can't destabilise the position, because we're going to still have the same amount of money in. It's a question of who the winners and losers are.

[135] In the longer term, I want to explore how I can utilise business rates as part of the overall package to encourage economic growth and development. But, also as well, I am broadly in favour of looking at the issue of greater retention of business rates by local authorities to give that flexibility, as long as we can have a mechanism in place that protects those authorities that take very little in terms of business rates. If you look at what Cardiff takes compared with other local authorities, if we were to say they were to retain it all, well,

all of that would be for Cardiff, so we do have to protect other authorities. So, I think, in the medium term, I'll be looking for greater business rate retention in terms of local government.

[136] Local authority leaders who we have discussed this with—we did a presentation to them—are aware of this, but they also realise there's got to be a mechanism in place that needs to be done. The other issue for me will be, if we can get agreement across the piece on revaluation with everybody else's reviews, then fine, but, if we can't, revaluation is an area that I am going to explore, even though there are high costs with it, because I think it's fairer on businesses.

[137] The other issue for me will be: will I look at the limit in terms of where things kick in, in terms of whether we want to raise the threshold for small businesses? What is the evidence for doing that and, then, how would we work the system? So, those are my immediate priorities for the medium term.

[138] **William Graham:** Just one thing out of that, Minister, I asked the same question to the FSB, and one will recall that, at one time, local authorities individually set their business rate. Would you favour giving that power to do it and then they'd make the case to you?

[139] **Mr Sutton:** If I may answer that, I think that would be a backward step and this would go back to pre-1990, where a business wouldn't necessarily know what it's paying in different parts of the country. You had a situation going back then where, maybe, Ogwr borough council would be at almost 100 per cent of the pound and somebody else would be significantly less. I think that's just too confusing for business. I think there were very good reasons to change it in 1990, and I think it would be a backward step.

[140] **William Graham:** So, you would envisage, Minister, that you would determine what a local authority got, for the reasons you gave earlier.

[141] **Edwina Hart:** Yes, because local authorities might then have the facility. The business rates panel were very keen, weren't you, on looking at new development schemes with business rates to help and assist across Wales, and local authorities might want to target those if they had some element of retention on it?

[142] Of course, we already give a lot of support to the enterprise zones, as you know, with the business rates scheme, and I think Tracey's had the figures, which are very encouraging, Tracey, aren't they, in terms of numbers of how many people have been successful? If the committee likes, we're more than happy to send out the list by enterprise zone, for you, of who has taken up the offer in terms of the business rates policy.

[143] **William Graham:** Excellent. That would be really helpful. Please, Chris.

[144] **Mr Sutton:** A comment was made with respect to how business rates can incentivise economic growth. Without picking at—. You know, you could look at lots of different sectors, but just let's look at two sectors. One is, let's say, manufacturing. There was a really interesting letter from Tata, Siemens, General Motors and others to the UK Government with respect to capital expenditure on plant and machinery. Five per cent of all rateable values in the UK is plant and machinery, not the actual property; it's the plant and machinery within it. Now, there is a case for Wales to take a different approach to, say, plant, because, I know one of the criticisms in the past has been of branch plants of multinational companies closing down and, you know, there may or may not be an element of that, but if someone puts a lot of money into the ground in terms of capital-intensive plant and machinery, I don't think they're going to go away quite so easily. So, that would be the first one.

[145] The second one would be new developments. Wales actually has a bit of an issue,

perhaps, apart from one square mile of central Cardiff, we've seen very little new development in the downturn in the past seven years. Now, if we can somehow incentivise the delivery of new and modern buildings—offices and industrial, but also a wide range of other buildings—then I think that's got to be to the benefit of the wider economy, because it retains what we've got in terms of business and also attracts inward investors.

[146] **William Graham:** Quite so. Rhun.

[147] **Rhun ap Iorwerth:** Yes, can I suggest that you're making a very good argument against your own fears about the porous border in that, if you get this right in terms of using business rates to help large businesses on the border to anchor in Wales because of plant and machinery that are on the ground here, that takes away many of the fears about the effects of the border?

[148] **Edwina Hart:** It would take an element of the fears away. Yes, we agree; that's why we will continue to explore the issue, but, of course, the greatest fear for business currently is the fact that we might go out of the European Union, so it won't matter what I'm putting in place if we're strategically out of Europe.

[149] **Mr Sutton:** If I could put a CBI perspective on that, then, yes, devolution allows you to be different, but different must be better.

[150] **Edwina Hart:** Yes.

[151] **Mr Sutton:** As long as it's better and more attractive. Dare I say it, if you look at what we did with house building, it was the other way in the late 2000s. So, it is how we play the devolution and you cannot afford to have a devolution risk premium. If I just refer to land value tax, it sounds a great idea; it might work, but, actually, are we going to take the risk? Personally, I've got no confidence in that system whatsoever. I go back to the second year of my degree study, and that's actually where I think it should be left. I really don't think that it's something I would take on board, because imagine a situation where you've got an investor looking at, 'Where should we put Airbus? Where should we put the next investment?' 'Hang on a minute, if we put it there—hmm, you know what, we don't understand that tax system'. If you look at the regression analysis of land value tax, you need to be an A-level maths student, for a start. That is not something that the man on the high street can understand.

[152] **Rhun ap Iorwerth:** We'd obviously have to devise a system that was not only clearly understandable but clearly to the benefit of large businesses that want to anchor in Wales. And that is actually an argument, is it not, for using the porous border in Wales's favour?

[153] **Edwina Hart:** Yes, to answer the question, the porous border is an issue for us currently, because we don't know what's going to happen across our border in terms of the review. We are only talking about the short term of keeping things on an even keel. We've got some medium-term objectives, and the work that Chris and the group have done on these wider things are things that we intend to explore once we have certainty about the settlement and certainty on the direction of travel. I am very much persuaded by the arguments that Tata Steel have made about recognising plant and machinery and grounding companies within Wales, but of course we must make sure that we get it absolutely right if we are to do it. So, even though I keep going on about my task and finish groups, there will actually be far more work to be undertaken within this area. But I do concur with Chris about this tax thing. We were only just discussing how it would impact somewhere and what it means. What is land value?

[154] **Rhun ap Iorwerth:** Before you come back, I'd like to make it clear that I wasn't talking about the short term, that I was talking about the medium term—

[155] **Edwina Hart:** Oh right.

[156] **Mr Sutton:** Two points: firstly, on the long and porous border, CBI reckons 125,000 people a day cross the border to go to work. Now, quite which way—. I think it's probably a mix, but there we are. In the task and finish group first time around we looked at the so-called Tesco tax, which had been introduced in Scotland. They've put a fairly punitive tax on large stores there, and they called it a public health tax. So, it was a large store that sold alcohol and cigarettes, so it wasn't John Lewis and it wasn't M&S—because we like those—[*Laughter.*]. That was sort of the approach that they took.

[157] **Lord Elis-Thomas:** It wasn't Waitrose.

[158] **Mr Sutton:** Now, we looked at whether you should do that here. There are 81 large superstores—food stores—in Wales. But the problem is that then you would send a very clear message to the food store operators to start building just over the border. Then people would go shopping just over the border. Then you might decide, 'Well, I might as well live there' and then 'I might as well work—'. So, you create a system that would be very difficult, and the difficulty is the geography of Wales and England compared to Scotland. You go to Scotland and you get to the border and then you've got 100 miles of nothing and then you reach the central belt and, therefore, it's a self-contained population. You get my meaning—it is that much more—. I know it's an overworked phrase, but it is very porous in terms of the relationship of going over, crossing over.

[159] On the land value tax, what is land value? It is essentially what is left after you work out your development appraisal. Now the issue is that, apart from one square mile of Cardiff, there really hasn't been any development. Now, that can't be right. Surely, land is worth something because a car lot would go there, a scaffolding yard or whatever. So, you're going to end up with your valuations process being based on what the used car lot will pay, and that can't be right. Then you look at the uniformity of how you would apply—. How would people look at Wales, and the risk element of going to Wales and not understanding the system?

11:00

[160] Then, you come back to that point about stable source of funding, because it does raise £1 billion. We might all think it's a great idea, and at the end of a year you come in at £700 million. You've lost £300 million. I just don't think the risk is worth while taking. There's is nowhere else in western Europe doing it. There are some examples a long, long way away, but I really just think it's—. You have to set the bar very high before you move away from the common system, because it has a clear understanding for businesses large and small.

[161] **William Graham:** Isn't one of the other arguments, Chris, which I think you know from your own experience, is that the present system on rental value—. Rentals are fairly obviously established and are known. You don't have to be a practitioner to know what people are paying in the market and in any particular town, large or small, whereas land values, as you say, are much more a professional thing for calculation.

[162] **Mr Sutton:** That is a risk. I agree with you. I think that the man on the street understands rents per square foot, and maybe the slightly more complex rents—turnover rents for a pub or something—but it's very difficult to look at this land value tax. Actually, what it means is that, if someone's got a lot of money, you can produce an environmental report that

says, 'This site has got problems'. You can look at other issues of highways and all the issues on development constraints. Probably it means that those people with a lot of money could get their rates down and those people without money can't get their rates down.

[163] **William Graham:** I agree. We agree on that one. Okay. Can we move on then? Joyce, please.

[164] **Joyce Watson:** Good morning, Minister. We've already touched to a large degree on the benefits of continual source of revenue—business rates being a continual source of revenue, but a driver for economic growth. But there will be—so we believe—other areas of devolved taxation. So, Minister, how is your department examining the use of all the levers of taxation to drive? I know that business rates will play a stable part in that economic growth in the future.

[165] **Edwina Hart:** Well, I am aware and have regular discussions with the finance Minister about what proposals there are likely to be in the future. Obviously, anything we do must dovetail into portfolios and also, of course, will be part of developing a successful economy. There's no point in having these powers, in my opinion, unless they're directed to help the success of the economy and getting jobs into Wales. But business rates, of course, is the big one that we've had, in effect, devolved now, because it is £1 billion. That's why we're cautious in the short term, less cautious in the medium term, and might be quite radical in the long term when we have a greater understanding of what's going on elsewhere in the UK. So, I am content that we are having those discussions within Government. We've had what we've had, and we've had the settlement we've had, but you can't rush headlong into all these things. When you think over how many years people have developed tax policies across the globe in various administrations and governments, we want to make sure we don't make any mistakes on any of this. We want to make sure it works for us in what is a very small nation—3 million population—and, you know, is well integrated into England as well, as a nation, in economic terms.

[166] **Mr Sutton:** If I could just put my CBI hat on then, I think property taxes are clearly good taxes to be devolved, because they're location-specific. The CBI has taken a view that other business taxes are more problematic. The CBI's view is that we ought to be looking to maintain the UK single market, and it's to Wales's benefit to remain very much a part of the UK single market in that way.

[167] **Edwina Hart:** Yes. We don't want corporation tax becoming a lottery.

[168] **William Graham:** Quite so. Many commentators have said, and we were saying in this committee this morning, that you hardly want to race to the bottom in reducing your rates of taxation—whatever tax it happens to be.

[169] **Edwina Hart:** No; exactly.

[170] **William Graham:** Can I just ask you to touch on one item, Chris? That's the argument of empty premises and the rates levied there. That's a concern to many.

[171] **Edwina Hart:** Yes.

[172] **Mr Sutton:** Yes. So, before 2008, the way that it was organised was that, if you had a vacant industrial building, you didn't pay any business rates, and if you had a shop or an office, you had—was it three or six months? I can't remember now—

[173] **William Graham:** Six.

[174] **Mr Sutton:** Six months. Yes, for a shop or an office, and then you paid half rates. You didn't pay full rates. In 2008, Gordon Brown introduced this and said that it wasn't fair that people were leaving buildings empty. Well, I don't think anyone was leaving—. Maybe on Tottenham Court Road they were leaving buildings empty, but on the Hirwaun industrial estate, I can assure you they weren't leaving buildings empty. So, the change, then, was that you'd still have a six-month exemption for industrial and three months for shops and offices and then you'd pay full business rates. Now, I think the property industry as a whole really doesn't like that, but, having said that, I think the property industry also understands that it raises just over £1 billion UK wide, and raises probably £50 million in Wales, and, actually, we're not going to go back from that. But what you can look at is the fringe and, in particular—I'd come back to this—new properties. If somebody builds us a new speculative building, they are probably assuming a two-year void period to let the building. It simply doesn't make sense for us then to levy business rates, because you're making new development and investment more expensive.

[175] I've raised the case previously as to whether we should look at a differential exemption period, perhaps in the EU top-tier areas. That actually fell foul of state aid rules, but there are areas—. So, empty property rates—. Rates are an occupier's tax, effectively, so why is someone paying empty property rates on a vacant building? The reality is that it's going to be very difficult to wind back from that in the short term, but there are ways around the edges that you can incentivise the development of new stock, perhaps the refurbishment of existing stock, or perhaps look at some of the special cases of the most disadvantaged locations. On the flip side, we ought to be more aggressive in terms of policing it, because, for example, you get people putting—. There is what's called the Makro case, where someone—and this wasn't in Wales; this was in, I think, Northamptonshire—left one carton of old files in a 20,000 sq ft building and it was deemed to be occupied. It was clearly avoidance, I would say, in that instance. Therefore, rates mitigation—fine; avoidance—more difficult. We ought to be looking at how we can tighten that.

[176] **William Graham:** Thank you very much.

[177] **Edwina Hart:** And, of course, we had our own scheme, didn't we, with the new development scheme we announced in 2013, which gave the 18 months, which I think was quite useful as well as part of this discussion.

[178] **Mick Antoniw:** You clarified, Minister, the thinking as to where we might be going with the future policy, and I think you made it clear as well that you're not over-enthused by the ideas of alternative types of taxation—the land tax and so on and so forth. Looking at how the tax policy might develop, is the area of variability—that is the leverage argument with using business rates tax: that, basically, it serves a social and economic policy, so you might see greater variability around areas, depending upon what the economic or the social policy is in a particular area—something that you're looking at? That is what, I think, was coming out of what was last being said.

[179] **Edwina Hart:** Well, I think we've looked at the issue of temporary and targeted, haven't we, in terms of the panel? There is an issue about generalised relief for businesses, which is the broad-brush approach, and, of course, there's the targeted approach that we've taken in some areas like enterprise zones to deal with that for short periods. And we've taken targets in particular sectors. So, this is not a panacea on either side of it, is it, Chris? That's something the panel's looked at.

[180] **Mr Sutton:** On the reliefs that we have in Wales at the moment, some of them are automatic reliefs. Small business rate relief, effectively, is almost a small property rate relief, because it's not small businesses. In England, some of the comments to the administration review were that Wales has got this right. We don't have transitional relief in Wales—in

England, again, they say that we've got it right—and also we have a single uniform business rate. So, now, small businesses may or may not disagree with that, but, effectively, if you're going to give small businesses a lower business rate, that means large businesses are going to have to pay more. That's a difficult message to go out and sell.

[181] But one of the things is that these reliefs have come in, and some of the reliefs have become fixed—charities being a prime example, or charity shops—and it becomes very difficult to get away from that. So, one of our clear recommendations is to have a so-called sunset provision. Any relief should be for a fixed period of time—three or five years, or 10 years even—and at a point in time, you can review the effectiveness. Because the problem is that you have a situation whereby you introduce something that becomes very, very difficult to move away from. Charity shops are a prime example, but, actually, if you're looking in the round—and I'm certainly not advocating it—you have, for example, agricultural buildings. Certain elements of agricultural buildings are rated, but the vast majority aren't. Yet, that's not really even in debate, is it? So, I think the exemptions and relief should have some set provisions and then be reviewed on a regular basis to look at the effectiveness of them.

[182] **Mick Antoniw:** Because of the complex, sort of, multifarious nature of business and rates and so on, are you satisfied that we actually know enough; that we have enough understanding and enough data in terms of being able to formulate these? Because, you know, there are many, many risks and unintended consequences that arise from whatever options that you go down. Suggestions are that, as always seems to be the case, Scotland is producing a lot more information on this. I have absolutely no idea whether that is correct or not, but is there a sort of work programme in terms of understanding, or do we need to do more in this area in order to get it right?

[183] **Mr Sutton:** The business rates system has been running since the late 1950s—the 1960s certainly—and there's 50 years of case law; it does work. People might not like it, but it happens to work, and it's very robust and established. It's property based; you can't take it offshore. But there are new and emerging trends, for example, e-commerce. Very, very clearly, there is a threat to the high street, but, you know, even Amazon pays business rates to Neath Port Talbot. [*Laughter.*] But there are certain e-tailers that don't pay business rates, so it's certainly right that we have to keep it under review, because the world moves on.

[184] What we said two or three times in it is that there should be a high evidence and benefits threshold before making changes and

[185] 'the continued engagement of business and an evidence-based approach will be essential.'

[186] You're right; it's very difficult to look at a completely revolutionary system. Evolution is, I think, the best way of going forward, just slowly tinkering, turning the supertanker in the right direction, slowly and surely. That's the way to do it.

[187] **Mick Antoniw:** But it has been suggested also that you want the flexibility in order to be able to adapt to what is quite a changing business and retail environment.

[188] **Edwina Hart:** We do have the flexibility there, because we have control on business rates. As long as we recognise the financial constraints of what we do and that there are winners and losers, we can deal with flexibility within that. I think the fact that we're looking at some of the innovation that we have suggested we're looking at, this will be well thought out. But, of course, if we were to do a massive change, we'd also be taken to task through the legal system. A lot of people will start to review a lot of—. There'd be a lot more new case law, wouldn't there, Chris, if we were to dramatically change the system overnight?

[189] **Mr Sutton:** One of the issues on the charity shops is, actually, you need primary legislation to address it. Okay, I wasn't involved directly, but I understand the Minister wrote to the UK Government and other devolved nations and their response in terms of, 'Well, you try it and see how you get on', probably isn't a great thing.

[190] **Edwina Hart:** No. It wasn't a great help, even though I think that some of them secretly did want to do what I would've liked to have done.

[191] **Mr Sutton:** But the Minister has introduced some temporary schemes and the take-up of those—

[192] **Edwina Hart:** They've worked well.

[193] **Mr Sutton:** Yes, some have worked very well, some have been, perhaps—. I'll say some have been less effective, but there is a way of going forward there and you can address certain circumstances. We've now got a model that works through the state aid issues and we can look at some things, so if there is a particular issue in an industry or a geographic area, I think there is an ability to go and look at that.

[194] **Edwina Hart:** Well, we did the Murco supply chain, for instance. We did them straightaway as a reaction to the Murco closure. Tracey has just passed a note to me now that we've had 134 enterprise zone applications and we've committed over £7.5 million in business rate support so far. So, some of them do work. Some schemes haven't worked as well and we've got to analyse those, but sometimes, you've got to try things to see if you are making a difference in terms of your response in terms of the economy.

[195] **William Graham:** Keith, you've got a short question.

[196] **Keith Davies:** Chris, you mentioned retailers there and this House of Commons committee has looked at online retailers and maybe put the tax then on sales, rather than on property.

[197] **Mr Sutton:** Yes. This, again, is one of those alternative models. I think there is an issue here in terms of whether the overall rates burden is now becoming a bit too high—a bit too 'toppy', if I could use that phrase. When the new system came in in 1990, the uniform business rate, I think, was set at just over 30p in the pound, and so, rates were very roughly a third of rents, and now they're just under 50 per cent of rents. So, there is this issue there, but having said that, I haven't found a Government yet that wants to cut it. So, there is this fundamental thing and that's why one of the suggestions was that we should move to an increase in the UBR, not by RPI, but by CPI.

11:15

[198] Now, that does cost, but it only costs if you think the current system's sustainable. I don't think it is, because soon we're going to get to rates being 60 per cent, 70 per cent of rents, and that is too much. So, rates have to form part of a balanced portfolio of taxation. There are some very clear benefits to it: property is identifiable; it doesn't go offshore; it is what it is. But it has to be looked at in the round, and there is an argument that, for certain classes—retail—it needs to be addressed. The first thing that should happen is revaluation, because if rents are too high in the retail sector, then if you revalue you would rebalance, and their rates would come down on that revaluation, which is one of the reasons, again, why 2015 shouldn't have been postponed.

[199] **Keith Davies:** But should then the business rates be tied in to rents rather than—

[200] **Mr Sutton:** Business rates are tied into rents. The business rate payable is effectively an equation of the rateable value, which is the rental value, to all intents and purposes, times the uniform business rate. So, whilst the uniform business rate is staying broadly around the same level, the rental value can go up and down with the winds of the economy.

[201] **William Graham:** Dafydd.

[202] **Lord Elis-Thomas:** Thank you, Chair. Responsibility for taxation or any rates also means responsibility for rate relief schemes. So, I would like confirmation of how much additional funding will be made available during the coming financial year in order to maintain the current rate relief scheme, as you've indicated you intend to do.

[203] **Edwina Hart:** Because it's quite an expensive scheme.

[204] **Lord Elis-Thomas:** Well, this is the question. I know the studies that have been indicated by the panel and there's been a study of the comparable Scottish border schemes, and so on. Do you see a way through this? There is a further question on the back of that, but if you start with that one.

[205] **Edwina Hart:** I think there was a doubling of the scheme in this financial year with an additional £90 million.

[206] **Ms Burke:** Yes, £90 million in total and £46 million—

[207] **Edwina Hart:** Yes, £46 million, that's right, in terms of it. And the issue is the financial issues.

[208] **Mr Sutton:** The extension of the relief schemes—I guess you're talking of small business rate relief schemes.

[209] **Edwina Hart:** Yes.

[210] **Mr Sutton:** All of these have a cost. Some of these costs are relatively low. For renewables, a microgeneration scheme, it's a couple of million pounds, and it's probably not all taken up—

[211] **Lord Elis-Thomas:** But it could be quite useful in terms of stimulation.

[212] **Mr Sutton:** The small business rate relief scheme is the one that captures all the attention. Now, there is an issue here in Wales, if you imagine a pyramid of rateable values. I don't know what the biggest rateable value is in Wales, but it's probably a steelworks, or Airbus, or something like this. So, right at the top they're paying £5 million or £10 million or whatever it might be, and then you go down, and what you have is an awful lot of smaller assessments. So, it's a short and broad pyramid of rateable values, and in England, the pyramid is tall. The biggest rateable value is, I think, up there with Heathrow and the central grid and whatever; so you've got one party paying £400 million a year in England. So, you have a much steeper pyramid, and what that means is that, if you increase the base of the small business rate relief by a couple of thousand pounds, actually it has a proportionately greater effect on Wales, and costing, than it does in England. This is one of the downsides of devolving business rates. Okay, it's outweighed in the round by very significant things—maybe over-collection, and taking control of things—but there was a cost, an extra cost, in doing that. I think the cost was £24 million to match the existing scheme. Now, the panel then looked at costing a series of different alternatives, being the Scottish model, and then we have four other options, and we call them option 1, 2, 3 and 4, but I'll tell you, I'll let you into a secret, it was the Plaid Cymru scheme, the Welsh Conservative scheme, the CBI's scheme,

and Brian Morgan's scheme.

[213] **Lord Elis-Thomas:** I can imagine which was the most expensive. [*Laughter.*]

[214] Am I right or wrong?

[215] **Mr Sutton:** For all of those, the increased cost was between £14 million and £44 million, in addition to the £24 million we've had to find. Now, I'm not saying they're right or wrong, but that's just setting out the financial implications of that.

[216] **Edwina Hart:** Also, I asked officials, Tracey, to look at another scheme. Do you want to give the details? We were looking at that, weren't we, as well?

[217] **Ms Burke:** That's right, where we had the lower threshold at £8,000 and then it tapered up to £12,000. I think that was about £100 million, we estimated.

[218] **Lord Elis-Thomas:** We had a very useful discussion earlier—

[219] **William Graham:** Sorry, I didn't quite catch that. What was the figure?

[220] **Ms Burke:** I'm sorry. £100 million.

[221] **William Graham:** Thank you.

[222] **Lord Elis-Thomas:** We had a very useful discussion earlier with the Federation of Small Businesses about the question of the transparency of any tax, and, in this case, the importance of the fact that the take appears separately from the departmental expenditure limits, and is part of the annual managed expenditure. Would you agree then that it is important that when, let's say your party is campaigning for election and you say, 'We will raise this level of tax, or we will maintain this level, but we will allow relief for this specific objective', that there is always that transparency so that the business committee knows what it's getting?

[223] **Mr Sutton:** Personally, I think all policies should be costed. Absolutely; we should show that, and it gives a transparent approach. Just again on small business rate relief, this may be a difficult message, but some of the evidence shows that, actually, if you give small business rate relief then actually the landlord just charges more. And, therefore, the effectiveness of it— I think there's a really strong case for it, and everybody's agreed with it, but actually the evidence is that if you increase the relief, the rents go up, because there's a rent rates equation: somebody can afford to pay that amount, if the rates go down, the rent goes up. We need to be careful that you're therefore—. Is this the best way of targeting small business?

[224] **Edwina Hart:** That is the dilemma that we've been having in discussion. There's all this information coming in about what we need to do in the future, because everybody's quite committed to helping small businesses: is this the right mechanism, what happens, are there any downsides? And now that we do have control of the policy agenda, this is the type of open dialogue and discussion we're going to have to have going forward, because I think people make assumptions about the benefits they're having, and the reality isn't quite the same.

[225] **Lord Elis-Thomas:** And this goes back to the argument about a Treasury general taxation, different forms of taxation and therefore what are the cost benefits, and the importance of having the transparency of the burden, either of collection or of the cost of relief, truly reflected, so that the tax options may not be what the public or the businesses

concerned perceive them to be, and there's the politics here as well, of course. With due respect to all of us, we have been playing around with the business rate relief scheme, and business relief generally in terms of rates in the past.

[226] **Mr Sutton:** I'll put my CBI hat on again. There's also a call for a whole-Government approach, because we're unique in Wales in having the business rates policy with the economy Minister, but actually, clearly, there's a linkage here with the finance Minister and also a linkage with local government. So, it does need a cohesive approach, which I think is what we're getting.

[227] **William Graham:** Mick, you had a short intervention.

[228] **Mick Antoniw:** It was just a small point. Of course, one of the problems we've had in some areas is actually a disincentive kind of scheme to actually upgrading and improving properties; we've noticed that in a few schemes. They only do it because of the consequence on increase in the rentable value.

[229] **Mr Sutton:** Yes, okay. So, if there is a criticism of the business rates system, I would say this is the No. 1 thing; that if you improve your property or you move into a new property, you end up paying more. But isn't that what taxation is? You make more profit, you pay more rent. Sorry, you pay more taxes, don't you? So, there is a difficulty here, but there are ways around incentivising at the margin. Whether we look at plant and machinery or whether we look at new development, it needs to be addressed, but equally it's a fundamental part of the property taxation system. That's just the way it works, and it happens to work well, and you have to take it in the round.

[230] **Mick Antoniw:** It's about the relationship though, isn't it, because, for example, we've seen it with Pontypridd: we had the scheme, there were grants available, but, of course, what we want to achieve in social policy, to improve an area, then gets resisted because there are uncertainties as a consequence of where the expenditure will lead to, and so on. So, it comes back to, I suppose, what you're saying about the flexibility within it, and the data.

[231] **Mr Sutton:** Yes, and also some of the targeted scheme. For example, the Wales retail relief scheme—£1,000. England has gone for £1,500, but I don't think, until 18 March, and the budget, we can't make that call because we don't know what the financial settlement is. We are running up to the edge on it.

[232] **William Graham:** On this?

[233] **Joyce Watson:** Yes, on this—on the improving town centres, really, where we know that town centres are evolving and changing and becoming more residential than business. That will surely play a part in how you revalue an area and its designations. And that's the local government part, because if it's got—and I can't remember all the designations—a specific business designation in terms of what is allowed and permitted in that area, then the property revaluation might run accordingly with that, whereas if it was a residential or a mixed area, the property value or the rental value might be completely different. So, is that also forming part of the evolving policy that links up with involving local government?

[234] **Mr Sutton:** So, firstly, revaluation would be a way forward because if you look at, for example, Swansea city centre, which has had a really tough time—it hasn't yet turned the corner like Newport has—a more regular revaluation would allow the burden to be shifted, and perhaps those retailers in Cardiff would then be paying more and Swansea less. So, I think revaluation is key, and more regular revaluations—that makes the case for it. Interestingly, over the past five years, we've seen the move to BIDs—business improvement districts—and actually, people paying more rates to get more out. It seems to have been

successful in Swansea; I know that other towns are now looking at it as well. There are also issues in terms of bringing residential into it, and of course, that's council tax in some instances. There are some mixed hereditaments where you have a mix between the two. With the whole town centre regeneration piece, you go back to Portas, you go back to the National Assembly's recommendations, and there are myriad recommendations here. It's not an easy fix. It's things like car parking and bringing life back into town centres, so, yes.

[235] **Edwina Hart:** And it's not just something that we can deal with in central Government, because some of the issues, I think, about town centres are focused on parking. Local authorities used to charge for parking. Therefore, it puts people off going in, so should there be a discussion about the economic benefit of not charging et cetera? There are massive issues that won't be solved by simply even revaluations in terms of schemes on business rates. I think we're just changing as a society, aren't we?

[236] **William Graham:** Quite. Byron, you have some questions.

[237] **Byron Davies:** Thank you. Minister, you did refer slightly, or give an answer, to the question that I'm going to ask you when you answered Joyce's question really, and it's about any specific examples of good practice perhaps that we could learn from Scotland, Northern Ireland and England. Any views on that?

[238] **Edwina Hart:** I think there's good practice all across the piece, across all the devolved administrations. The Northern Irish have actually been looking in detail at small business rates relief, and I think there are some useful data coming out from there, and I'm more than happy to share that with committee. The Scots have also looked at things in detail certainly differently, and in England. I think we're probably all in the same balance, aren't we, in terms of looking at schemes?

[239] **Mr Sutton:** Yes, I think there are a range of different things. The English debate now is perhaps more regional in nature, in any event. Scotland were certainly ahead of the game in terms of BIDs, and in Scotland, you have things like the night-time economy BID, and the fisheries BID. This doesn't need to be based on a town centre, so we could have the Pembrokeshire fishermen's BID. We really could do. You could have these schemes. Northern Ireland has gone a slightly different way. They didn't do the revaluation last time around; they're doing it now. But, for example, they've just brought in a scheme whereby they've reduced the charitable relief on universities. I personally wouldn't recommend that. I think that's a really important sector for Wales, and I don't think we ought to be penalising investment in that sector. But, again, with every relief that you give, somebody else has to pay more.

[240] **Byron Davies:** Can I just ask you, Minister, as well? It's a burning question I've got here. I notice in your submission to the committee that you helpfully began by outlining the responsibilities of each Minister. I don't know whether that was out of frustration or not, but do you think it works well, everybody having a—

[241] **Edwina Hart:** Well, it does actually work quite well because the three of us do collectively discuss the issues around business rates, yes. Jane Hutt obviously takes the lead in terms of the money and everything, and obviously, there's an enormous responsibility for the Minister for Public Services because of local government. I also have my own discussions with local government leaders about things like business rates as well, because it's very important that I discuss them in the context of the economy and what they think further that I should do. So, the current arrangement is working quite well and we are very joined up on it, but it's not been easy to get this to the right place.

11:30

[242] **William Graham:** Okay. Minister, you touched earlier on high evidence and benefits threshold and Chris amplified some of that. So, what degree of economic assessment have you actually made, and will you publish the modelling?

[243] **Edwina Hart:** In terms of economic assessment, we'll obviously look at the benefits of the economic assessment we've done on some of our schemes. I think I'd be particularly eager to see what benefits have come from the temporary scheme we had with Murco, to see what a difference that's made to some companies in the supply chain, and, of course, in terms of the enterprise zones to see whether those have engendered any interest. We're more than happy to return to this at a later stage and provide a note to the committee.

[244] **William Graham:** Excellent. Thank you very much. Are there any more questions? Keith?

[245] **Keith Davies:** Fe wnaif i ofyn fy nghwestiwn i yn Gymraeg. O ran nifer o'r cwestiynau roeddwn i'n mynd i'w gofyn, rydych chi wedi eu hateb yn barod, ond cwestiwn efallai sylweddol oedd: a oes yna unrhyw system arall rŷch chi wedi meddwl amdano lle gallwn ni gael gwared ar y system bresennol yn gyfan gwbl? **Keith Davies:** I'll ask my question in Welsh. Many of the questions that I wanted to ask have already been answered, but perhaps a significant question was this: is there any other system that you've considered where we can abolish the current system entirely and move to a new one?

[246] **Edwina Hart:** I have not yet given consideration to abolishing the system yet in its entirety. Obviously, if the committee have specific views et cetera, I'm sure it's something the group would look at. We do feel we do have a tried and tested system currently. However, I'm not certain that those discussions won't take place across the piece in the next few years, across the whole of the UK, and particularly in England. We will then have to make up our minds about whether we want to follow any lead there. But you haven't been discussing anything way out at all, have you?

[247] **Mr Sutton:** No, I think what we've said is that we should keep an open mind and certainly consider alternative methods as they arise. It would be foolish not to do that, but at the moment, I'm not persuaded that there is an alternative scenario here. I would say that it is like the balance, or a basket of different taxes. Some need to be profits based and some need to be fixed in nature, perhaps like VAT or petrol duty, and perhaps maybe in some ways business rates are a bit like petrol duty—you can't really escape it; it's just a bit of grit in the system and that's the way that it works. If you make it something that is maybe profits based or a sales tax, then I suspect you're going to have a complete raft of new mitigation and avoidance measures that will emerge on the back of it. So, it is about looking at it in the round.

[248] **Edwina Hart:** Also, as well, I think we've got to give certainty to those who pay business rates—that they do understand the current system. It's very important that we understand it in the context of what's going on across the UK because there's got to be certainty in any system. We don't want to be destabilising anything. I know it's hard because one would like to think that you're doing something radical, and that something will be named after you in terms of a change of policy, but I think you've got to be very sensible when it comes to issues like this.

[249] **Byron Davies:** I've just got one question and that is, you've implemented the business rate on self-catering—

[250] **Edwina Hart:** Oh, yes, yes.

[251] **Byron Davies:** I've had correspondence from Gower, from people—and I've got to declare a self-interest, as well, in this. Any views on that? Have you had feedback on that?

[252] **Edwina Hart:** I haven't had anything directly recently, I don't believe. We can provide a note on where we are on it, if that's of any help to Members.

[253] **Byron Davies:** Yes, thank you.

[254] **Ms Burke:** There has been a study.

[255] **Edwina Hart:** We've only had a study. I don't know whether Members have had the study. I'm not certain. There's no problem about the study if you want an executive summary of the study.

[256] **William Graham:** We'd be grateful for any information. Touching on the point of certainty is the fact that the concept of rates of this kind have been going since, I think, 1597, so I suppose, it is a Tudor invention.

[257] **Edwina Hart:** A Welsh dynasty.

[258] **William Graham:** A Welsh dynasty, indeed. Thank you very much, Minister, and the officials with you today. It has been very helpful for our considerations.

11:34

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

Cynnig:

Motion:

bod y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog 17.42(vi).

that the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

Cynigiwyd y cynnig.

Motion moved.

[259] **William Graham:** I propose, in accordance with Standing Order 17.42, that the committee resolves to meet in private for the remainder of this meeting.

Derbyniwyd y cynnig.

Motion agreed.

[260] **William Graham:** Thank you very much. This meeting is now closed.

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:34.
The public part of the meeting ended at 11:34.*