Cofnod y Trafodion
The Record of Proceedings

Y Pwyllgor Menter a Busnes

The Enterprise and Business Committee

09/12/2015

Trawsgrifiadau'r Pwyllgor
Committee Transcripts

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

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

The proceedings are recorded 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
Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
William Graham	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Janet Alexander	Rheolwr Gwasanaethau Proffesiynol, y Sefydliad Ardrethu a Phrisio Refeniw Professional Services Manager, Institute of Revenues Rating and Valuation
Dr Rachel Bowen	Rheolwr Polisi, Ffederasiwn Busnesau Bach Cymru Policy Manager, Federation of Small Businesses Wales
Tracey Burke	Cyfarwyddwr Strategaeth, Adran yr Economi, Gwyddoniaeth a Thrafnidiaeth, Llywodraeth Cymru Director of Strategy, Department for Economy, Science and Transport, Welsh Government
Rhodri Evans	Uwch-ymgynghorydd Cyfathrebu, Ffederasiwn Busnesau Bach Cymru Senior Communications Adviser, Federation of Small Businesses Wales
Edwina Hart	Aelod Cynulliad, Llafur (Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth) Assembly Member, Labour (The Minister for Economy, Science and Transport)

David Magor	Prif Weithredwr, y Sefydliad Ardrethu a Phrisio Refeniw Chief Executive, Institute of Revenues Rating and Valuation
Rhian Murphy	Rheolwr Gyfarwyddwr, SlideFold UK Ltd Managing Director, SlideFold UK Ltd
Chris Sutton	Cadeirydd, Cydffederasiwn Diwydiant Prydain Cymru Chair, Confederation of British Industry Wales

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

Rachel Jones	Dirprwy Glerc Deputy Clerk
Gareth Price	Clerc Clerk
Gareth Thomas	Y Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 09:29.
The meeting began at 09:29.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **William Graham**: Good morning, and welcome to the Enterprise and Business Committee. It’s our last session of 2015, and we are looking into the devolution of business rates to Wales. 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 proceedings will be published later. I just remind witnesses that the microphones should come on automatically.

[2] In the event of a fire alarm, will people please follow directions from the ushers? I have apologies from Gwenda Thomas, Jeff Cuthbert and Dafydd Elis-Thomas.

09:30

Datganoli Ardrethi Busnes i Gymru—Sefydliad Ardrethu a Phrisio Refeniw
Devolution of Business Rates to Wales—Institute of Revenues Rating and Valuation

[3] **William Graham**: If we turn to item 2, we welcome Janet Alexander and David Magor. Could I ask you just to give your names and titles for the record please?

[4] **Mr Magor**: Yes, I'm David Magor. I am the chief executive of the Institute of Revenues Rating and Valuation.

[5] **Ms Alexander**: Jan Alexander, professional services manager for the Institute of Revenues Rating and Valuation.

[6] **William Graham**: Thank you very much, and thank you very much for your submission. Our first question is from Mick Antoniw.

[7] **Mick Antoniw**: Good morning, and thank you very much for the very helpful paper that you presented. I was very interested in one part of the paper, which talked about the potential for changes, but talked about the condition of the rating list for Wales and missing value. I wonder if you could perhaps explain a little more about that and how you see proposals forthcoming to change the situation.

[8] **Mr Magor**: Obviously, the history of the business rate system is that, when the community charge was introduced in 1990 and the business rate system was centralised as opposed to localised, the responsibility of the local authorities changed. Up to the introduction of the poll tax and the nationalisation of business rates, local authorities were very active in relation to the valuation list. They had outside inspectors and they'd made sure that rateable value was searched out. After 1990, that ceased to be an issue, purely and simply because it was pooled and you got your money whatever effort you put in. I'm afraid, business rates began to be neglected, and when local authorities were looking for savings they tended to do away with their outside inspectors and cut corners, which, certainly, as a professional, I disagreed with. At that time, I was working in local government.

[9] So, since 1990, you've had this sort of—. The list has been left to flounder—that's the word I use. I've often spoken to people internationally

about the business rates system. One of the things I've prided myself on in England, Wales, Scotland and Northern Ireland is that the valuation list for non-domestic properties actually reflected what was on the ground. When the rates retention scheme was introduced in England, it became quite obvious that it was critical for a local authority to actually understand exactly what was happening to the list, particularly in relation to challenges and appeals because, obviously, that affected the local authority's provision, and it affected the rates retention scheme, and also to maximise their value, because the nature of the rates retention scheme meant that local authorities could save what they found.

[10] So, my institute entered into a partnership with an organisation, which was a data organisation effectively, to come up with an idea of looking for missing rateable value, not knowing whether there would be any rateable value missing. We've been very, very surprised at what we found in England. We found many millions of pounds worth of missing rateable value, sometimes as a result of it just purely being missed—buildings that have been split and one part has stayed in the list and the other part has been taken out of the list; buildings that have moved from operational land to non-operational land. There are lots of different situations.

[11] Also, there's the question of value. Lots of the values—. When a ratepayer appeals against the value and you get lots and lots of appeals, some of those appeals are just withdrawn, and when you actually look at them and you look at some situations, you see that some properties have appeals withdrawn year after year after year, and you start to wonder why the appeal has been withdrawn. Is it because the valuation officer has got the value absolutely right, or is there something to do with that valuation that's perhaps missing that would increase the liability of the ratepayer? In the past, that would have triggered an inspection by the local authority. Since 1990, that issue was just left. So, we've been looking at that sort of thing as well. It's really been quite surprising. We're talking about many millions of pounds worth of missing value being found.

[12] **Mick Antoniw**: You referred to, in England—. By putting in additional resources and additional focus, you estimate—I think you give the figure of £50 million that was identified, which I presume is the tip of the iceberg. Or is it—?

[13] **Mr Magor**: It's the tip of the iceberg.

[14] **Mick Antoniw**: It's the tip of the iceberg. So, you estimate that the actual missing rateable value is actually far more substantial. Did you do any work in terms of assessing what the potential missing rateable value might be in Wales?

[15] **Mr Magor**: We looked at the contrast between the activity in Wales and the activity in England, and it was the same pattern. The activity after 1990 slowed down; local authorities took a different stance. So, it's reasonable to assume that the same situation prevails. We know quite a lot about the individual local authorities because officers in those local authorities are members of our institute. We know that outside inspections have been pared back. Local authorities are not as active as they used to be. They still do the basic work of referring planning permissions and building control information but the other activity has gone off the radar, purely and simply because it didn't affect the amount of money that the local authority got. Obviously, it did affect the overall global sum, but no-one looked at it globally.

[16] **Mick Antoniw**: So, you're suggesting there was no direct incentive and, of course, that impacts on the resources that are allocated to remedy the situation. What proposals would you actually make? What, would you say, needs to be done in order to rectify the system or make the system work as it should in recovering the amounts of money that should be coming into the business rates pot?

[17] **Mr Magor**: Well, I think as far as the state of the list is concerned, in legislative terms, the duties in relation to the list should be restored to the local authorities. Up to 1990 the local authorities had a legal interest in the list. They participated in all the appeals and they participated in trying to raise rateable value by making their own proposals. That stopped after 1990. So, as an institute, we would like to see that reinstated. That would be the beginning, but, of course, what you need to do is rectify what's happened since 1990—over the last 25 years. The way that you would deal with that is simply by getting people out on the ground, incentivising local authorities to find the missing value—not that they should need incentivising—purely and simply because I think there's an equity issue here. If you've got one ratepayer here who is paying and someone else's value is being missed, that's not fair on the ratepayer who's paying. It's the duty of the local authority to go out and seek and find. The chief financial officer is under a statutory duty to inform the valuation officer of any matter that affects the value in the list. That statutory duty needs to be emphasised.

[18] **Mick Antoniw**: But at a time when there are massive pressures on local government resources and so on, what you seem to be suggesting is that, unless local authorities really are incentivised—that is, they will financially benefit—there's no significant benefit to them in going out and ensuring that the list is updated. Consequently, the many missing millions, I suppose, of business rates that are not recovered are not likely to be recovered. Is that a fair assessment?

[19] **Mr Magor**: Well, it depends how you structure the future of business rates in Wales. If you create a retention scheme, similar to the scheme in England, it will be for you to decide how you're going to structure that scheme, but you could structure the scheme in a way that would incentivise the local authorities to find the missing value. You could reward them. A similar scheme has been recently introduced in Scotland, where the local authorities are being incentivised, and they've been set a target and there's a little bit of flexibility in that target. If they go over the target, they can retain 100 per cent. If you were to introduce that sort of situation in Wales, I would suggest that you would definitely encourage the local authorities for two reasons: one because it brings extra revenue to the local authority, if they're able to retain it; and, of course, it's the fairness and equity issue with regard to the tax liability.

[20] **Mick Antoniw**: Well, I think that's a very interesting area that I'm sure some others may want to explore. I just want to ask you one additional point, though, and that's the issue of the—. Obviously, there's a certain amount of lobbying or interest from business with regard to the plant and machinery aspect of rates. Do we have any estimate as to what proportion that represents in terms of the sort of business rates? How significant a factor is it in terms of what is actually received by way of rates?

[21] **Mr Magor**: Well, as part of the work we do in England, we have a database. I can actually tell you that, up to last Wednesday, the rateable value for plant in Wales was £15,802,083. So, that was the amount of rateable value that's attributable to plant and machinery.

[22] **Mick Antoniw**: I presume those are fairly accurate because they're not going to be affected. Those figures are less likely to be affected by the missing rateable values and so on.

[23] **Mr Magor**: That plant and machinery is plant and machinery value of

existing properties. So, it's properties that already exist. Obviously, properties that are missing may have plant and machinery as well. It was interesting because, in the lead-up to the last budget, the Chancellor of the Exchequer—. There were a lot of comments about the possibility of exempting plant and machinery, taking it out of rating as an incentive to business. I think that the Chancellor had had meetings with business leaders, and that was becoming one of the hot rumours in the lead-up to the budget. It never happened, but it is one of these areas that can be looked at if you're wishing to incentivise.

[24] **Mick Antoniw**: But the implication of it on the figures that we've got at the moment is that if we wanted to use that as a mechanism for incentivising business—manufacturing, or whatever—there's a potential maximum £15 million cost, plus whatever is missing.

[25] **Mr Magor**: Yes. It's £15 million times a multiplier. So, it's £7.5 million.

[26] **Mick Antoniw**: Sorry, yes.

[27] **Mr Magor**: But it is interesting. I think, easing the rate burden on industry—and, of course, there's been lots of comment about the steel industry and others, where there'll be lots of plant and machinery—. There's the contrast of what's happening in England, Wales and Scotland with Northern Ireland, where they still have industrial de-rating. Here, industrial properties have a reduced rate liability. Certainly, they are also reviewing their rating system, and one of the initial comments made by the Northern Ireland Minister is that de-rating is here to stay, because that's an economic incentive to encourage business. Certainly, as the situation has developed, with industries closing down, particularly those where the argument is put forward that it is the rate burden that's one of the factors, we don't necessarily, as an institute, agree with that; we think there are other factors that are, perhaps, more significant. But, notwithstanding that, there are different ways in which you can regenerate or incentivise business, and reducing the tax burden is one of them. That's the reality of life.

[28] **Mick Antoniw**: Thank you.

[29] **William Graham**: Keith.

[30] **Keith Davies**: Thank you, Chair. I was just going to follow that up, because you did mention the steel industry there. One of the issues with the

big steel plant in Port Talbot was that it had to decide whether it wanted new machinery, but if it put new machinery into the plant, which it did, it had to pay far more in rates. So, could the system be that new investment by the company into new machinery means, for a period of time, that there would not be an increase in rates?

[31] **Mr Magor**: There are many ways in which you can incentivise. The plant and machinery that's rateable is plant and machinery that forms part of the building, but it's quite easy to identify what that is. There's a plant and machinery Order. That plant and machinery Order has been in existence for a number of years. It's subordinate legislation. To actually relieve business of elements of plant and machinery would be a relatively simple exercise, because it is separately identified. You could modernise the regulations in the way that you said, by looking at replacement machinery after a certain date. There are lots of different ways in which you can manipulate the legislation to help industries like the steel industry.

[32] **Keith Davies**: The other point made by the steel industry, when we had the debate last week, in a sense, was that the rateable value depends on the number of buildings. So, Tata Steel were actually saying that, if we could look at the plants we've got in Wales and, in a sense, reduce the number of buildings, but keep the plant producing what it produces, then it could lower the rateable value.

[33] **Mr Magor**: Absolutely. That's down to the method of valuation. If you've got smaller premises and those premises have much better technology that improves productivity, the rate liability will reduce, because you're quite right, it's the size of the premises, the cost of the building, and various other factors.

[34] **Keith Davies**: Thank you.

[35] **William Graham**: Could we look at your views on the empty property regime? Would you like to expand on that?

[36] **Mr Magor**: Yes. I think there are several aspects with regard to empty property rates. Obviously, the empty property rate has a history. It started off as 50 per cent, and it was an incentive to get empty properties occupied, then it was increased to 100 per cent, and it's changed the application of the law across various parts of the United Kingdom. But what's happening now, as the empty rate is lifted up to 100 per cent, is that it's become a tax that's

regarded as a burden on those trying to re-let empty properties, and what they try to do is to mitigate that liability, and they've been trying to mitigate that liability in lots of very inventive ways. They're now known as avoidance.

[37] Of course, it's about avoidance and evasion, and there has been some case law. The first issue was what constitutes 'rateable occupation'. That is, how much of a building has to be occupied so that you can actually treat it as an occupied hereditament—sorry, an occupied property—as opposed to an empty property. If I give you an example of a cash and carry warehouse, for example. A very large warehouse in the midlands was empty. If you reoccupy it for six weeks, you can reduce the empty rate liability, because you get another free period. So, what the company wanted to do was devise a method of reoccupying the property for six weeks, then vacating it, and reoccupying it, so that they continued to get the free period. What they did was that they had 16 pallets of payroll records and human resources records, and they were moving these pallets around their empty warehouses all over the country, and that went to law. The challenge of the local authority was that that didn't constitute rateable occupation, because the pallets were only occupying a very small part of the building. The courts decided that that was beneficial occupation, and therefore the empty rate liability, which was quite considerable for those warehouses, was dramatically reduced, and that practice has continued. That's what I would call a very clever manipulation of the law by the legal representatives of the ratepayer.

09:45

[38] You go to the other end where charities are encouraged to occupy empty buildings, and they carry out things such as art exhibitions. In London, for example, if you walk down and look at empty office blocks you'll see office blocks with a couple of easels in them, and there's an art exhibition and it's open from time to time; there'll be notices on the door. And, of course, that means it's occupied by a charity; that qualifies immediately for mandatory relief of 80 per cent. There is then, we suspect—by 'we', I mean 'the local authorities'—a relationship between the landlord and the charity for perhaps a consideration—I'm trying to think of a very sensible way of saying it—to encourage that charity to occupy the premises.

[39] Now, when you look at these leases and you challenge them, you'll see that they're very cleverly worded leases that have got a very rapid exit clause in them, so that if a tenant comes along you can get the charity out straight away and put the property into occupation. The problem with that, of course,

is that the loss on collection of the mandatory reliefs are a loss to the Exchequer generally, as you're losing the empty property rate income.

[40] You then go further when you get strange occupation. For example, there is a growth in snail farms. You might say: what on earth are snail farms? This is the practice of putting snails in boxes and putting them into large office blocks and saying that most likely now constitutes an agricultural hereditament, because it's being used for the rearing of snails. And then it becomes more and more inventive.

[41] The Bluetooth case—which, of course, has been defeated now by the local authorities—was, again, another method where a large empty office block would have a very small Bluetooth device just in one corner of the office block. That would be sending signals out, and that constituted occupation of the whole property. That way, you avoided the empty rate. The Bluetooth organisation was a charity, and they therefore got mandatory relief. And these things have been happening.

[42] Certainly, the Treasury have been very concerned about this in England, where avoidance is now counted in billions. It's the norm to come up with an avoidance regime to relieve yourself of the empty property rate. We are promised legislation in the forthcoming budget—it'll be legislation across England and Wales—to remedy that, but it's very difficult because it's avoidance, and it's just a very careful manipulation of the law. These are issues that crop up every day, particularly with regard to corporation tax and large organisations that seem to have very small corporation tax bills relative to their profits. And this is just the same situation—everybody who's liable for a tax is looking to mitigate their tax liability, like we all do, I suspect, day to day.

[43] **William Graham**: Reduction is all right, isn't it? [*Laughter.*] So, have you made recommendations to the Chancellor on this, because, clearly, it's an important point?

[44] **Mr Magor**: Yes, there was a working party set up with representatives from England, Scotland, Wales and Northern Ireland. That working party was under the guidance of the Department for Communities and Local Government. We produced a report and that report went to the Treasury.

[45] **William Graham**: Thank you very much. Rhun.

[46] **Rhun ap Iorwerth**: Just coming back to rate retention, obviously you've spoken about the positive aspects of what retention can bring, even in just making local authorities monitor the situation on the ground, but what precautionary notes would you sound as we perhaps move to a rate retention regime in Wales?

[47] **Mr Magor**: The English model, which was the starting point for this—. On the working group that was set up by DCLG, we were given the challenge of 'How do you create a scheme that allows local authorities to retain part of their income?' Of course, when you look at business rates, the immediate problem you've got is that the retention scheme is like any other sort of scheme to try and balance the resources of local authorities; it's nothing more than a glorified equalisation scheme, because that, in effect, is what retention is—you create tariff authorities and top-up authorities, and it was actually getting that position balanced and fair. And you have lots of different situations. You start to look at the scheme and you say, 'Well, okay, how is it going to move someone to a top-up authority as opposed to a tariff authority?' They're paying in money or taking money out. What happens if they have a massive dip in their rateable value, for example, if a major assessment is reduced, like a power station, which has been happening all over England? And, what's been happening there is that the local authority suddenly has a massive loss of revenue. The way we accommodated that in the working party, and the suggestion we put forward, was to create a safety net. So, you create a safety net. That safety net in itself creates a strange situation, because some local authorities who are within the safety net see no incentive in trying to increase value because it just moves their position within the safety net.

[48] So, the scheme is working reasonably well, but I think if I had a clean sheet of paper again my starting point would be different. I think I would look more carefully at the baselines, the starting point. I would look at the overall situation across the whole country, looking at the relationship, looking at the equalisation issues, because at the end of the day retention is equalisation. It's not such a problem in Wales because you are all unitary authorities. Where there's two-tier local government, it becomes almost impossible to work because of the relationship between the lower tier and the upper tier and the proportion of tax that goes back to the local authorities. But when you have unitary authorities, it's a much easier mechanism to devise for a retention scheme. It's about sitting down and saying, 'What is fair in the distribution of the tax?' because you need to accept right from the outset that the retention scheme is a glorified

equalisation scheme. Then you have to decide how much income you, the Government, are going to forgo to incentivise local authorities, because, obviously, it's affected by the grant mechanism and what the overall sum of expenditure and income is of the local authority. You need to get the whole balance right and I don't think we've achieved that balance in England.

[49] **Rhun ap Iorwerth**: And what about mechanisms to mitigate against the threat that prosperous areas will become more prosperous and that they're able to retain more and invest more in infrastructure, whatever it might be, and that areas that see more poverty remain so—you know, that it becomes more unequal?

[50] **Mr Magor**: And that is why you need to get the equalisation sum—the formula—right from the outset. You need to look more carefully at local authorities. You need to measure the economic activities in local authorities. You need to decide exactly what you're trying to achieve with your policy. Are you genuinely trying to help regeneration and create a situation where local authorities can utilise money at a local level? Do you leave local authorities free to spend that money as they wish? How do you make the retention scheme work in tandem with BIDs, in tandem with enterprise zones? You need to look at the whole picture and make sure that the model you create is fair to local authorities and that it's meeting your policy objectives. And you'll know what your policy objectives are. It's interesting, the regeneration of the high street. You do wonder whether a retention scheme could have perhaps been modelled in a different way to actually help regeneration—the regeneration of particular types of property. So, the model can be adjusted. It's about creating a model that's fit for purpose and is appropriate to the country in which you're trying to introduce it.

[51] So, my starting point would be the model of the local authorities, determine exactly what you want to do in relation to your policy, and determine right from the outset which local authorities you really want to help and what help you want to give.

[52] **Rhun ap Iorwerth**: I have just one more question. You've raised doubts about whether this can work where you have two-tier local authorities. We might be in a position in Wales in years to come—we're going through a process of discussing what will happen to the future of local government—where, perhaps, you'd need to bring councils together across a region to implement a joint retention scheme across local authority boundaries. Could that work or could it only work as effectively as you'd like where you have

larger unitary authorities?

[53] **Mr Magor**: It could work, but you'd need to get the relationship between the various tiers correct. If you look at the situation in England, where you've got the shire counties and the small districts, where the majority of the revenue goes to the shire county, you know, you get this distortion and the cost of collection of the rate falls on the lower tier, and the upper tier doesn't bear any of that burden. But you then get this sort of challenge between how the tariff and top-up situation works and how the money is being effectively used. If you have a regional policy, you just need to make sure that the model you create meets the objectives of your policy. So, if you do create a retention scheme that helps on a regional basis, you don't want conflict between the tiers of local government, and there is a little of that in England, certainly.

[54] **Rhun ap Iorwerth**: I guess the larger the region the better, in that you have more chance of having a mix of wealthy and poor areas within the region.

[55] **Mr Magor**: That's right, and, of course, those regions will be created historically around local authorities in history and, you know, what the nature—. But if you're trying to create an economic model, you have to look at where the rating resources are and where the rating resources aren't and how you want to distribute them. I think the other factor is, if you're looking at the rating system in some of the areas where, for example, there's a lot of vacant land, you might want to consider another taxing model in addition to the rate. You might want to tax vacant sites, you might want to tax—dare I say it—agricultural land. There are lots of options that are available to you, so you look at the overall model rather than the model in a narrow way.

[56] **Rhun ap Iorwerth**: Okay. Thank you.

[57] **William Graham**: We're more than halfway through our time, but we're less than halfway through our questions. Can I appeal for shorter questions and shorter answers, please? Mick you have a supplementary.

[58] **Mick Antoniw**: You mentioned high-street regeneration and, of course, the implications of business rates there. One suggestion that's been made is that because of the, perhaps, inequality between the big retail parks and how they're treated et cetera, that you might have a different system there where there's perhaps even a surplus on the retail park that is then ring-fenced or

used to help the regeneration of the town. Is that something that's happened anywhere around the UK?

[59] **Mr Magor**: In Northern Ireland, there was a large retail premises levy—I suppose one would call it a penalty; I'm reluctant to call it a penalty—it was a levy, and then that was utilised to finance their small-business rate relief scheme. There are lots of ways in which you can do that. But I think, again, you should look at extra sources of revenue. The institute has produced a paper on creating a virtual high street of internet retailers—

[60] **William Graham**: Have we had that?

[61] **Mr Magor**: Not specifically on the internet—

[62] **William Graham**: Could we ask you for it?

[63] **Mr Magor**: I'm more than happy to send it to you.

[64] **William Graham**: Thank you very much—very helpful. Keith.

[65] **Keith Davies**: Thank you, Chair. You're recommending that we could have business rate multipliers in Wales, in local authorities. It operates in England, but aren't there difficulties with it? Following on from what Rhun was asking earlier, some local authorities would have smaller multipliers in order to attract the business, and it could happen, let's say, on the Powys-Herefordshire border, for example.

[66] **Mr Magor**: The new proposals for England have just been introduced and they're not actually effective yet, and this is where there's an ability to manipulate the multiplier. But, of course, that has happened in London, and it's been added to the multiplier with Crossrail and various other things, and they've created a lot of concern—I think that's the right word. I think if you increase anybody's rate liability, they're bound to be concerned. If you have a power to have variable multipliers, it just gives you more flexibility. If you're looking at a retention scheme and you're looking at creating a sensible model, having different multipliers, you can apply those multipliers to incentivise people in actually arriving in an area and setting up a business in a particular area. But, of course, the real issue there is: to what extent is the rate burden a major factor in developing new factories and new offices and so on? I think there are big issues around the high street and the rate burden, particularly with small rate payers and the small business rate relief

and how they interact. But I think, in the bigger picture, you need to have as many tools available to you when you create your retention model, that allow you to have the maximum flexibility and so you create a model that's fit for purpose.

[67] **Keith Davies**: Looking at town centres—because we've looked at town centres and, of course, they're full of charity shops.

[68] **Mr Magor**: Yes. Again, if you review the rating system, it's within your power to review charitable relief—to look at the way charity shops work and to differentiate between what I call 'pure charity shops' and shops that are almost retail. That's another area where abuse has been taking place as well, where charities have been created, participate in the high street and damage what you'd call the normal retailer. When one looks at the rating system as a whole, certainly charitable relief needs to be looked at, because it's been around for a long, long time—mandatory and discretionary relief and the way it operates needs to be modernised.

[69] **Keith Davies**: Thank you. Thank you, Chair.

[70] **William Graham**: Eluned.

[71] **Eluned Parrott**: Thank you. We've often heard it said that one reason to be cautious in moving forward with changing the business rate regime in Wales is that we have this long and porous border between England and Wales and that that's a potential challenge. But what do you think could be the opportunities that that long and porous border offers us if we were to want to make changes?

10:00

[72] **Mr Magor**: If one accepts right from the outset that the rate burden is a factor in location, certainly having flexibility, creating a model that's suitable for Wales, and perhaps having the ability to have variable multipliers, you could create a rating incentive. Of course, if you coupled that with wider policies, for example, the rate of corporation tax, I think the porous border could work to Wales's advantage. And, of course, the obvious example of that is Ireland and Northern Ireland, where you have a situation in Ireland, obviously, as an independent country, where they took new powers in relation to corporation tax, and Northern Ireland are now taking them. Of course, that's an issue that's been looked at right across England, Scotland,

Wales and Ireland.

[73] **Eluned Parrott**: And what research could we do, or ought we to do, specifically in Wales, because, clearly, we can look at the example of Ireland and Northern Ireland, but those are slightly—. Obviously, it's a slightly different situation to Wales versus England. What research can we do to understand or to model what the impact of these changes could be on cross-border movements of businesses?

[74] **Mr Magor**: I think there are two issues. There's the porous border and the small move, and I think there's the bigger issue of, if you make Wales an even more attractive place to come and set up your business, you will encourage the major banks and the insurance houses and everything else, because your regime offers an incentive for them to come. And I think that is the potential for cities like Cardiff and Newport and Swansea—the potential for actually attracting businesses in if you create a more attractive tax regime is enormous, and of that there is absolutely no doubt. The other issue, of course, is the rents. The rent levels fix the level of assessment. The rent levels in London, central London, are very, very expensive. With modern communications and all the issues around the internet, you don't need to have an office in London.

[75] **Eluned Parrott**: And if you are designing schemes, it seems that—. Obviously, if business rates are designed to give us stable local finance, then if you are reducing the burden on one section of businesses, for example, small high-street retailers, then the ability to reduce the burden on larger businesses to try and attract them across the border might be reduced. Where else have we seen examples where they've tried to strike that balance to attract businesses across?

[76] **Mr Magor**: There hasn't been very much of that at all, mainly because the majority of the business rates—the high business rates leviers—is concentrated in four countries, which is in the US, the UK, Japan and Sweden; that's where the high levels of property tax are. So, that's where you look for the examples. In the US, there's evidence of making the tax rate more aggressive, but as the US is such an enormous country it's very hard to use that as a comparable. But I just believe that—. Is the rate burden a factor in location of business in making a commercial decision? If you ask industry, if you ask commerce generally, they will say it is, and one has to accept that at face value. Therefore, if you reduce that burden in Wales, you're bound to make the country more attractive to someone relocating. And, of course, it

has other spin-offs as well, because you'll create more employment and it reduces other burdens.

[77] **Eluned Parrott**: And more revenue in the long term than in the short term.

[78] **Mr Magor**: Absolutely right, yes.

[79] **Eluned Parrott**: Okay, thank you.

[80] **William Graham**: Oscar.

[81] **Mohammad Asghar**: Thank you very much indeed, and thank you, David, for this brief about ratings. My question is: how can the economy be grown by this rate valuation and all the rest of it? You mentioned the high street earlier. If another business comes into the high street, especially say in Newport, where there are a large number of empty shops, the existing shops are there, but if a new shop comes in and they pay the reduced rates, the people who are already there are paying the full rates, and I don't think that's fair. The system should be looked at, at a very different angle, to make the balance in the high street and to make sure that existing businesses should also grow with the new businesses coming in. And my point to you, on economic growth, is that a lot of microbusinesses are starting within people's backyards; these days, internet trading, which is probably not on your radar, and most businesses are doing this to save the rating problems. I know it's a revenue expense. This is our economy not growing. If you go to Hong Kong and other areas, people—

[82] **William Graham**: Could you answer that first question, because time is going on?

[83] **Mohammad Asghar**: Could you please just say what the good examples are you can bring here from Scotland and Ireland?

[84] **Mr Magor**: I think, in terms of regenerating the high street and getting the balance right, if you create sufficient discretionary powers, those decisions could be made at a local level, and a local authority can make its decisions about its own high street, and you can actually create, if you have the flexibility within the rating system, a flexible rates regime. You're absolutely right about the situation of a new shop and an existing shop and the unfairness of the burden. But, again, you could link your rate liability to

profitability. That's quite dangerous, but having said that, it's done in other countries: it's done in France, so why shouldn't we consider it? I just think that we've got to change our approach. Pure property tax, let's move away from it; let's have other elements and those elements tend to be: who is the occupier, what is the profitability of that occupation and can you actually co-ordinate that with fixing a tax regime?

[85] **William Graham**: Thank you. Joyce.

[86] **Joyce Watson**: I'd like to explore that profitability bit just a little bit more because we all know that high streets have shifted about five times, probably, in any given town, due primarily to rate relief for out-of-town businesses et cetera. How would we, if we adopted this approach, keep the existing businesses viable where they are, whilst, at the same time, trying to regenerate those town centres that are somewhat depleted?

[87] **Mr Magor**: I think that the first area where one would look would be the small business rate relief because I think that the small business rate relief as a scheme is hopelessly regressive, because if you have a typical high street where you have a shopkeeper, perhaps running a greengrocer's shop, and a shop down the road where a solicitor is operating, the solicitor is very profitable, no doubt, whereas the poor old greengrocer is just surviving, and the rate bill is the difference between that business surviving and not surviving. The fact that they would get the same relief based on their rateable value is unfair, and that could easily be remedied by having some kind of profitability test in the small business rate relief. Once you do that, you need to look at other international models, even though the tax burden is much lower.

[88] I've already mentioned France and the tax profession now and the link between the property tax and the tax that is taxed on profits. That, to me, seems a very legitimate way of doing it and it deals with the issue that you raised about making sure that you maintain existing businesses and you maintain that competitive edge. But something's got to be done about the regeneration of the high street. I will send you the paper on the internet levy because I believe that the internet levy is the answer and that's being looked at all over the world.

[89] **Joyce Watson**: Okay. Obviously, you've got a methodology that you use—I'm beginning to think that it's 'methodologies' now, but I'm not sure. Could you give us some insight into the methodology that you use to model

the impact of business rate policy, and how easy it is to obtain robust and reliable data to do that because the two obviously go together?

[90] **Mr Magor**: The actual official data—that's the valuation list and the rating records of the local authority—are available to you as the Government. On the valuation list information, within my organisation, in partnership, we've created a database. It's got the history of all the rating records going back to 1990. We keep it up to date every week. The valuation officer is moving into a new digitised regime and their data management will get better and better. You need to have accurate data of the properties: values, relationships and everything else. That's one side of it.

[91] The other side then is liability: you need to know where the charities are and you need to know all about occupation patterns and everything else. You gather information through the national non-domestic rates forms—you have that information. There are only three main suppliers to local government of rating accounting systems. It would be very easy to search those systems. Now, that gives you a very comprehensive model and you need to simulate around that model. It's certainly not rocket science, by any stretch of the imagination. You need to put that model in place that recognises rateable resources and the viability of businesses to actually create systems that are fit for purpose. The rating system was introduced in 1600 and it hasn't changed much. [*Laughter*.]

[92] **Joyce Watson**: So, saying that, and previously—and we don't want to go back to the 1600s—what have you concluded in respect of the economic and financial impact of different models? In other words: we want to make a recommendation.

[93] **Mr Magor**: I think that other witnesses, who are coming before you, particularly the Federation of Small Businesses and the Confederation of British Industry, understand exactly what the rate burden is as part of the overall outgoings of business, and what impact the rate burden is in terms of their business decisions. Is the complaint about rates just because they want to increase their profits or pay more to their shareholders, or is it a genuine burden? That piece of research has never been done. There was an attempt, in the review in England, to gather that information, but no-one had that information available and, of course, the major industries are not going to say—. It's turkeys voting for Christmas: you're not going to say the rate burden is of no consequence; you're going to say it's of massive consequence. But I think someone needs to do the sum and to actually

calculate exactly what the rate burden is, relative to turnover and profit and everything else. And that's not rocket science either.

[94] **William Graham**: Thank you. Eluned, please.

[95] **Eluned Parrott**: I wanted to ask about the revaluation system, because clearly this is also a cause of real concern in many cases. The property market is cyclical; obviously, in the last revaluation we valued at the top of the cycle. You've suggested moving to a three-yearly regime, but the property cycle seems to me to be much longer than that in general terms. I wonder if you can comment on how you would make sure that we weren't introducing major shocks into the system, and major shocks to businesses by revaluing every three years, where we might hit a peak and then a dip and then a peak and then a dip.

[96] **Mr Magor**: Five-year revaluations are part of the history of the rating system. They need to change; they don't recognise the modern economic situation. Nowhere else in the world do they have five-yearly revaluation cycles, apart from the old Commonwealth where they use the old English system. So, first let's park the five years.

[97] You then decide, 'Well, okay, what is the sensible period between revaluations that gives you good-quality rental evidence?' Because remember, volatility—. Effectively, the valuation officer models it. He looks at current rental evidence, at the antecedent date, but for the antecedent date, when you've got a five-year revaluation, there are five-year gaps. If you bring it down to three years, it's only a three-year gap and you're looking at rental evidence that's more up to date. I would take it further: I would go down to two years. Of course, the digitisation of the Valuation Office Agency is an important part of that, so they've got the ability to gather the information. The evidence is there. You will then have a more buoyant tax base, a tax base that's more reflective of the economic situation. You're always going to have massive shifts; you can't avoid those. But if you put sufficient flexibility in the legislation to allow—. At the end of the day, the valuer is making a judgment about what is the rent that the hypothetical tenant would pay for a property, and he or she makes that judgment around the evidence they gather. You have to be careful about not using evidence that's skewed.

[98] **Eluned Parrott**: That's the question, isn't it, the accuracy of the evidence? There have been suggestions that maybe we could have five-year major revaluations and then use that digital information, in between those

revaluations, to have interim annual revaluations. But is that likely to be robust enough to work in practice?

[99] **Mr Magor**: Providing the indexation is right and the indexation is based on good evidence, there's nothing wrong with that. Effectively, when you revalue—particularly the bulks like shops and offices—you create a model anyway. That's how the valuation officer works. He doesn't go around and value each one individually, he says, 'That type of office has a rental value of this', and then he values them all the same. So, indexing like that is effectively almost an annual revaluation. What you're saying is that you gather the evidence on a five-yearly cycle. There are lots of different models you can use and that model is as good as the one I've suggested.

[100] **Eluned Parrott**: Great. Thank you. Clearly, there is a cost to revaluing more frequently. How would we offset that with, for example, a reduced cost in appeals? What would you anticipate would be the reduction in those kinds of actions?

[101] **Mr Magor**: If you revalued on a frequent basis, you would reduce the number of appeals because there would be no, 'The revaluation is coming soon', and it's current rental evidence. You've got to move from the current processes to an automated process. That would actually reduce the cost of the administration. I think you reduce the cost of the administration, you use computer-aided mass appraisal techniques. Those models are very resilient, they're subjected to the scrutiny of the courts in other countries, and there's no reason why we shouldn't be using them. We are behind other countries because we've always used the traditional valuation process.

[102] **Eluned Parrott**: Thank you.

[103] **William Graham**: I think in support of that, you'll see—. Recent research I noticed suggests that in Newport, for example, it can be an 80 per cent reduction for the next set of rateable values, which would very much militate towards more frequent revaluation.

[104] **Mr Magor**: Very much so. The crisis in the property market and the crash really reminded people that markets are volatile.

[105] **William Graham**: Vey true. Our last question: Keith, please.

[106] **Keith Davies**: As politicians, we regularly get different organisations

trying to get our support, and one of them has been a land value tax system. What are your views on—?

10:15

[107] **William Graham**: Unfortunately, we've got very little time to—.

[108] **Mick Antoniw**: Yes or no? [*Laughter.*]

[109] **Mr Magor**: It's a 'no'. The reason it's a 'no' is about the size of the tax base and the number of taxpayers. If you look at where land value taxes really started—. There's a sort of religion to land value tax—Georgists and everything else—but if you look at it—. The best place to look is the former communist countries, where they've all had land taxes and they had cadastres. Countries, particularly the Baltic states, which are quite interesting—Estonia, Latvia and Lithuania—created land taxes as soon as they came out of communism. No sooner had they created the land taxes, they started adding properties onto the top of the land, because you don't have enough taxpayers.

[110] I always use the city where I spent most of my professional life, which is the city of Oxford. In the centre of Oxford, with a property tax, you have something like 800 ratepayers; with a land tax, you have seven. [*Laughter.*] The idea is that those seven ratepayers take the liability in rent, and it goes up through the hierarchy of occupation. It won't work. I'm not against a land tax for vacant sites and to consider the situation of agriculture—to use it as an additional tax—but land and property creates a much better tax infrastructure.

[111] **William Graham**: I think your example there of Oxford is an excellent one, because you can't really find a landmark value to start on your tax, can you?

[112] **Mr Magor**: It would be very, very interesting, because, obviously, the majority of those ratepayers are very well-established education establishments, which, in itself, might put up student fees in those. [*Laughter.*]

[113] **William Graham**: Thank you very much for your evidence—really well worth while. We're most grateful to you both; thank you very much. Committee will retire for 15 minutes.

Gohiriwyd y cyfarfod rhwng 10:16 a 10:29.
The meeting adjourned between 10:16 and 10:29.

Datganoli Ardrethi Busnes i Gymru—Ffederasiwn y Busnesau Bach
Devolution of Business Rates to Wales—Federation of Small Businesses

[114] **William Graham**: Welcome back to our committee and item 3. I welcome members of the Federation of Small Businesses. Could I ask you for your names and titles for the record, please?

[115] **Dr Bowen**: I'll start. I'm Dr Rachel Bowen. I'm policy manager at the Federation of Small Businesses in Wales.

[116] **Mr Evans**: I'm Rhodri Evans. I'm senior communications adviser for the Federation of Small Businesses in Wales.

[117] **Ms Murphy**: I'm Rhian Murphy and I'm director of SlideFold UK Ltd.

[118] **William Graham**: Thank you very much. Our first question's from Joyce Watson.

[119] **Joyce Watson**: Good morning, all. I want to ask you whether you consider that the amount of relief provided by the small business rate relief scheme should be extended, and whether you think it's financially viable to do that, given the current economic climate that we work within.

[120] **Mr Evans**: As any of you who've read our manifesto are aware, we are in favour of an extension of small business rate relief. The proposal that we would suggest is in line with the current Scottish system, which is up to £18,000. In terms of whether it's affordable, yes, we would say it's affordable. We've fully costed the manifesto and we believe that it could be delivered within Welsh Government budgets. Obviously, it's a political decision, and it's a matter for whoever is in power to decide how to allocate their budget. But as to whether it is affordable, yes, we would say that it is.

[121] **Joyce Watson**: So, you say you've done the costings, and you say it's affordable.

[122] **Mr Evans**: Yes.

[123] **Joyce Watson**: How do you think it might help? Because we've just had a previous witness in, and the real question is: is the business rate affecting the profitability of the business? That's the crux of it all. It's got to be based on that.

[124] **Mr Evans**: We speak anecdotally, especially, to a lot of our members, and a lot of our members say that they find the business rates element particularly high. We were visiting a business only last weekend, as part of Small Business Saturday, and our development manager spoke to them and found that they were paying, for quite small premises, £600 a month, which is quite substantial in terms of their business. What we've done is we've crunched some of the data that we took from our members' survey, which took place back in 2013, and what we've found from that is that, actually, if you look at the rateable value of properties and the rates that businesses are paying in comparison to their turnover, small businesses pay significantly more in relation to their turnover than larger businesses. So, for example, we looked at members with a turnover for the year of £15,000 to £25,000. That's a very modest-sized business, and when you look at that size of business, the non-domestic rates liability for those businesses accounted for 7.5 per cent of their turnover.

[125] Now, if you look at larger businesses, with turnover in excess of £1 million, that actually falls to 0.5 per cent or less. So, I think it's clear that small businesses face a disproportionate burden in terms of business rates. In fact, from the survey that we did across the UK, what we actually also found was that, when you actually look at the level of non-domestic rates liability as a proportion of turnover, Wales has the highest figure for any part of the UK, including London, currently. That largely has an impact not just because of the level of non-domestic rates, but because of the turnover of businesses. We're not such a wealthy part of the UK, and that plays a part. So, I think, clearly, when you look at businesses, and especially smaller businesses, it's fair to say that it does impact upon profitability.

[126] Can I ask Rhian, who actually runs a business, to perhaps expand on the impact it has on your business?

[127] **Ms Murphy**: We're a very small business. We have five employees. Our non-domestic rates are just over £9,500 a year. Unfortunately, because we're a manufacturer, we do require a large floor space to run our business, and we're graded on that level of space that we take up. So, in comparison to our turnover the amount that we have to pay out in non-domestic rates is quite

considerable, I think. I feel that money could be used probably better in other ways where I could promote the economic growth of my business—to take on more employees and that kind of thing.

[128] **Joyce Watson**: Another suggestion we had this morning was to predicate on turnover or profit. Would you support that?

[129] **Mr Evans**: Well, I think, you know, there are a number of options for reforming the system. One of the problems at the moment is that perhaps we haven't looked seriously enough at a variety of options that are out there for reforming the system. Certainly, obviously there is an issue in Wales in that the Welsh Government controls certain taxes and not others, and whether that would cause problems on the turnover tax element is certainly an issue that you might face.

[130] **Dr Bowen**: I think this comes back to the question of data, and the kind of data that we collect, and the kind of economic modelling that we can run. I think there's a real gap on those kinds of issues that we could fill in. We've got expertise on our doorstep in Cardiff Business School, which could run models about potential taxes and potential changes to existing taxes, which would be really useful. To come back to your point on whether this kind of thing is affordable, I think, okay, we're looking at one specific issue, we're looking at non-domestic rates, but let's not forget that, if we get the economy right, then that will feed into other issues that are important to Wales. So, in terms of things like the tackling poverty agenda—if we can increase employment, and if we can get better quality jobs, it will feed into those kinds of issues. It will feed into the health agenda. We know that good quality work, so not zero-hours contracts—there is a role for those for some people and some businesses, and the kind of thing I wanted to do when I was a student are very different to the kind of things I want to do now—and if we can get people into good quality jobs, that should address some of the issues around the health agenda. People who are in good work tend to have less need to visit their general practitioners, for instance. So, all of these things are mutually reinforcing. Yes, we're looking at one element, but in terms of affordability, we do need to look at the wider picture.

[131] **Joyce Watson**: Okay. The final one from me is: you talk about the introduction of a small business multiplier, and say it will have a significant impact on small businesses over and above. Do you want to briefly say something?

[132] **Mr Evans**: Yes, absolutely. To turn back to the figures I've just spoken about very recently, obviously you can see that for the smallest businesses, there's a disproportionate impact on them. So, obviously, anything that mitigates that for smaller businesses would be very welcome. I think there's another issue with the lack of a small business multiplier in Wales, in that we've heard for a long time the long and porous border argument that's been, yet, for some reason, we've never followed England on changes to the multiplier system, which seems strange if you're going along with that argument. But, certainly, I think that it would send a very important message out as well that we want to encourage small firms and start-ups within Wales, if we had that small business multiplier, as they do in England, currently.

[133] **Joyce Watson**: Okay. Thank you.

[134] **William Graham**: Eluned.

[135] **Eluned Parrott**: It's been covered.

[136] **William Graham**: Okay. Thank you very much. Rhun.

[137] **Rhun ap Iorwerth**: Just on the way businesses are kept informed of what's happening in terms of business rates policy, perhaps I could ask you: there have been minor changes recently from the UK Treasury, with £1,500 relief; are businesses kept abreast of what is happening and how changes affect you?

[138] **Ms Murphy**: Well, we were just having that conversation, actually, before we came in. We don't have that information sent out to us directly, you have to search for it. I was doing some research myself, having to contact one office, and then having to contact the Valuation Office Agency to explain how they've come to that agreement on the rates. So, yes, the information isn't there freely. We should really be contacted more directly, or have something in the post. That would be helpful. So, it's not very well explained.

[139] **Mr Evans**: I think we've seen, perhaps, from some of the other work we've done, that when some new relief scheme is introduced, the take-up is often very poor, and I think part of that has to do with the communication of these schemes to businesses. We did some Freedom of Information Act 2000 requests looking at the new developments and Open for Business scheme,

and while we didn't get details for every local authority back, it was clear, on the basis of the information we did get back, that the £4.9 million that was allocated to those schemes by the Minister, when she made the announcement on both of them, was nowhere near being taken up. So, I think there is an issue of communicating this to businesses and having some clarity for them about how the bill is arrived at and what the money goes towards as well.

[140] **Rhun ap Iorwerth**: What do those experiences of problems with communication tell us about the need for advance warning of changes, especially as we move forward to a period of, perhaps, major changes to the way business rates policy is implemented in Wales?

[141] **Dr Bowen**: The greater the change, obviously, the longer the lead-in time. We need to think about how we reach the number of small businesses that we have in Wales. We've got well over 200,000 businesses in Wales; we need to be creative in the ways that we reach them. So, for Rhian, it might be something through the post, and we have other media channels, and we have e-mail. But it is a challenge, and the greater the change, the more seriously we need to think, and further in advance, in order to get those changes to businesses so they know what to expect. But, in terms of change, there's a massive role in terms of engagement with businesses to make sure that they're fully involved and consulted in what's going to happen, so that any changes don't come as so much of a surprise and are welcomed, where possible.

[142] **Ms Murphy**: Talking from experience as well, if you just send an e-mail out to a small business, you don't have to time to read those e-mails, unfortunately. If it was coming through the post, you would be likely to open it and read it, rather than just having an e-mail. You could very well have communicated it to me, but I wouldn't have thought to look into that, unfortunately. It's just finding a different way of communicating that out, as you said.

[143] **Rhun ap Iorwerth**: In addition to people telling you what's going on—you mention consultation there, if we look ahead to, again, possible major changes, what are the main elements where you think there needs to be wholesale consultation with business and impact assessments and so on held with businesses about how any changes would impact on them?

[144] **Dr Bowen**: Well, obviously, our manifesto, in terms of its section on

taxation and business rates, is split into two sections, really. So, there are the short-term changes that we could make to the current system to make things better for small businesses in the economy in the short term, but our long-term goal is for a replacement system. Obviously, the business climate is very different to how it was 30 years ago. You know, we didn't have online businesses 30 or 40 years ago in the way that we do now.

[145] We are a small country of 3 million people. We need to look at what alternative business taxation systems exist elsewhere, not just within the home nations, and what's going on in Scotland, Northern Ireland and England, but what goes on elsewhere in Europe, in other small countries. What goes on further afield? So, one of the things that we've suggested is worthy of looking at—again, it's not a proposal that we're fully behind; it needs a lot more work, but places like Denmark and Australia have an element of land value tax. Is that something that could be applied to Wales? We know it's something that Mark Drakeford was quite keen on several years ago, and I think it was him who pointed out that the developments around Stratford, for instance, in the lead-up to the London Olympics—lots of properties around there saw an exponential increase in their value. If we'd had a land value tax then, that development could have been funded from it, and, likewise, places that had suffered as a result of that development could have been compensated. So, it's something that could be explored.

[146] When you're looking at changes of that nature, yes, you absolutely need to be doing detailed consultations, but the business rates panel report, which I think came out in February this year, talked about the need for that sort of research into alternative proposals. We're very keen to see that start now, because obviously that's a long-term process.

[147] **Rhun ap Iorwerth**: Thank you. We'll come back to things like a land value tax, I'm sure, later.

[148] **William Graham**: Mick.

[149] **Mick Antoniw**: Obviously, the FSB, in your paper, you're very much supportive of the concept of local rates retention, but, in particular, you think it's something that could be implemented very quickly. I wonder if you could expand, firstly on the issue of your support and why you think it would be a good thing, but, secondly, it does seem it's a bit more complicated than you might be suggesting.

[150] **Mr Evans**: I think the reason that we are supportive of local retention is that, obviously, we want to encourage councils to, you know, look at economic development. As you may or may not be aware, one of the other things that we've proposed in our manifesto is a statutory duty for economic development for local authorities as well. I think that, you know, giving them an element of rates control would sit alongside that quite nicely, actually.

[151] In terms of the wider issues of doing it, you know, the money's already collected by the local authority, so the infrastructure to collect the money and to retain the money is there. Obviously, you would require guidance from Welsh Government in order to do that and you may want to do it at, you know, a time that is suitable within the Welsh Government's cycle to do that. But we're confident it could be done. You're not creating a new body to administer anything; that infrastructure is already there. I think that's what we're looking at in terms of the speed of doing it.

[152] **Mick Antoniw**: One of the suggestions, of course, that have been made, and I know FSB has commented on this on a number of occasions, and small businesses, particularly in the high street, is, of course, the inequality of treatment between, say, the large retail parks, or the proportionate impact of rates on those, as opposed to the high street. One thing that has been suggested is that there should be, perhaps, a supplementary levy that would impact on that. Do you have a view on that and have you—?

[153] **Mr Evans**: Certainly, you know, there is scope within the system to make changes that impact on issues like that. I mean, I don't know if you're aware, but in Scotland they had an extra multiplier that caught up particularly large retail premises that sold alcohol and tobacco, which obviously caught a lot of the supermarket chains. So, there is the potential to do those sorts of things. Certainly, the one thing that we would say is that, you know, one-size-fits-all policies across Wales don't necessarily work, but giving a greater degree to local authorities, perhaps, would provide some solutions.

[154] **Mick Antoniw**: Is that something you'd be supportive of, or would certainly be worth looking at more closely?

[155] **Mr Evans**: It's worth looking at, but, I think, you know, we bear in mind very much that it's down to the local context as well.

[156] **Mick Antoniw**: Do you also have a view—? I mean, we've been hearing

evidence earlier that, in actual fact, because we're so out of date in terms of the data we have that an enormous number of businesses, and I assume it includes a large number of small businesses as well that, effectively, are not paying—the sort of missing millions. Would you be supportive of the need to update and to ensure that we have a comprehensive collection system and an up-to-date system?

10:45

[157] **Mr Evans**: I think it's, obviously, beholden on any Government to have an up-to-date system. I think we've seen particular issues with the current system, and it's not reflective of current rates as well because of the period since revaluation. So, I think it's fair that you have a system that is reflective of the current economic conditions. Certainly, we would like to see more frequent revaluations as part of that as well. So, I think it's in line with that sort of aspiration for a more up-to-date system.

[158] **Mick Antoniw**: Very quickly, just coming back again to the rates retention, there's the issue, of course, of local government reorganisation. How do you see that impacting on the introduction of such a system?

[159] **Dr Bowen**: It depends on the timetable for local government reform. We obviously know that change is coming, but it depends on how long that change is going to take to happen, to bed in. So, there's no point making changes or setting up systems only for them to be scrapped 18 months or two years later. If the timetable for local authority reform and larger local authorities doesn't slip, it would make sense to kind of wait until then. If that's going to be five or 10 years further down the line, then obviously we need to look at doing something more quickly.

[160] **Mr Evans**: One of the things that you will face, obviously, if you're looking at a degree of local retention, is that you've got a situation where some local authorities potentially would do very well out of the system, if that happened, and some local authorities would do potentially very badly. So, obviously, there's the example of Cardiff—you know, obviously, it takes in far more rates and it's easier for Cardiff to grow rates than, say, Blaenau Gwent, for example. So, what you need to look at is how you find a system that spreads the risk and value across those, essentially, so that you have some sort of element where not all the money is retained by the richest local authority; there is a protection for the smaller ones as well. That does tie in, to a degree, with local government reorganisation, because, if you do have

larger local authorities in some areas, then it might lead to a sort of better spreading of economic circumstances in some parts of Wales. However, I don't think it should be an impediment to reform a system necessarily, especially if the timetable for that were to be delayed.

[161] **Dr Bowen**: Coming back to your point about tax collection and up-to-date assessments, yes, our members are more than happy to pay their fair share of taxes as long as other businesses do likewise.

[162] **Mick Antoniw**: Thank you.

[163] **William Graham**: Very good. Keith.

[164] **Keith Davies**: Yes, thank you, Chair. I suppose, then, Rhodri, you're not in favour of variable rates.

[165] **Mr Evans**: When you say 'variable rates'—

[166] **Keith Davies**: Well, each local authority having its own rates. I mean, that's the system. In fact, in England they're talking about multipliers for those rates. So, you know.

[167] **Mr Evans**: Actually, I think there is a case to be made for variable rates. I think the one thing that we've always said—and we said through the manifesto—is that we currently try all too often to use one-size-fits-all policies for Wales. Clearly, what sometimes suits Cardiff isn't the best thing for Carmarthenshire. So, I think, if you provide, as we've suggested in the manifesto, a statutory duty for economic development, against that background, I think there's actually quite a good case for variable rates as a tool of economic development for some parts of Wales.

[168] **Keith Davies**: And what about these multipliers they're thinking about in England, then?

[169] **Mr Evans**: Well, obviously, that is more complicated but, certainly, in Wales, there's no reason why we can't change the multipliers. I think we are alone in the UK now in having a uniform business rate multiplier. Certainly, we could introduce a small business multiplier in line with England—it should be very easy to do so. Certainly, that would assist quite a lot of properties, especially in more rural parts of Wales, perhaps, where rateable values are lower. So, I think that we can certainly do some things at a Wales level, but I

think there's also, as you've suggested, some things that we can do at a local government level, provided we empower local government to properly do that and ensure that they have—let's be honest—not just the powers to do it, but the staff and the expertise to enable them to do it as well.

[170] **Keith Davies**: So, should we be moving—? I mean, Mick talked about local government reorganisation, but we're talking about the city regions, or the north Wales region, and have it as a regional thing, perhaps.

[171] **Dr Bowen**: We're all in favour of developing local solutions, making local economies work better across the whole of Wales. Now, where we want to shape the boundaries of those areas is a matter of debate, whether that's around the city regions, whether it's around greater or larger local authorities. You've obviously referred to the quite comprehensive shake-up that appears to be happening across the border in England in terms of non-domestic rates, and it's for that reason that we're going increasingly see the long porous border between Wales and England becoming just one of many borders. So, you know, it won't be that what happens in England is different to Wales. It will be what happens in Bristol or what happens in Northumberland is different to each other. So, that boundary will become one of just many boundaries.

[172] **Keith Davies**: So, your view, then, in a sense, is that variable rates would be good for business in Wales?

[173] **Mr Evans**: Well, of course, it depends on how they're implemented. [*Laughter.*] But, let's be honest, when you've got that local democracy element, and if there's a statutory duty for local authorities to encourage economic development, then there's a very good case for it.

[174] **Dr Bowen**: Carmarthenshire and Gwynedd face very different challenges, not only to each other, but to Cardiff. It's about developing something that's right for the local economy specifically.

[175] **Keith Davies**: Yes. Thank you. Thank you, Chair.

[176] **William Graham**: Eluned.

[177] **Eluned Parrott**: Thank you. I'm getting the distinct impression that the long and porous border is the bane of your life. Can you tell me why you think it might have come to be that it's being used as a reason not to act?

[178] **Mr Evans**: It's a slightly strange long and porous border in terms of, in some cases, we've seen it used, as you say, as a reason—'We shouldn't do anything because things are different the other side of the border', and yet, with the business rate multiplier, we have something that's different the other side of the border and yet we don't change things here to bring us in line with it. So, it's a strange argument that we see put forward sometimes. But, as Rachel said, in the current climate, that is going to change. We are not going to be in a situation where we have one border between England and Wales and two systems; we can have many different systems. Even if you have the same system inside Wales, you have different parts of the border, as you say, with different systems. So, I think that, given the announcement that we've seen by the Chancellor, I think the long and porous border is of far less import than it was previously.

[179] **Dr Bowen**: And we understand the differences—you know, national boundaries remain important. We know that a greater percentage of the population of Wales lives closer to the border with England than is the case in Scotland, for argument's sake, but we need to be mindful that our neighbours in England are not going anywhere—we coexist with them very well—but if we are constantly worried about what they're doing and trying to play catch up with what they're doing, rather than looking at what's right for Wales, we're never really going to get anywhere. We have a different geographical layout; we have different challenges. What's important is design solutions and policy solutions for the economy—and anything else—that are right for Wales, rather than constantly worrying about what's going on elsewhere. That's not to say that we shouldn't look for examples of good practice. It's not to say that we can't learn and we can't take on board evaluations, but we need to be looking at what's right for us with the powers that we have.

[180] **Eluned Parrott**: So, would you suggest that we should be using that kind of ease of movement between the two countries as an opportunity, really, rather than a threat, if we can design systems here in Wales that are attractive? Or is it your assertion, then, that, 'Ignore this, this is a distraction'?

[181] **Mr Evans**: It can be an opportunity, but I think, to be fair, that can be overstated. I think there are many reasons why businesses choose to locate where they locate, and I think, to be perfectly honest, business rates are a very small part of that. If I can bring in Rhian here, you relocated last year,

didn’t you?

[182] **Ms Murphy**: Yes.

[183] **Mr Evans**: So, did business rates play any great role in your decision?

[184] **Ms Murphy**: No, no, they didn’t, even though they have increased—doubled. We needed to move because we were expanding. We didn’t have enough space in our factory, so we moved to a larger unit, and we were going to share it with another company, which went into liquidation, unfortunately. So, now we’ve taken on the whole responsibility of the non-domestic rates, and it’s a challenge now for me to go through the hardship policy that they’re offering, which is quite a long process really—to do my finance records for the last three years and that kind of thing. So, it hasn’t really made any difference.

[185] **Eluned Parrott**: And how have you found that hardship process, moving the question on a little bit?

[186] **Ms Murphy**: Quite difficult, to be honest. Just trying to get hold of people to discuss it with—the valuation officer, for instance. You can’t speak to anybody directly—you have to wait for them to call you back—plus there’s a lot of paperwork, which I’m still getting through now. Being a very busy businesswoman myself, it does take a lot of time to sit down and go through all that. So, hopefully in the next week I’ll have some sort of decision made on that.

[187] **Eluned Parrott**: On a national basis, what are your members saying about the hardship relief? I’m getting anecdotal evidence that some local authorities are very much less likely to give hardship relief than others.

[188] **Mr Evans**: Hardship relief is very opaque, I think it’s fair to say. I think it’s not well understood by our members generally, and, to be perfectly honest, I don’t know how well it is understood by the local authorities either. We did a Freedom of Information Act request of all the local authorities in Wales, I think it was last year. We asked them how many businesses they’d given hardship relief to over the last three years, and half of all local authorities said they’d given no hardship relief at all to any businesses over that period. Some, in fairness, were very good. Ceredigion was a good example—they were very good. They had the bad flooding in Aberystwyth and were very proactive at giving hardship relief, and, in those

circumstances, it's very important. We look at the variety of reliefs, and, actually, to us, I think hardship relief is perhaps the most important of all, because you want people to be in a position to pay their business rates year after year. Something like hardship relief can help them through a very difficult period that they're facing and ensure you've got that income coming time and time again and encourage economic growth. But, as I say, it's the situation where it's not being implemented as well as it might, I think.

[189] **Dr Bowen**: That's one of the things in our manifesto: to call for a review of hardship relief—about how it's working, or indeed not working, across Wales. As Rhodri said, this is one potential relief that is available to respond to specific circumstances: unforeseen events such as what happened to Rhian, the storm damage—those kinds of things. This could be a really good scheme that could really help support businesses, but we're not sure of the extent to which it's doing the role it was set up to do.

[190] **Eluned Parrott**: Thank you.

[191] **William Graham**: Oscar.

[192] **Mohammad Asghar**: Thank you very much, Chair, and thank you to the panel. Are there any specific examples of good practices in Scotland, Ireland or England that the FSB would like to see replicated in Wales? Finally, which measures would you use to assess the relative success of business rates in contributing to economic growth?

[193] **Mr Evans**: It will come as no surprise that, obviously, in terms of good practice, we'd point to the Scottish example. Certainly, they've got a more generous system that's in place and, certainly, we'd very much like to see that introduced for our members here. Clearly, we know that the Scottish economy tends to perform better than our economy. When we do surveys of our members here in Wales, we see that confidence levels of our members in Wales tend to be below that of our members in Scotland; certainly, that could be one factor behind that.

[194] In terms of the measures of success, I think, ironically, it comes back to the issue of data that we talked about earlier on. When you're designing a system, then you want to be able to look at the impact that it has. But, obviously, to look at the impact that it has, you need the same measures in place to do that. So, I think it comes down to the fact that we don't collect a lot of the economic data that we like, which precludes us from, in the first

place, modelling the impact that, let's say, the changes to policy might have and, secondly, for instance, properly assessing the impact that it's had in retrospect, as well. So, I think, as Rachel said, we can suggest things like, you know, more regular gross value added figures and things like that, but I think, really, you need to look to the experts—people in Cardiff Business School—who will tell you what's missing at the moment for them to do proper economic modelling, and then you can do the assessment off the back of that.

[195] **Dr Bowen**: I would like to add that, obviously, examples of good practice from within the home nations are important, but we shouldn't be limiting ourselves to just what goes on in the UK. We are an outward-looking country. We should be looking farther for examples, not just across Europe but further afield, where they're relevant. So, what can we learn from elsewhere? What might work here? And then running those sorts of models and getting an assessment of, you know, who the winners and losers would be under different systems, which is just something that we can't really do at the moment.

[196] **Mohammad Asghar**: Thank you.

[197] **William Graham**: Joyce Watson.

[198] **Joyce Watson**: We did have evidence from the previous witness, David Magor, chief executive of the Institute of Revenues Rating and Valuation, who said that there are multiples of data and they're there in an accessible form and anyone could use them. So, I'll just put that on the table, because that's what he told us. That said, what exactly, in terms of data, are you looking for that you feel isn't there now? I think this is really what we need to know.

[199] **Dr Bowen**: I think one of the things we're looking for is a more coherent approach. So, there may be data that are held by the Office for National Statistics that maybe just aren't published in a format that would make them usable. I think it's important to note that none of the three of us here is an economist. So, in terms of what is available, and what should be available, that's probably more of a specific conversation to have with some of the experts. Obviously, other universities are available, and we do work with universities beyond Cardiff, but they've done a lot of work around input-output tables and around econometric modelling. Having had discussions with Dr Andrew Crawley—people like that—in that school, they're probably best placed to say exactly what is available and exactly what they

would need.

[200] One of the things that we could do, in terms of collecting data that, to the best of my knowledge, we don’t have, is that, if we were to consider something like a land value tax, one of the ways that we would go about that would be to be collecting the value of the property separately to the value of the land. We’ve had discussions with the Valuation Office Agency about whether that would be possible, and it would be. Again, to reiterate, it’s not that we are calling for a land value tax, it’s just something that is probably worthy of further consideration and we can’t go down that route until we start separating those data off from each other and collecting them. So, the sooner we start doing that, the sooner we can see whether that proposal has any merit at all.

11:00

[201] **Mick Antoniw**: Why would it make any difference? Because if you’re doing an assessment of the land value, you’re setting the land value with the property on it. Why does it make any difference at the end of the day to have them separated? Because your view is that you move towards a single land value tax, and it’s just a question of how you actually formulate it. So, why would you want or need to separate it?

[202] **Dr Bowen**: Because the investment in buildings is separate to the investment from the land. Again, I need to make clear: I’m not an economist. Our paper on potential land value tax was published by Gerry Holtham earlier this year—that’s got much more detail on those kinds of things. But our understanding from that paper is that there is a merit, because you might want to attribute a different weighting or a different value to the value of the property to the value of the land.

[203] **Mick Antoniw**: Do you see major problems though in moving in that direction? Because firstly, you will have all sorts of contractual arrangements already in existence, some of which may be very, very long standing, and of course we wouldn’t have the capacity to overturn any of that. So, we couldn’t actually deal with any of that side to it. So, it would make it almost impossible to actually move in that direction.

[204] **Dr Bowen**: But those are problems that we will only be able to know and encounter when we do that kind of research and get that sort of level of detail. Generally, there are lots of things that can be decided at Wales level,

some things can only be decided at UK level—but most things aren't insurmountable if we have the will to change.

[205] **Mick Antoniw**: Okay. Thank you.

[206] **William Graham**: Joyce, please.

[207] **Joyce Watson**: I've finished.

[208] **William Graham**: Thank you very much. Could we look at your belief that the business rate revaluation system should move towards more frequent revaluation cycles? We've heard various things this morning: two years and three years.

[209] **Mr Evans**: Clearly, we've seen significant issues with the time it's taken since the last revaluation exercise. William, coming from Newport, you'll be aware of some of the problems that perhaps we've seen exhibited in Newport as a result of this. Obviously, the last time revaluations were done was back in 2007-08, when the property market was at a particular high. Since then, obviously, we've seen the values of rental properties in terms of high-street locations—in places like Newport specifically—fall quite markedly, it's fair to say. Clearly, the business rates have gone the other way. Obviously, we've taken the business rates, we've upgraded them with RPI, which is the higher rate of inflation, as you know, and upgraded them every year, whereas property prices have fallen. Obviously, the longer the period you leave it, the greater disparity there is between the market conditions and the tax that you're levying on them. So, clearly we'd like to see more frequent revaluations. There are advantages in terms of more frequent revaluations as well—you wouldn't have the sheer volume of appeals in the system that you've currently got, and clearly they would better reflect market conditions. We're seeing high streets where the rents have come down but yet we still see people not taking up those properties because of the rates issue, because they don't reflect the current market-rate value. So, clearly there is a case—a very strong case—for much more frequent revaluation.

[210] **Dr Bowen**: And obviously, more frequent revaluations make them less of a politicised issue, so if we're going five, seven years into the future—if we look at what happens around council tax, for instance, there is a tendency to not want to be the people, the government, the party that makes the decision that might ultimately be unpopular. If something's going to happen every one to three years, it takes it more out of that political cycle.

[211] **William Graham**: Quite so. You'll see I commented earlier on the suggestion—in Newport—from recent research that rateable values may fall by as much as 80 per cent, which is a huge decrease.

[212] **Mr Evans**: Clearly, there's a major problem with vacant properties in Newport. I think some of the Local Data Company information in recent months suggested there are about a quarter of high-street properties in Newport vacant, which is a very serious figure. At the end of the day, the rates system does play a part in the take-up of these sorts of properties. So, it's not the entire solution to high-street vitality but I think it does play an important role.

[213] **William Graham**: Thank you very much. Do you want to follow again on land tax?

[214] **Mick Antoniw**: Well, I'll ask you a little bit about the land value tax, but let's just follow the point of evidence that we had earlier, which is that, in many of our town centres, you've actually got a relatively small number of landowners. Pontypridd is an example; one company owns an enormous portion of the town. That would mean, effectively, you're just dealing with the owners of one particular property. Would that have any impact on how viable such a tax or such a reform would be?

[215] **Mr Evans**: If truth be told, until we collect the data, we don't know, I think is one of the issues.

[216] **Mick Antoniw**: But you're supporting the move towards that direction, or is it just you're suggesting we should have data and we should then consider—

[217] **Mr Evans**: We should have data so we can consider it.

[218] **Mick Antoniw**: So, you don't support it, but you're prepared to consider it.

[219] **Mr Evans**: To be perfectly honest, it comes down to the fact that without the data, no organisation like ours can judge the impact upon their members. Therefore, we are not in a position to support any particular scheme until we can see the impact upon our members. However, clearly, if it is a possibility out there, and clearly, given the difficulties with the current

system, you've got to look at all viable options for reform of the system. And so that's why we think that we should collect the data on this so we can properly evaluate it as a potential.

[220] **Dr Bowen**: And if that means ruling it out on the basis of the data, and exploring how that system would or wouldn't fit for Wales, that is an evidence-based decision. Land value tax isn't the only alternative to non-domestic rates; there will be other ones. Our point is very much that we don't have the evidence at the moment that says what happens in Italy, what happens in Slovenia and what happens elsewhere. Are there things that would be applicable to Wales? Until we do that proper detailed analysis about the pitfalls and the potential benefits, then we're stuck with a system of tinkering with non-domestic rates, which, in fairness, we have done for several years now.

[221] **Mick Antoniw**: Okay; thank you.

[222] **William Graham**: Oscar.

[223] **Mohammad Asghar**: Thank you very much, Chair. I think that small businesses are the backbone of our economy in Wales. I think you should be working on some formula like the Inland Revenue has, where every business has a different gross profit margin. So, ability to pay; that's the point I want to ensure. You should be trumpeting that view to improve our businesses rather than any other data. So, if it's a general grocer, or a market trader, or anything, any business, they can afford the rates, rather than making it 'Alright, that's the area you cover; you have to pay so much tax'. I think that's a bit unfair.

[224] **Ms Murphy**: I agree with that absolutely. It's a simple thing really; just finding out how much my business brings in should be how much non-domestic rates I pay. But it's not as simple as that for some reason. It's made very difficult.

[225] **Mr Evans**: We understand there's a trade-off between having a stable tax base and reflecting current market conditions. But, clearly, part of the issue with the revaluations has been that it doesn't reflect market conditions, because it has been so much longer since the last revaluation. So, that would certainly help with that. And, just to return to some of the figures we've talked about right at the beginning of this session, it's clear that, as a proportion of turnover, smaller businesses are currently paying a lot more in

terms of NDR liability than larger businesses. We don't have a multiplier in Wales for small businesses, to help with that at the moment, and certainly, we don't have small business rates relief system that's as generous as it is in places like Scotland to address those issues either.

[226] **William Graham**: Thank you very much for your evidence and thank you for coming today; much obliged.

11:10

Datganoli Ardrethi Busnes i Gymru—Llywodraeth Cymru a CBI Cymru Devolution of Business Rates to Wales—Welsh Government and CBI Wales

[227] **William Graham**: Minister, do you want to make any brief introduction?

[228] **Edwina Hart**: Just my name for the record. Is that all right?

[229] **William Graham**: We'll come to that now. Thank you very much for your attendance today. Could I ask witnesses for their names and titles, please?

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

[231] **Mr Sutton**: My name is Chris Sutton. I'm a director at Jones Lang LaSalle and I was the chair of the business rates panel.

[232] **Ms Burke**: My name is Tracey Burke, and I'm an official from the Minister's department.

[233] **William Graham**: Thank you very much. Thank you for your paper this morning, Minister. Could we ask you about your support for the steel industry, potentially also in terms of plant and machinery rating?

[234] **Edwina Hart**: If I may, I will turn to my notes on this because I think I'd like to pre-empt some stuff on some of the discussions on state aid, which will then allow us, perhaps, to range on the issues around support for steel. I think that's quite important.

[235] We've obviously been very concerned about the state aid issues

around steel, and we have been taking advice on it both externally and internally, because apparently all operations in Wales that fall within the steel sector are defined under state aid rules. So, none of them would qualify for regional aid, and aid can only be given within the scope of various block exemptions and areas of research and development, which we're aware of, and we do, and training aid, which we've done before, and, of course, environmental protection, which we've also done with the industry.

[236] Aid can only be applied within the prescribed maximum levels permitted, and any above are notified to the Commission, and that's a very lengthy process. So, we've actually had a look at the legislation on this, and article 107(3)(b) of the treaty on the function of the European Union can permit aid required to remedy a serious disturbance in the economy of a member state. However, such a notification would be a test case and it would have to be demonstrated that disturbance would affect the whole economy of the member state concerned, and not merely that of one of its regions or parts of its territory. So, I think we see the constricting nature of this.

[237] The Commission has also produced, as you are aware, an action plan to tackle systemic problems in the steel industry, but the plan falls short of relaxing the way in which it applies state aid rules to the sector. As I think I indicated in my speech, I'm not satisfied with the way the Commission is dealing with this matter, and I think the UK Government, really, has to get on the case with the Commission to look at the special needs of the industry.

[238] So, that brings us neatly to some of the issues that we can do. Obviously, we can do hardship relief for a period, but it's state aid limited, and that's only £200,000 over a three-year period. That's negligible in terms of the impact that the steel industry is currently having. Hardship relief can be beneficial, of course, to some businesses, but also businesses can agree a payment plan with local authorities on business rates. But when you look at the issues and the losses on steel, we're not quite there.

[239] Obviously, in terms of plant and machinery, that's one thing Chris did look at in his report. But, of course, there is an issue that if we do look at plant and machinery, if we just restrict it to steel there will possibly be another state aid issue. So, we are looking at plant and machinery in wider terms about what we're able to do, and we've got to actually have more data on that, so that it's completely clear where the limitations are, how we'd include industries and what we were doing.

[240] Now, there have been some reports in the press about Scotland and that Scotland might be doing things. I was speaking to the Scottish Minister, actually, first thing this morning, to ask what progress they felt was ongoing, and we were concentrating on what the UK Government was doing and what they were doing. I suggested further liaison between my officials, if they've got any good ideas about how they could help with these particular matters. The issue probably is, when they go for business rates revaluation, should they take into account other factors when they look at it? And I think that is the direction of travel we'll be looking at.

11:15

[241] But in terms of plant and machinery, obviously, we will be considering it further over the next few weeks and I will certainly report in, because it won't be something that I'll just be able to restrict to steel, and then we could be actually talking about considerable costs per annum, say £25 million to £30 million, just on the scheme. But we haven't fleshed through the detail on that, because, if I'm honest as well, I want to see what progress has been made by the UK Government, and if there's going to be any money available from UK Government resources that might be allocated broadly to steel in any shape or form, before I make any financial commitments, because it would always be nice to have money from elsewhere to be able to help, as well as what we might be able to do in terms of additionality. So, that's where we are on steel. It's a very, very difficult area and I think we're all facing the same issues across the UK about state aid and what we're able to do. And almost, in a way, and I think all Members will agree, irrespective of political party, this is almost too late in the game, some of these discussions with regard to steel, because it has come in a storm now with everything together, but I think we were all aware of the high-energy issues, the other relevant issues, and Chinese steel imports. And the issue really for me is how quickly you can deal with some of these import issues—for the Commission to deal with, because the Americans have dealt with it, other parts of the globe restrict their markets, and we are seeing no restrictions occurring across Europe.

[242] **William Graham**: Quite so. Eluned.

[243] **Eluned Parrott**: Just quickly on that, Minister, the Institute of Revenues Rating and Valuation told us this morning that the entire cost of, or the value of, plant and machinery in Wales at the moment is around £15 million, and so the cost of implementing a Wales-wide and all-sector exemption on the

plant and machinery would be £7.5 million per year. Do you agree with that? They also, by the way, told us that it could be achieved by merely changing subordinate legislation, and so it is potentially something that could quickly be brought forward as well. So, given that it is £7.5 million, and something that could quickly be brought forward, what are the complications that prevent it from happening?

[244] **Edwina Hart**: Because we've been concentrating initially on steel, and it would have to be, probably, in terms of future investment to protect the industry within Wales, not retrospective in terms of certain things. Plant and machinery into the future is one of the issues we've been looking at. Now, in order to protect perhaps some of the areas around steel, there might have to be massive investment by the companies concerned to make sure that it's up to date, so we've been concentrating on those issues in discussion with steel. We're aware of the evidence that was given this morning in terms of those particular issues, but I also need to have a clearer picture as well, in terms of my mind, about what we could do across the various sectors and how it would impact. So, this is just ongoing work and we have the normal dialogue on that, don't we, Chris?

[245] **Mr Sutton**: Yes. If I can come in there, please, and perhaps I'll avoid the steel industry and just talk generally about plant and machinery. The value of plant and machinery is normally calculated as part of the hereditament—sorry, we've got some technical terms here—in terms of assessing the rateable value of the property. And certain items of plant and machinery are included when calculating that, including electrical generators, heating, lighting, lifts and hoists, supports and foundations. But there is also the wider point of the contractor's test, which is a basis of valuation for large specialist facilities, such as chemical, oil refinery and steel works, et cetera. Now, I think that, actually, if you looked at the rateable values of the large pieces of plant in Wales, they pay significantly more than £7.5 million a year. I think that £7.5 million, the £15 million figure, really comes from the class 1 to 4, the plant and machinery element, of the hereditaments.

[246] Now, we went to the Valuation Office Agency, and they said that—and their latest figures were 2012—. They looked at the whole of the UK as probably contributing—. The plant and machinery element was £1.25 billion of a total of £25 billion at that point in time, so roughly 5 per cent of rateable value was arising from plant and machinery. There was a very interesting letter written by three large industrial concerns—Tata, General Motors and Siemens—and it was a letter written to the Chancellor, probably

18 months ago, which looked at this particular point and talked about removing the assessment from plant and machinery. And I thought it made a really compelling case, because what it did is it incentivised investment. When a company puts significant money into plant and machinery, they're much less likely to move, so it incentivises that investment, rather than, if you like, the branch plant of the multinational, which becomes much more mobile in the medium term. It does need a lot more work, I think, and I think there is some confusion here between the plant and machinery element of the hereditament, but also the basis of valuation for specialist areas of plant, like steelworks, oil refineries and chemical works.

[247] **Eluned Parrott**: Thank you.

[248] **William Graham**: Before I ask Eluned again, could you, just for the purpose of completeness, remind us what the contractor's test is?

[249] **Mr Sutton**: Okay. Now you're testing me, but, essentially—

[250] **Edwina Hart**: The Chair knows the answer, probably.

[251] **Mr Sutton**: —the contractor's test of valuation is looking at, effectively, the replacement cost of the plant, and it's worked out over a period of years. So, it's looking at the depreciated replacement cost rather than a rental value, which the majority of rateable values arise from.

[252] **William Graham**: Thank you very much. Eluned.

[253] **Eluned Parrott**: Thank you, Chair. I wanted to ask about business rate relief schemes and the various things that we have available. Clearly, the publication of the budget yesterday gives us some indication for 2016-17, but I'm wondering, in terms of small business rate relief, given that this is something that is extended from year to year to year, whether this is something that you think is likely to be permanent or long term?

[254] **Edwina Hart**: Well, I think, in terms of small business rate relief, it's very good that the draft budget did include the extension for 2016-17, because there is a consensus around the help that is available to small businesses. I think officials said 70-odd per cent of businesses have been eligible for it, and about 80,000-odd premises, so it is a good indicator. But the scheme does come with an exceptionally high cost attached to it. I think the cost of the extension is nearly £50 million, I think—£49 million, I think,

will be the extension. I intend to look closely at the costs and benefits of the scheme going forward, and I've asked officials to provide further advice on this, because, as you know, when we have money coming across, we have the money that comes in from other Government departments, and there's actually a shortfall this year that we've actually got to make up. But Chris has been doing some—we've been doing some work on this aspect of looking at schemes and the benefits of them, including small business rate relief. I don't know if you want to indicate what further work we're doing on this.

[255] **Mr Sutton**: Thank you. Firstly, there is an issue here about whether we should make something permanent or not, because, when we make it permanent, by definition, it makes it very difficult to take it away in the future. That, I would suspect, is the issue on a number of different fronts—like charities, for example.

[256] **Edwina Hart**: Yes, that's my favourite.

[257] **Mr Sutton**: Therefore, I do think that any reliefs and exemptions that are brought in should have what I would call sunset provisions. They should be brought in for a period of time, and then they should be reviewed. There is no issue whatsoever if that relief carries on in the future, and, again, if it's sort of regularly turned over. But I do think that we should look at that and have that regular, periodic assessment of the economic benefit of that relief or exemption.

[258] We, essentially—. Devolution—we took the decision to match the scheme that was then in place in England, but, effectively, it costs us more to run that scheme here than it does in England because we have a higher proportion of smaller assessments. I think the cost was, very roughly, £24 million over and above that.

[259] **Edwina Hart**: That's right, over and above.

[260] **Mr Sutton**: So, we do have to be cautious of that. Now, in our report, submitted in February, we looked at a number of different options, including the scheme currently in Scotland, whereby rateable values up to £10,000 have 100 per cent relief, and then £10,000 to £12,000 is 50 per cent, and £12,000 to £18,000 is 25 per cent. But the Scottish scheme applies to the combined rateable values for all properties within each business. This then brings on, again, a fundamental difference in the way we work small business rate relief in Wales compared to both Scotland and, indeed, England,

because, effectively, our relief is small assessment relief. So, if you have a property with a smaller assessment, then you automatically have this applied to you, whereas in England, and, indeed, Scotland, it's about the combined assessments for a business. I think ours is the purer way of doing it, but it does come with—. Potentially something like Boots, for example, with lots of high-street chemists, will get that. Now, we can all look at the benefit of a Boots chemist on every high street, but it does mean that you have a multinational or a national chain with a benefit arising on lots of different properties.

[261] So, we looked at assessing the scheme in Scotland. We also looked at alternative scenarios where we provided different levels of taper, and we looked at Professor Morgan's recommendation in his previous report, which was 100 per cent relief to £6,000, but then a taper up to £15,000, rather than the current £12,000. Each one of those brought in a significant additional cost, as you'd expect, but it's a political choice, and I recognise that. It seems to be a very popular thing to do; there is some evidence that you're benefiting landlords, rather than the tenants, but it becomes a political choice.

[262] **Eluned Parrott**: In your paper, Chris, earlier in the year, as you say, you seem to be very sceptical, actually, about the value of extending the small business rate reliefs in an untargeted way, for that reason. I wonder if you can tell us why it is benefiting landlords rather than the business owners.

[263] **Mr Sutton**: It's the rent/rates equation. So, Addis v. Clement 1985, the enterprise zone case in Swansea: essentially, a business can afford a certain amount of outgoings for its property, and, if there are no business rates payable, then they can, effectively, afford to pay more rent. Now, you turn that around and the business would argue, 'Well, I can't afford that', but this was a case that was explored in an enterprise zone court case back in 1985 regarding Swansea enterprise zone. There is this concept that there is this rent/rates equation and, therefore, if the rates are removed, what you find is the rents just gently rise upwards. I can see both sides of the argument, I really can do. But that is the argument against it.

[264] **Edwina Hart**: Could I come in there? People always ask us to look at business rates and how do they help economic growth, because this is quite an interesting area, as well. When you look at the small scale of some of the relief, it might well help cash flow in some small businesses, it might allow them to survive, really—it keeps the overheads down, but it actually doesn't

allow most of them enough money to employ any additional staff. So, there are quite a lot of myths around some of this, because, when you look at the issues on economic growth in some of these areas as well, there's nothing across the UK where anybody's assessed rate reliefs in terms of how they've assisted with economic growth. So, I think that's quite interesting, because we're talking about quite small amounts of money, particularly in some of the Welsh schemes for some of them as well, aren't we?

[265] **Mr Sutton**: The potential savings—. If we looked at a significant increase in the limit for small business rate relief, there are administrative savings. There's a saving both in, essentially, the valuation and the local authority administration. The properties still have to be valued—you have to work out whether or not it's below the threshold—but there are savings for the local government administration.

[266] If there was to be any change to it—. I see some representation saying that small business rate relief should go up to, say, £12,000, just by way of example. I think, if you create a solid cut-off, then you create hardship cases at the margin. A small business rate relief scheme at £12,000 would, very roughly, mean that a rate payer is paying £5,000—a little bit more than that. Therefore, somebody with a rateable value of a couple of hundred pounds over that is paying £5,000—just below it, saving £5,000. Therefore, I'm persuaded by a taper. I think a taper is much more equitable, because it's just graduated and it just gets rid of those hardship cases at the margin.

[267] **Eluned Parrott**: Okay. Thank you. In terms of some of those targeted reliefs, one of the ones that does have the potential to encourage growth is targeting reliefs at those businesses that are occupying new premises. I wonder if you can give us an idea of what your intentions are, long term, for extending those kinds of business rate relief schemes.

[268] **Edwina Hart**: It's due to end on 30 September next year, isn't it, the scheme? The panel looked at it and was very supportive. It's really like: what message do you send out to business in terms of what we're prepared to do? But the take-up has been relatively poor, and we have been concerned about that. I don't know whether you want to go into the reasons that you think, from the panel's perspective, Chris—.

[269] **Mr Sutton**: Well, I think take-up has been poor because speculative development has been relatively limited. But that is increasing. You are seeing increased speculative development. The cranes are coming back to

Cardiff. Now, whether we're seeing them yet in other towns and cities of Wales—well, that's an ambition we all have. But, at the moment, the cranes are definitely coming back to Cardiff; we are seeing the return of speculative development.

11:30

[270] I really like the new development exemption because it's incentivising, or it's removing a liability from a viability appraisal. If a developer is looking to build something speculatively, they are probably giving themselves a two-year window to let that Building, but if you've got a solid cost of empty property rates after three months for shops and offices, or six months for industrial, then that is an actual cost and it doesn't make sense to be levying that cost when somebody's taking the risk to develop. So, the 18-month exemption—I would make strong representations—is a good way to incentivise investment, and we should be carrying it on. I'll try my luck here; I'd actually go a little bit further in terms of perhaps some of our more disadvantaged communities and extend that period. With the top-tier, grant locations, why not turn it into two years or three years, because actually maybe that's the reality of the letting period required?

[271] **Eluned Parrott**: And finally from me, on hardship relief. That's one area of relief that is very patchily taken up across Wales. Some local authorities are using it proactively to make sure that they can keep small businesses viable, and some local authorities are turning down every single case that comes to them. Will you have a look at reviewing the way in which that is being used? What evidence do you have to suggest that local authorities are using it perhaps in an unbalanced manner?

[272] **Edwina Hart**: That's interesting, because you raised that yesterday in business questions, so I did ask my officials to look at some of the issues around that. The latest data, actually, for 2014-15, show that possibly only £196,000 of hardship relief was awarded to ratepayers across Wales. That's quite an interesting figure. It's very limited circumstances with local authorities. I am aware of some local authorities that are quite good at it, because they've got to assure the value. But, of course, I think I pick up 75 per cent of the costs of the relief. So, we will be happy to do a piece of work on this particular issue. I'll be meeting local authorities in the new year, and I'll ask them about how they're dealing with this matter individually and report back to committee.

[273] **Eluned Parrott**: Thank you very much.

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

[275] **Rhun ap Iorwerth**: If we could turn to local rates retention, I thought that the Institute of Revenues Rating and Valuation made a very strong case this morning for local rates retention. One of the arguments was that the mere existence of a rate retention policy puts a local collecting authority on their toes in ensuring that they identify missing rates and so on. What are your thoughts at this point in time on that?

[276] **Edwina Hart**: I think we have, and I think that the panel made that clear, that the opportunity to learn, for example, is elsewhere; but I, of course, have to be mindful as well about local government reorganisation in the context of this discussion. Of course, we need to put on the record that I think it's Cardiff that collects more in rates, Chris, than the next two largest authorities, and the risks for smaller authorities are really sizeable on this. There's a further risk as well, because some local authorities rely heavily on one big user in terms of what they're doing. We think that there are risks associated. I think we should look at it and see, but there are real issues of scale in Wales, even when you look at local authorities. We think that Scotland is like us, but in many ways Scotland isn't, because there's a more concentrated distribution of business rates in Scotland than we actually have. So, there are issues around it. I know that you've looked at it with the panel, Chris.

[277] **Mr Sutton**: Yes, you talked about the issue of scale and, in our report, we took some figures in 2013. I appreciate that they are a little out of date, but there were five local authorities in that year that collected less than £20 million in business rates, whereas Cardiff in that year collected in excess of £168 million. So, there are issues of scale there. There are existing schemes in Scotland and, indeed, in England there is a 50 per cent from 2013, but there have been very significant changes announced by the Chancellor only a month or so ago, where effectively he is moving towards regionalisation, if you like, of business rates in England. I think there is an issue there because the uniform business rate is exactly that: it's uniform. I think there is a benefit in having a uniform business rate in terms of predictability and budgeting for business. I think that local rates retention really comes into play if you can bring in an element of pooling to protect the weaker authorities. I think then it is regionalisation, which probably is the way forward. If we're going towards local government reorganisation or, indeed,

city regions, then I think it's really a quite valuable thing to be looking at at that point in time, because that gives you an area of scale.

[278] **Rhun ap Iorwerth**: And the point that was made very clearly this morning is that you can develop any model that you want that builds in safety nets, that tries to make sure that there's equality sort of built into the system in some way, but in order to be able to devise that model, you need to be able to conduct a detailed study of where the losses or the potential losses are and what the potential gains are. What kind of work has been done that could in any way be called detailed, or is that work that needs to be done?

[279] **Edwina Hart**: I think there'll be further work that we'll need done if we go down that particular road. We do have a lot of information already on it. The issue for us, when we look at some of the issues in England, is that they've given some delegation, haven't they, to mayors in England in terms of business rates, and, of course, mayors aren't a favoured option in Wales in terms of what they want within local government. Also, there's already a tension between the shires because not everybody's got unitary authority structures across England, so there will be a tension on that. So, there are some issues there. However, in terms of us, I would see that the model actually emerging would be the city regions and how they're working together about pooling and how they could work. Also, of course, you add to that if there is any element of local government reorganisation, that would have to be taken into account. I think, Chris, we've got figures on this to carry on with, but we will have to do more detailed work.

[280] **Mr Sutton**: The Chancellor's changes: firstly, they remove the uniform element of uniform business rates, which is a fundamental principle. But I can see what he's trying to do: he's trying to provide an incentive for areas to grow their base; he's allowing each one of those areas to agree discounts, so there will be a nationally set multiplier, but any region can create a discount. Is that going to happen in reality? Okay, you might see the strongest areas knock 1p or 2p off. Manchester is always the poster boy of city devolution, isn't it? You might see that in the stronger areas, but I think there will be resistance from local government in terms of significant cuts to that. He's also, on the other side of the coin, saying that, if you have an elected mayor, then you can increase the business rates by up to 2p in the pound to fund infrastructure projects. Crossrail is the example of that. That was a particular Act, and there's 2p in the pound for rateable values over £55,000 rateable value, and it applies in London until, very roughly, 2035, I think. So, that's an

interesting concept that may or may not give you—

[281] **A Member**: [*Inaudible*.]

[282] **Mr Sutton**: Absolutely. That may well give you some thoughts in terms of funding certain infrastructure projects. But there is another point: what the Chancellor is doing is devolving business rates at a time when they're subject to an administration review in UK Government, which is due to report by March next year. To what extent is he prejudging that review? Because he's made a very significant change there, and then, six months later, he's potentially going to review something. I wonder whether he's, to an extent, devolving the problem of reforming business rates to local government.

[283] **Edwina Hart**: But won't it have an impact, because the multiplier issue will also be difficult for them in local government because they've got to fund any shortfall—

[284] **Mr Sutton**: Yes, they will.

[285] **Edwina Hart**: —of any changes? Will it also then add another complexity for business and another level in terms of administration, et cetera, which business certainly doesn't want, if you are to go along this route? When you look at the issue, I think that Jane said when we were looking at the key principles on taxation and what we do on policy, it's got to be a simple deliverable system that everybody understands. I'm not sure how this is going to pan out across our border with all the tensions. I also don't want to pre-empt that administration review that the Chancellor is doing as well, because I don't want to be caught out. I know you're probably fed up of me saying this, but I don't want to be caught out by something that happens there that is a problem for us. I'm always told, 'You've got a porous border'; well, I do have a porous border. I worry all the time about the impacts on Deeside and what might happen if something happens across my border. So, these issues are all relevant.

[286] But can I assure you there's loads of work being done? When Chris did his report, some of the six or seven points that were the short-term goals we've actually dealt with in terms of what we're doing. But I think you understand from the discussions you've had this morning that this is not simple stuff at all. Politically, you might want to do something, but is it the right route economically and for the development of the economy? Of course, it's a totally different matter.

[287] **Rhun ap Iorwerth**: We'll talk about the long and porous border and whether it exists or how relevant it should be, but we remember, in that context, of course, that England are doing things differently on their side of the long and porous border, so maybe we should as well, but we'll come on to that. On the specific point that I raised in my first question about local rate retention actually helping to bring in missing millions, because you have suddenly a local authority that's more interested than they have been in collecting rates, how would you address that?

[288] **Edwina Hart**: Do you think that's true? [*Laughter*.]

[289] **Mr Sutton**: Firstly, there's an element of administration—are councils missing out on business rates collection? Of course, the councils would say they have a duty to collect and they are doing a good and proper job. The reality might be that there is a slightly better collection rate if that retention is kept there, but I do respect that there are some really good councils and they do that administration well. The other side of the coin, then, is: will councils take a more proactive approach to development, in terms of procuring that development there? Yes, there should be that incentive; it creates that incentive to encourage development and it puts a cost against blocking development. That's probably quite a good thing, with a private sector development hat on rather than from the planning side—I appreciate there are always planning issues to be considered. [*Laughter*.]

[290] **Rhun ap Iorwerth**: Okay, thank you.

[291] **William Graham**: Keith.

[292] **Keith Davies**: Thank you, Chair. You've talked about the business rates variables across the local authorities, and I agree with what you said, Minister, about the city regions across those. But, in England, they're talking now—you did talk about it—about the multiplier, but it's not really operational yet, as far as you're aware.

[293] **Edwina Hart**: It's terms, because the multiplier issue is: if they were all to reduce the multiplier in England, nobody would have any advantage on anything, and I think these are some of the issues that we've got to look at. Also, we'd have to look at the costs either side of that border, wouldn't we, Chris, in terms of who pays what?

[294] **Mr Sutton**: Yes. There could be a race to the bottom. I really doubt it, because, at the end of the day, this is a very valuable source of funding. Again, something that was at the heart of our report is: fundamentally, what are business rates about? Is it a stable source of funding for public services or is it a lever for economic growth? Probably, at this stage of the cycle, I suspect that people are erring towards the first, because it becomes—. It is that stable source of funding, it is a very predictable yield and you know what's coming in. There are real criticisms associated with that, that it remains fixed yield, or rising with indexation, regardless of economic conditions—you know, there's the economic cycle and this level stays fixed. That is a real criticism of the business rates system, but that's the reality.

[295] **Edwina Hart**: We can change the multiplier at a Wales level in Wales if we wish to do so, because we could do it at an all-Wales level.

[296] **Mr Sutton**: Yes, and the argument is that the multiplier has, perhaps, become out of tune with where it once was. In 1990, the multiplier was just over 34p in the pound, and now it's 48.2p in the pound, so it's quite a significant increase. Our reports, and indeed the CBI and others, have recommended that the indexation of the multiplier be changed from the retail price index to the consumer price index, which will generally come in lower than RPI, but it would still be going up. The alternative is to actually cap it, or indeed fix it, for a couple of years to try and bring it back to level. The issue is that the fundamentals of the economy are changing, in terms of growing areas like e-commerce, and they are not necessary respectful of the business rates regime.

[297] **Keith Davies**: Thank you; thank you, Chair.

[298] **William Graham**: Joyce.

[299] **Joyce Watson**: You've answered some of the questions that I had about economic levers within enterprise zones and porous borders, so I won't rehearse those, but there was a suggestion put on the table this morning that it could be possible to look at a system that is aligned to the profitability of the business rather than the business rate of the property. I don't know whether you have anything to say to that, Minister.

[300] **Edwina Hart**: Can I say a simple thing? We're always criticising companies that are in the UK, that their profits are not in the UK, they go back to the home countries and they're based elsewhere, so I think there

might be complications perhaps on this matter, but I'm not an expert on this particular issue. Do you have any comments on that at all, Chris? It's an interesting concept, but I can just see how the accountants will make sure there'll be no profit.

11:45

[301] **Mr Sutton**: I recognise that. It's the point we've just talked about, in terms of business rates not necessarily reflecting the economic cycle. Yes, I recognise that as a criticism, but there are difficulties. The fundamental approach of business rates is that it's associated with the rental value of the property, and, if there are frequent revaluations, then the rental value should really reflect profitability in any event, because, as the economic cycle rises, so rent should rise; as it falls, they should fall. Of course, we haven't had that regular revaluation, and, therefore, we haven't had the chance to rebalance. If you were looking purely at profitability, there are issues. You talk about the multinationals, who somehow seem to pay little in the way of business taxes, and you would also be looking at things quite retrospectively, because, how on earth do you pay business rates on account when people submit their end-of-year accounts 12, 18 months down the line? There are practical issues. But it's worth while looking at.

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

[303] **Edwina Hart**: But, on the other hand, you might be safer just looking at making sure there's regular revaluations, and also the point you're making about would it link to CPI might be actually be better in the long run to get more fairness in the system, I think. That's what I think anyway, in terms of how I'm asking them to look at things.

[304] **Mr Sutton**: Briefly, the revaluation point has been a point of discussion for some time. There are practical issues with Wales going its own way in terms of revaluation, in terms of the administration of the review and carrying out valuations of certain technical classes of property when these are done on a pan-UK basis—for example, steelworks or airports or general hospitals. But it should be looked at. I think the view we've taken is that this is best looked at on an England-and-Wales basis, and the best-case scenario is that the administration review in spring next year says, 'Let's move to a three-year pattern.' That, for me, would be the best-case scenario. If they then came in and said that the gap between the valuation date, the antecedent valuation date, and the rating list, which is currently two years, is

moved to one year, that would be even better. My concern is that, if this review doesn't go down that route and sticks with five years, or, indeed, seven years, then Wales has to make its own choice, and, at some point in time, we have to face the hard choice that, whilst uniformity with England gives us real benefits and gives us administration savings, at some point in time, we must do what's right for Wales.

[305] **Edwina Hart**: And I think, from all the advice and discussion I've had, I would favour going for every three years in terms of revaluation on this; I think it's actually the right thing to do.

[306] **William Graham**: In defence of that, and perhaps to support it, I notice—I mentioned it previously—recently published research suggests that, for example, in Newport, there could be an 80 per cent reduction in rateable values because rents have reduced so much, 46 per cent in other parts, and 63 per cent in others. So, there's a very substantial case towards at least more frequent—. But, as you say, the evidence is not necessarily there in terms of being able to do it exclusively.

[307] **Mr Sutton**: And the principle is one of incidence, and, therefore, for everybody that makes a saving, somebody somewhere else is going to pay a little bit more. Maybe that means that some of the heat is taken out of the Cardiff property market to the benefit of Newport. And so it goes on. But, unfortunately, it's not winners for everybody all the time, and that's the point. It's interesting, in terms of it's a year ago—just under a year ago now—since we published the business rates report, and I just looked at some of the special interests or the people who came to us and said, 'But we're different; we're the special case.' We've got the small business lobby, we have the retail and the high-street lobby, the tourism and self-catering lobby. There's the manufacturing and plant-intensive industries, there's the developer/speculative investment side, the regeneration lobby in terms of reoccupying vacant buildings—the Coal Exchange lobby; let's call that—fibre optics, SMEs and entrepreneurs and innovation, the community assets—post offices and community assets—and then responses to particular circumstances, like the Murco relief. So, that's just 10; there will be more. And this is the issue: everybody thinks they're a special case, but somebody's got to pay this tax eventually and it raises £1 billion a year.

[308] **William Graham**: Quite so.

[309] **Edwina Hart**: And if we do the revalution ourselves out of sync with

England, I think the cost to us is about £9 million or something.

[310] **William Graham**: Thank you for that. Oscar.

[311] **Mohammad Asghar**: Thank you very much, Chair, and I'm very grateful to the panel here. What is the Minister's assessment of the current contribution of business rates policies to improving Welsh economic growth and providing value for money, and whether there are any areas in which the Minister considers business rates policy could be improved to better support the economic growth of Wales?

[312] **Edwina Hart**: I think that policy can always be improved and I think we've had a discussion about the areas that we need to look at in the future, now that we have the devolution of it. As I indicated earlier, I don't think anybody has done any work or analysis on the economic benefits of anything to do with businesses. Because I indicated that, with small business rate relief and everything, it's really quite small in terms of a lot of individual businesses. It helps their cash flow and keeps them, probably, away from their bank manager, but it doesn't necessarily allow them to employ people. I don't think anybody's done any work. I don't know if the committee's aware of any work that's been done as part of its inquiries at all on that particular issue, because we weren't aware of anything across the UK.

[313] **Keith Davies**: No. We had it earlier, Chair, I think—[*Inaudible*.]—reduce the business rates, but it hasn't allowed them to employ staff.

[314] **Edwina Hart**: Of course, that has always been the issue: how do you help small businesses? Because the case is always made, isn't it, that, if we gave more help to small businesses, they could employ people. Well, perhaps the help isn't necessarily through the small business rate relief because it's really quite small, when you spread it across. It is an issue, obviously, that we're interested in in the long term with other businesses: do we give any direct benefit by helping them? But there's no evidence to suggest—not clear evidence that I've ever seen. I don't know if you've seen anything.

[315] **Mr Sutton**: Nothing to add.

[316] **Edwina Hart**: Nothing.

[317] **Mr Sutton**: No.

[318] **William Graham**: Happy? Thank you. Mick.

[319] **Mick Antoniw**: You've answered most of the points that I wanted to raise. I've got just two small points, Minister. One is just to explore your views. One of the issues that's been raised from time to time is the inequality between the big retail parks, obviously, and the high streets and the suggestion of, I suppose, a variable multiplier or a levy of some sort, where the inequalities are imbalanced, perhaps used to counter that.

[320] The other one was something that was mentioned today, and it's the first time I'd heard of it, which is an internet levy. I don't know if that's something that's ever been looked at and explored or—. I don't think I quite understand precisely what it is, but it may be that it's something that—.

[321] **Edwina Hart**: Oh yes, the internet. But, in terms of the retail parks and the high street, of course, all of this eventually goes down to the planning decisions taken by local authorities, looking at what they thought consumers wanted and needed and that has definitely had a knock-on effect on the high street.

[322] Of course, if they are small businesses on the high street, they do have small business rate relief. I do think that there's an issue about how local authorities are dealing more widely with the high street, which comes up time and time again: parking charges, you know, seem to give in terms of income, but then it's affecting what's happening in the high street and how they might want to zone high streets, what's in the high street. So, in terms of that, it's not something that—. Chris, you might comment from the professional perspective.

[323] The internet levy, actually, goes back to the point about all of the people who are now shopping online and all these other companies, but I haven't seen any work done on that anywhere.

[324] **Mr Sutton**: In terms of supermarkets and out-of-town retail parks, that wasn't addressed in the business rates report that I chaired, but it was addressed by Professor Brian Morgan's previous studies. He looked at that and there was some work on whether we could apply a levy per car space—could you put a tax on the car spaces of retail parks? There was some difficulty in doing that, I understand. I don't know the detail. There are a raft of different reasons, but also bear in mind that Tesco is the largest ratepayer in Wales. It's the largest employer in Wales, I think—private sector

employer—as well. So, they are paying rates and the revaluation should mean that the disadvantaged secondary and tertiary high streets will see their rates go down. Supermarkets—yes, they're having a tough time at the moment, but I suspect their rateable values will stay fairly firm.

[325] In terms of the internet levy, I think there's two points here. One is: could you apply some sort of tax to internet sales? That's not for me, and that's probably a UK Government decision. But there is a point here about incentivising fibre optics and looking at that utilities provision because, on that infrastructure, there is a cumulo assessment—to use another technical term—applying to utility networks. They pay a rateable value. But, if you benefited fibre optics, could you then find that you are going against other utilities, for example? That's probably a state-aid issue. Maybe the way to do it is a period of exemption for new investment in that sort of fibre optics, so that, for the first 10 years, you don't pay rates on it, but then, after that period of time, it comes into the cumulo assessment. But, as I say, the argument then from—. If the electricity generator—the National Grid or someone—says, 'Well, what about me?', where do you stop?

[326] **Mick Antoniw**: Okay. Thank you.

[327] **William Graham**: Eluned, please.

[328] **Eluned Parrott**: Thank you. I wanted to ask you about the data that are available in order to do some modelling work. There have been some suggestions, for example, from the FSB that not all of the data that could be made available are collected. For example, they talked earlier on today about perhaps collecting, in the next valuation cycle, the value of the land separately to the value of the property upon it or being a little bit more detailed in that regard, so that we have more flexibility in the future to investigate, perhaps, rate multipliers, or even a land value tax in those regards. I wonder: do you have plans to do any of those things?

[329] **Edwina Hart**: We're obviously looking at what data we do collect and what data we can publish, because I am aware that there are other data published in Scotland, et cetera, which I don't think we'd have a problem in collating and issuing to the committee.

[330] **Eluned Parrott**: That's really helpful, thank you. And, similarly, data, for example, as you mentioned before, on the use of things like hardship relief—

[331] **Edwina Hart**: We can give you the list on that.

[332] **Eluned Parrott**: —success from local authorities in encouraging people to take up things like the new development reliefs. Will that kind of data also be available?

[333] **Edwina Hart**: Yes, everything that we've got available, we'll share with the committee, because there are no secrets on this. But we probably have to look at more data.

[334] **Mr Sutton**: May I just say, the hardship relief, that's very much an operational matter, which is through local government to Welsh Government. Value of land—that becomes part of the form of return that the Valuation Office Agency requires. So, that then is a slightly different route to instruct them to do that. So, yes, it's the Valuation Office Agency that would be responsible for that sort of element.

[335] **Edwina Hart**: Yes. We'll publish everything that we've got and then we'll consider it, because, if you ask them to do anything, they'll charge me.

[336] **William Graham**: [*Inaudible*.]

[337] **Eluned Parrott**: Indeed. Thank you.

[338] **William Graham**: Minister, we've just got a few minutes. Could I ask you for your views again on rates avoidance? We heard quite a bit about that this morning, and you touched a little bit on the empty property regime and the consequences of that and the way in which some people manage to manipulate that.

[339] **Edwina Hart**: I don't know, Chris, whether you'd comment on this, because you're probably more of an expert on this area than I am, but I know it is a concern that is always raised with me, particularly by local authorities. Of course, they need to be more zealous perhaps in how they deal with matters, and I think it's important to recognise that any shortfalls in income will have a detrimental effect on the way that we run business here. But are there main examples or anything on this?

[340] **Mr Sutton**: In terms of pure avoidance, we have a real problem in Cardiff in the licence and leisure market, and Cardiff council are very aware

of that, but what you have is you have a company going through, and then you have a new sign over the door and the rates are suddenly a creditor and—. It is a problem in Cardiff and it's a particular problem in that area. Local government retention may well allow that to be more focused upon and allow the councils the incentive to really drill down and collect it, because they are the best placed to do that. And there are, I guess, a small number of parties involved in those areas.

[341] In terms of the other allowances, I come back to charities. I've mentioned it once, but that is a very significant issue. And there is the issue of people putting a charity into their property, and then the empty property rates—there is the occupation of six weeks or eight weeks, which allows a further period of exemption of three or six months, depending upon the classification of property.

[342] I have some sympathy with the second category, because the empty property rates—. When it was brought in, in 2008, the Prime Minister at the time said that it was a case of people deliberately keeping their properties empty. They're not. If you've got 100,000 sq ft on Hirwaun industrial estate, I can assure you that it's not for the want of trying that it's still vacant. So, it should be looked at, and the local retention is certainly one way of bringing incentive to bear on that side of things, but in terms of the exemptions and reliefs, I think the empty property rate actually has some validity to it, as for that period of exemption.

12:00

[343] **Ms Burke**: I was just going to add that the draft Local Government (Wales) Bill has got consultation currently about avoidance, seeking responses, which I think is open until mid-February.

[344] **Edwina Hart**: And I believe that I have written to the local government Minister about it.

[345] **William Graham**: Thank you very much. Eluned.

[346] **Eluned Parrott**: Just following up on that point about empty properties, I wonder if there's any evidence of a difference in behaviour depending on the scale of the landlord, for example. There have been, for example, in Cardiff, in its traditional arcades, a number of the very much bigger landlords moving in and taking over from smaller landlords, and the larger

landlords seem more able to bear the burden of not having a tenant in their properties, and therefore perhaps it's reported that there's less flexibility for the small businesses that are tenants there. Is there anything that we can do, perhaps, when we're looking at this, to differentiate between those very large multi-property landlords and the smaller localised landlords?

[347] **Mr Sutton**: I'm not aware of any research in terms of the difference between them. I have to say, I'm aware of certain large landlords who very aggressively chase the period of short-term occupation and then the new period of exemption. They've got it down to a tee. Smaller landlords, perhaps, are not aware of it. I've also dealt with certain companies that, as a matter of principle, won't claim it; they won't do that, particularly some very notable multinational companies, who say, 'We don't want to do that. It might look bad if we're trying to avoid this tax'. It's a very interesting play between different classes of landlord, or property owner—because it's not just landlords who pay it—but awareness, I think, is a good point, in terms of making sure that the smaller landlords are fully aware of it.

[348] **William Graham**: One particular point that has been touched on in questioning, particularly in evidence earlier, was that, in the opinion of the IRRV, in terms of the data available, the rating lists are no longer as accurate as they used to be. Would you agree—and I would say that I'm sure you'd probably agree as a practitioner—that often they are very inaccurate, with premises missing that you would find almost inexplicable? So, would you agree that, with local retention, it's more likely that those lists are going to be more accurate?

[349] **Edwina Hart**: Well, one would hope, perhaps, they would, but I think there's a wider question here in terms of the accuracy. How do you find that as a professional?

[350] **Mr Sutton**: I would agree that the list is less accurate than it was perhaps 20 or 30 years ago. That might also reflect the reduction in the network of valuation officers. It's not long ago that you would have a valuation office in Pontypridd, Bridgend, Swansea, Neath, Newport and Cardiff—a whole raft of them. Now, I think there are just two or three for the whole of Wales.

[351] **William Graham**: The last question, if I may, Minister: I saw in the press not so long ago the way in which they intend to change the appeals system in England. I don't know whether you're mindful of that, but it seemed to me

to be a retrogressive step.

[352] **Edwina Hart**: Yes, it's part of some legislation that they passed on that. I think there could be a problem on this.

[353] **Mr Sutton**: There are pressures in the rating system in England due to short-staffed offices of the Valuation Office Agency. To my mind, that's why the revaluation was pushed back to 2017. That hasn't been acknowledged by the UK Government. What they have also done, in anticipation of the 2017 revaluation is essentially stopped appeals being allowed from 2015. But we have not done that in Wales, and I think that is good. It's good for the taxpayer that we still allow that, even though there are some uninformed rating consultants from outside Wales who write to businesses in Wales quite regularly—or they did, in the run-up to April 2015—saying 'This is your last chance to make an appeal', when it patently wasn't the case.

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

[355] **Edwina Hart**: Can I say, Chair, if there's anything the committee would like to contribute in terms of any views for the work that Chris has been undertaking and the future work, we'd be delighted to have it as we prepare to go forward? Obviously, these will be decisions that will be made after the next election in terms of reviews, but it will be useful to have them, if it's possible.

[356] **William Graham**: Thank you very much, Minister; we're most grateful for your attendance today.

[357] **Edwina Hart**: Thank you.

12:05

Papurau i'w Nodi
Papers to Note

[358] **William Graham**: If we could just look at item 5, papers to note. Any comments? Happy with that? Okay. Thank you very much.

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o Weddill y Cyfarfod a Dechrau'r Cyfarfod Nesaf
Motion under Standing Order 17.42 to Resolve to Exclude the Public from Remainder of the Meeting and the Beginning of the Next Meeting

Cynnig:

bod y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod a dechrau'r cyfarfod nesaf yn unol â Rheol Sefydlog 17.42(vi).

Motion:

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

Cynigiwyd y cynnig.
Motion moved.

[359] **William Graham**: If I may, I'll close the public meeting. I move under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting and the beginning of our next meeting next year. Thank you very much.

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 12:05.
The public part of the meeting ended at 12:05.