------------------------Pecyn dogfennau cyhoeddus ------------------------

Y Pwyllgor Menter a Busnes

Lleoliad:
Ystafell Bwyllgora 4 - Tŷ Hywel

Dyddiad:
Dydd Iau, 19 Mawrth 2015

Amser:
09.15

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

I gael rhagor o wybodaeth, cysylltwch a:

Marc Wyn Jones
Clerc y Pwyllgor
0300 200 6565
SeneddBusnes@Cynulliad.Cymru

Agenda

Rhag-gyfarfod (09.15-09.30)

1 Cyflwyniad, ymddiheuriadau a dirprwyon

2 Cyfleoedd cyllido'r UE ar gyfer Buddsoddi yn Economi Morol Cymru

(09.30-10.15) (Tudalennau 1 - 17)

Matthew King, Pennaeth Polisi Morol yr Iwerydd, y Rhanbarthau Mwyaf Allanol a'r Arctig, Cyfarwyddwr Cyffredinol Materion Morol a Physgodfeydd, y Comisiwn Ewropeaidd

Dogfennau atodol:
Y Briff Ymchwil

3 Papurau i'w nodi

Llythyr gan y Dirprwy Weinidog Sgiliau a Thechnoleg ynghylch cyfleoedd cyflogaeth i bobl dros 50 oed yn dilyn cyfarfod 25 Chwefror (Tudalennau 18 - 19)

Dogfennau atodol:
EBC(4)-08-15 p.1 Llythyr gan y Dirprwy Weinidog Sgiliau a Thechnoleg at William Graham yn dilyn cyfarfod ar 25 Chwefror (Saesneg yn unig)

Papur atodol gan y Dirprwy Weinidog Sgiliau a Thechnoleg ynghylch cyfleoedd cyflogaeth i bobl dros 50 oed (Tudalennau 20 - 30)

Dogfennau atodol:
EBC(4)-08-15 p.2 Papur atodol gan y Dirprwy Weinidog Sgiliau a Thechnoleg yn dilyn cyfarfod 25 Chwefror (Saesneg yn unig)

Cyflwyniad gan Gerry Holtham ar ardrethi annomestig wedi'i ddarparu gan y Ffederasiwn Busnesau Bach (Tudalennau 31 - 54)

Dogfennau atodol:
EBC(4)-08-15 p.3 Cyflwyniad am ardrethi annomestig yng Nghymru wedi'i ddarparu gan y Ffederasiwn Busnesau Bach (Saesneg yn unig)

4 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o weddill y cyfarfod a'r cyfarfod nesaf.

Egwyl (10.15-10.30)

5 Cynllun Buddsoddi Ewrop (10.30-11.15)

John O'Regan, Prif Ysgrifennydd, Economeg a Chyllid, Cynrychiolaeth Barhaol y Deyrnas Unedig yn yr Undeb Ewropeaidd
Josef Pitt-Rashid, Ail Ysgrifennydd, Gwasanaethau Ariannol, Cynrychiolaeth Barhaol y Deyrnas Unedig yn yr Undeb Ewropeaidd

6 Trafod eitemau ar gyfer cyfarfodydd yn y dyfodol (11.15-11.25)

Gregg Jones, Pennaeth Swyddfa'r UE, Cynulliad Cenedlaethol Cymru

Ôl-drafodaeth (11.25-11.35)

Egwyl (11.35-12.30)

7 Lansio'r Adroddiad ar Helpu Pobl Ifanc i Gael Gwaith (12.30-13.30)

Mae cyfyngiadau ar y ddogfen hon

Julie James AC / AM
Y Dirprwy Weinidog Sgiliau a Thechnoleg
Deputy Minister for Skills and Technology

Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref MB/JJ/0975/15

William Graham AM
Chair
Enterprise and Business Committee

11th March 2015

Inquiry into employment opportunities for people over 50 in Wales

Dear William,

During the Enterprise and Business Committee on the 25 February I agreed to provide further details to support the inquiry into employment opportunities for people over 50. Specifically the Committee requested further evidence on:

- the take-up of over 50s on Welsh Government programmes; and,
- information on any assessments that have been undertaken on the impact on over 50s of the decisions to prioritise support for young people.

I have enclosed a paper covering these areas in response to the Committee's request. The paper provides information on the participation by those individuals aged 50 and above in relation to major Welsh Government programmes and/ or services where it has been possible to source such information.

To further aid the work of the Committee, and again where it has been possible to do so, the information provided covers a number of consecutive years. The aim of this analysis is to highlight any underlying trend in behaviour on which to further assess the engagement being made with individuals from the over 50 age group.

I would also like to reiterate the point I made to the Committee that programmes are not age restricted unless stated. This is the case for Jobs Growth Wales which is specifically targeted at unemployed young people.

Jobs Growth Wales was launched in April 2012 as a direct response to the high levels of unemployment amongst young people aged between 16 and 24. Whilst we know that unemployment is an issue affecting all ages, the Welsh Government is committed to supporting young people into work and 16-24 year olds are a priority group. Evidence shows us that it is younger people who are often the most disadvantaged in the labour market during difficult economic times which is a result of a number of barriers including the

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

English Enquiry Line 0845 010 3300
Llinell Ymholiadau Cymraeg 0845 010 4400
Correspondence.Julie.James@wales.gsi.gov.uk

lack of proven work experience. The unemployment rate amongst 16-24 year olds is four times that of adults aged 50 and above.

Before Jobs Growth Wales was launched an Equality Impact Assessment was completed which considered all areas of equality including age and gender. There were found to be no issues relating to equality legislation and, as such, no age discrimination was identified. Accordingly, the approach adopted was considered to be a legitimate intervention and response to the issue outlined above regarding the level of youth unemployment.

In regard to publishing the policy actions put forward by the Policy Statement on Skills and underpinned by the Skills Implementation Plan, a series of impact assessments were undertaken covering Children's Rights, Equality, Rural Proofing and the Welsh Language. With these core impact assessments in mind, the effect of prioritising funding to support young people into work was not considered to be any more significant for those aged 50 years and over compared to any other adult group aged 25 and above.

In providing further information to Committee I have attempted to draw out some of the specific areas relevant to those individuals over 50 based on the core impact assessments undertaken. In addition, I have included a perspective on the impact for each key programme in relation to this particular age group whilst being mindful of the needs of the wider population.

Finally, I would like to take this opportunity to highlight to members the series of Skills Performance Measures which were published in September 2014. These measures include a specific focus on equality and equity which will place a greater emphasis on supporting those individuals with protected characteristics, including older workers. Our aim is to make use of the measures to provide a strong evidence base on which to measure the impact of new policies and programmes and, where appropriate, redirect resources in the pursuit of alternative interventions which provide a greater return on the investment being made.

Yours sincerely

Julie James

Julie James AC / AM
Y Dirprwy Weinidog Sgiliau a Thechnoleg
Deputy Minister for Skills and Technology

Supplementary paper to the Enterprise and Business Committee

Engagement of those aged 50 and above with major Welsh Government employment and skills services

This paper provides an analysis of the engagement of individuals aged 50 and above with major Welsh Government services which support their skills development and/ or employability.

Introductory comments

The following points should be highlighted when considering the analysis put forward in this paper:

- the analysis provides an interpretation of data available from the Welsh Government either via StatsWales or data gathered in relation to specific programmes or policy areas;
- data used relates to those individuals aged 50 and above given that this age grouping is generally used when compiling data as opposed to the term over 50s;
- for some services it has not been possible to provide a full analysis of the support available to those aged 50 and above for various reasons, be that how programmes record participant information or the length of time for which programmes have been active; and,
- conclusions in relation to the impact on those individuals aged 50 and above have been made by comparing the situation in relation to all participants.

Redundancy Action Plan (ReAct)

Year	Total participants	Participants aged 50 and above	Proportion of participants aged 50 and above (%)
2014	2,985	1,026	34.4%
2013	3,769	1,284	34.1%
2012	3,703	1,356	36.6%
Total 2012-14	**10,457**	**3,666**	**35.1%**

Notes:
1. Source: Welsh Government Department for Education and Skills
2. Year: A year is a full calendar year running 1st January – 31st December.
3. Percentages are calculated from rounded figures.

Summary points:
- In 2014, approximately one third of participants supported via ReAct were aged 50 years and above. This figure has remained relatively consistent when reviewing data from the last three years of the programme.
- Where the total participants in ReAct decreased (between 2013 and 2014), the proportion of over 50s accessing support remained consistent.
- Between 2012 and 2014 actual participants aged 50 and above decreased by 330 individuals (or a percentage change of -24.3%). Over the same period total participants fell by 718 (or a percentage change of -19.4%).

Impact considerations:
- ReAct is an all-age and demand-led programme with participation reflecting the scale and type of redundancy taking place across Wales.
- ReAct is not impacted by the Welsh Government policy of co-investment in skills.

Essential Skills in the Workplace (ESIW)

Year	Total participants	Participants aged 50 and above	Proportion of participants aged 50 and above (as %)
2014	4,957	1,431	28.9%
2013	8,658	2,759	31.9%
2012	4,140	1,275	30.8%
Total 2012-14	**17,755**	**5,465**	**30.8%**

Notes:
1. Source: Welsh Government Department for Education and Skills
2. Year: A year is a full calendar year running 1^{st} January – 31^{st} December.
3. Percentages are calculated from rounded figures.

Summary points:
- In 2014, just under one third of participants supported via ESIW were aged 50 years and above. This figure has remained relatively consistent over the past three years albeit showing a slight decrease from 2013 to 2014.

Impact considerations:
- ESIW was an all-age programme open to employers seeking to up-skill their workforce. As ESIW is demand-led, participation reflects the workforce associated with those employers accessing support.
- Essential Skills is not impacted by any prioritisation of funding linked to the co-investment policy given the commitment to continue an all-age provision for Essential Skills.

Further Education

Year	Total participants	Participants aged 50 and above	Proportion of participants aged 50 and above (as %)
2013/14*	182,460	29,035	15.9%
2012/13	191,040	29,835	15.6%
2011/12	191,185	31,115	16.3%
2010/11	199,130	33,195	16.7%
2009/10	196,925	33,365	16.9%

Notes:

1. Source: Welsh Government National Statistics, Learning programme numbers by provision type, age group and mode
2. The figures do not include the higher education provision delivered via Further Education institutions.
3. Year: A year represents a full academic year running August to July.
4. FE learners at Merthyr Tydfil College are excluded from the 2009/10, 2010/11 and 2011/12 academic years following the merger of the college into the University of Glamorgan. However, data for the college are once again included from 2012/13 onwards.
5. Provisional data has been used for 2013/14*
6. Participant figures are rounded to the nearest 5. Percentages are calculated from rounded figures.

Summary points:

- In 2013/14, just under 16% of the participants within FE were aged 50 and above.
- The proportion of participants aged 50 and above has reduced slightly over the past 5 years. The actual reduction in participants aged 50 and above from 2009/10 to 2013/14 was 4,330 (or a percentage decrease of -13.0%). This figure is more than the percentage change of all participants between 2009/10 and 2013/14 of -7.4% (or a reduction of 14,465 total participants).
- Of the 14,465 reduction in total FE participation between 2009/10 and 2013/14, 30% was due to reductions in the 50 years and above age group.

Impact considerations:

- Given that fewer than 1 in 6 participants in FE are aged 50 and above, any prioritisation of funding will have less impact on this age group compared to those individuals aged under 50.
- The data suggests that, as total participation in FE decreases, so too does the participation of those individuals aged 50 and above. Moreover given that the percentage change for those individuals aged 50 and above is higher than for all participants within FE, it could be argued that any decreases in overall participation will result in a faster rate of decrease for those individuals aged 50 and above.

Community Learning

Year	Total participants	Participants aged 50 and above	Proportion of participants aged 50 and above (as %)
2013/14*	32,190	15,235	47.3%
2012/13	37,310	17,785	47.7%
2011/12	41,915	19,675	46.9%
2010/11	45,460	20,625	45.4%
2009/10	46,735	22,065	47.2%

Notes:
1. Source: Welsh Government National Statistics, Learning programme numbers by provision type, age group and mode
2. The figures do not include the higher education provision delivered via Further Education institutions.
3. Year: A year represents a full academic year running August to July.
4. Community Learning is a broad definition that can encompass, for instance, English for Speakers of Other Languages (ESOL). This table only covers Local Authority community learning provision.
5. Provisional data has been used for 2013/14*.
6. Participant figures are rounded to the nearest 5. Percentages are calculated from rounded figures.

Summary points:
- In 2013/14 just under half of participants in Community Learning were aged 50 years and above.
- Participation by individuals aged 50 years and above has remained relatively consistent over the past 5 academic years at between 45% and 48%.
- The actual number of those individuals aged 50 years participating in Community Learning reduced by 6,830 between 2009/10 and 2013/14 with total participation having reduced by 14,545.
- The percentage change in participation in Community Learning between 2009/10 and 2013/14 by those individuals aged 50 years and above was -31 %. This is the same as the percentage change for all participants also at -31%.

Impact considerations:
- Given that individuals aged 50 and above represent less than half of the participation in Community Learning, and that the percentage change in participation for those aged 50 and above was the same for this age group between 2009/10 and 2013/14 as it was for all participants, it could be concluded that older workers are no more impacted by any further reduction in, or prioritisation of, budgets associated with Community Learning than any other participant.

Work-based Learning

Year	Total participants	Participants aged 50 and above	Proportion of participants aged 50 and above (as %)
2013/14	73,040	4,880	6.7%
2012/13	68,210	4,465	6.6%
2011/12	59,665	3,555	6.0%
2010/11	64,980	4,060	6.3%
2009/10	63,140	3,910	6.2%

Notes:
1. Source: Welsh Government National Statistics, Number of work-based learning programmes by age group, gender and programme.
2. Year: A year represents a full academic year running August to July.
3. Provisional data has been used for 2013/14*.
4. Participant figures are rounded to the nearest 5. Percentages are calculated from rounded figures.

Summary points:
- Excluding figures for 2011/12, the proportion of those aged 50 and above accessing Work-Based Learning has increased since 2009/10.
- Participation in Work-Based Learning by those aged 50 and above has increased by 970 between 2009/10 and 2013/14 (or +24.8%). During the same period, total participants to Work-Based Learning increased by 9,990 or +15.7%.

Impact considerations:
- Over the past 5 academic years, participation in Work-Based Learning by those individuals aged 50 and above has shown a greater increase compared with total participants (+24.8% versus +15.7%), albeit from a lower base, suggesting that those aged 50 have benefited more from Work-Based Learning as total participation has increased.
- The prioritisation of apprenticeship provision for those aged under 25 will impact on any age grouping above the age of 25. Therefore those aged 50 and above are expected to be affected alongside other age groups.
- Prioritisation also needs to be viewed in the context that just under 7% of participation in Work-Based Learning is connected with those individuals aged 50 and above.
- The commitment to support Higher Apprenticeships at all ages could mitigate the impact on those individuals aged 50 and above (see below).

Higher Apprenticeships

Year	Total participants	Participants aged 50 and above	Proportion of participants aged 50 and above (as %)
2012/13	2,730	320	11.7%
2011/12	1,345	165	12.3%
2010/11	2,115	270	12.8%
2009/10	2,155	270	12.5%
2008/09	2,075	275	13.3%

Notes:
1. Source: Welsh Government National Statistics, Number of work-based learning programmes by age group, gender and programme.
2. Year: A year represents a full academic year running August to July.
3. Provisional data has been used for 2013/14*.
4. Participant figures are rounded to the nearest 5. Percentages are calculated from rounded figures.

Summary points:
- The proportion of adults aged 50 and above accessing Higher Apprenticeships is consistently higher than figures for Work-Based Learning as a whole.
- There appears to be no consistent trend in the proportion of adults aged 50 and above accessing Higher Apprenticeships between 2008/09 and 2012/13; however the actual number of participants has increased since 2008/09 by some 45 participants (or an increase of +16.4%). However, the overall increase is 31.6% (655 participants).

Impact considerations:
- Individuals aged 50 and above will benefit from the commitment to support Higher Apprenticeships at all ages as will any other age group.
- Given that a higher proportion of those individuals aged 50 and above access Higher Apprenticeships compared to all Work-Based Learning provision, it is likely that the availability of all-age support for Higher Apprenticeships will be more beneficial to this age group than would be the case if prioritisation had been given to other apprenticeship levels (Apprenticeships and Foundation Apprenticeships) where the proportion of those individuals aged 50 and above is lower.

Lift Programme

The Welsh Government requests that suppliers involved in the Lift Programme record participant data. However, in terms of the age of participants, a record is only made of the number of individuals aged 16-24 and the number of individuals aged 25 and older.

The Lift Programme supports people of all ages aged 16 upwards living in workless households to access training and employment opportunities. The nine Lift area teams across Wales have people with a wide range of ages on their caseloads, including many aged 50 and over.

Higher Education

Please see tables in next section.

<u>Summary points:</u>

- In 2012/13 there were 7,530 enrolments made by Welsh domiciled students aged 50 and above. Of these students, 94% were enrolled on part-time courses and 18% were enrolled at the Open University. Students aged 50 and above made up 7.4% of the total enrolments made by Welsh domiciled students.
- Since 2010/11, student enrolment numbers in the aged 50 and over category have decreased by 90 from 7,620 in 2010/11 to 7,530 in 2012/13. However, despite this slight reduction in the actual numbers of participants, the proportion of individuals aged 50 and above enrolling in Higher Education has remained consistent between 2010/11 and 2012/13 at 7.4%.

<u>Impact considerations:</u>

- In November 2013 a wide ranging Review of Higher Education Funding and Student Finance Arrangements in Wales was announced, led by Professor Sir Ian Diamond. The review will focus on a range of issues including the promotion of social mobility and widening access to higher education and will report in 2016.

Number[1] of enrolments made by Welsh domiciled students of age 50 and over by level and mode of study, 2012/13

	Postgraduate				Undergraduate			Grand Total		
	Full-time	**Part-time**	**Total**		**Full-time**	**Part-time**	**Total**	**Full-time**	**Part-time**	**Total**
50 and over	**170**	**1,395**	**1,570**	**.**	**295**	**5,665**	**5,965**	**470**	**7,065**	**7,530**
Open University	.	90	90	.	.	1,255	1,255	.	1,345	1,345
UK HEI's (Excluding the Open University)	170	1,305	1,480	.	295	4,415	4,710	470	5,720	6,190
Total Enrolments[2]	**6,295**	**10,050**	**16,345**	**.**	**54,515**	**30,405**	**84,925**	**60,810**	**40,455**	**101,270**
Open University	*	410	410	.	.	8,325	8,325	*	8,735	8,735
UK HEI's (Excluding the Open University)	6,290	9,640	15,935	.	54,515	22,080	76,600	60,810	31,720	92,530

1. Figures are rounded to the nearest five.
Data Source: HESA

2. Enrolments made by Welsh domiciled students

Number[1] of enrolments made by Welsh domiciled students of age 50 and over by level and mode of study, 2011/12

	Postgraduate			Undergraduate			Grand Total		
	Full-time	**Part-time**	**Total**	**Full-time**	**Part-time**	**Total**	**Full-time**	**Part-time**	**Total**
50 and over	**170**	**1,350**	**1,520**	**340**	**5,705**	**6,050**	**510**	**7,055**	**7,565**
Open University	.	95	95	.	1,265	1,265	.	1,360	1,360
UK HEI's (Excluding the Open University)	170	1,255	1,425	340	4,440	4,785	510	5,695	6,210

1. Figures are rounded to the nearest five.
Data Source: HESA

Number[1] of enrolments made by Welsh domiciled students of age 50 and over by level and mode of study, 2010/11

	Postgraduate			Undergraduate			Grand Total		
	Full-time	**Part-time**	**Total**	**Full-time**	**Part-time**	**Total**	**Full-time**	**Part-time**	**Total**
50 and over	**150**	**1,380**	**1,530**	**365**	**5,725**	**6,090**	**515**	**7,105**	**7,620**
Open University	.	90	90	.	1,315	1,315	.	1,405	1,405
UK HEI's (Excluding the Open University)	150	1,290	1,440	365	4,410	4,775	515	5,700	6,220

1. Figures are rounded to the nearest five.

Data Source: HESA

Careers Wales

2013-14
• 139,026 face-to-face interviews or telephone interventions with clients of all ages. • Of the 139,026 interventions, 20,456 were with adult clients (defined as those aged over 25). This represents 14.7% of the total interventions. • 5,761 interventions were with those individuals over the age of 50 equivalent to 28.1% of the interventions with adults (aged over 25), and 4.1% of total interventions (all participants).
2012-13
• 127,270 face-to-face or telephone interventions with clients of all ages. • Of the 127,270 interventions, 35,528 were with adult clients (defined as those aged over 25). This represents 27.9% of the total interventions. • 7,486 interventions were with those individuals over the age of 50 equivalent to 21.1% of the interventions with adults (aged over 25), and 5.9% of total interventions

Notes:
1. In 2012-13 there was an ESF funded project for additional support to adults that was still running at this stage.
2. Percentages are calculated from rounded figures.

Summary points:
- Careers Wales is the all age, impartial, bilingual national careers information, advice and guidance service.
- Careers Wales became a wholly owned subsidiary of the Welsh Government from 1st April 2013.
- Welsh Ministers issued a revised remit requiring the company to increase the focus of their support and services on young people, supporting Welsh Government strategies and, in particular, a reduction in the number of young people not in education, employment or training (NEET).

Impact considerations:
- An Equality Impact Assessment was carried out by Welsh Government in the lead up to Careers Wales becoming a wholly owned subsidiary of the Welsh Government. It was recognised that the revised remit for Careers Wales could have a potentially medium impact in the area of age due to the change in service to over 25 year olds but this was permissible given that other Welsh Government and UK Government services were available to this age group and the Ministerial priority for Careers Wales was those under 25.
- Careers Wales also has its own equalities policy and monitoring systems in place and works to address any imbalance in the services on offer.
- Careers Wales offers a universal service with the majority of clients of any age “self serving”, using the web site, Careers Wales Connect Freephone telephone helpline, web chat, e-mail services and presenting themselves at the network of high street centres.
- A more tailored service built around face to face guidance interviews is offered to clients in the priority groups identified in the annual remit letter

i.e. young people with SEN and young people in contact with the youth justice system.

- The only adult priority client groups for the current financial year are individuals under notice of redundancy or recently (within the last 6 months) made redundant – supported by React.
- For 2015-16 a new adult priority group is added – those requiring support by the Individual Skills Gateway Programme i.e. unemployed adults aged 25 plus.

FSB Wales Round Table
Seminar Series No. 2

2015

Non-Domestic Rates in Wales

• Gerald Holtham

Contents

Foreword

It is hard to think of a tax that is more unpopular with FSB members than business rates. For some time we have been warning that the current system of business rates in Wales is badly in need of reform.

In its current form it is a tax that is unresponsive to wider economic trends, and can act as a disincentive to smaller businesses who want to invest and expand. The lack of a meaningful link between business rates and local authorities also gives little incentive to those local councils to drive forward the economic growth within their areas.

At FSB Wales we are well aware that reforming business rates will not be straight-forward, but we firmly believe it is something that is necessary. Given that reform is so badly required, it is vitally important that we examine alternative systems of taxation – systems that may be fairer to smaller businesses and support economic growth across Wales.

With that in mind we have asked Gerry Holtham, who has done considerable work on the finances of the Welsh Government, to examine how we could reform or replace business rates in Wales.

We hope that this paper will help to contribute to the debate around business rates in Wales and how we can produce a system of taxation here that helps to support economic growth.

The one thing that we are convinced of is that beyond the very short term the status quo of business rates as they stand is simply unsustainable. We have heard from FSB members time and again of the many problems with the existing system.

We believe that the ideas in this paper could have a very real bearing on how we go about creating a system of business taxation that is fit for the future, one that is fit for the needs of modern businesses in a modern Wales.

Janet Jones, Chair
FSB Welsh Policy Unit

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1. Introduction

This paper considers two aspects of the debate over Non-domestic Rates (NDR) in Wales. Discussion of NDR has tended to focus on two issues. One is the fixed-cost nature of the tax and the burden it imposes, particularly on small businesses, when times are hard. The second is that revenues from the tax are distributed without regard to where they are collected. The latter implies a break between the planning system and the receipt of tax revenues. Local authorities can influence how easy it is for business to operate in their locality and must supply it with services but they derive no direct revenue benefit from new businesses.

It is a situation which could militate against planning for business. Add the fact that business rates are in effect a tax on property improvements or investment in plant and it seems likely that the situation could be improved to provide better economic incentives to both business and local government.

This paper tackles the questions in reverse order. Various suggestions have been made, and initiatives launched in England, to allow local authorities to retain revenue and benefit from business development. An examination of the empirical data for Wales leads to the conclusion that a generalised scheme of allowing local authorities to keep some or all of their business rate revenue would be questionable. The probable benefits are not evidently large in relation to the distributional consequences. It would be better to develop some of the schemes that link the power to raise and keep additional business rate revenue to specific developments and public or private investment. Those topics are considered in Part One.

The fixed cost nature of NDR, this paper argues, may be onerous from an individual enterprise point of view but should be accepted. That very characteristic provides some stability to local government revenues. Moreover, attempts to replace NDR with taxes much more responsive to business conditions generally raise even worse issues. The foreign experience with local turnover or profits taxes is not encouraging. Certainly there is a case for raising the threshold for NDR (which implies a slightly higher rate for those still taxable) and for making the small business allowance permanent in some form, rather than continuing to extend temporary relief. If the tax is retained in its present form valuations should also be indexed differently from the current method. However, the tax discriminates against investment in property or structures that may well be essential to the efficient operation of a business. That is not inevitable; a system of site-value rating would avoid that problem and, arguably bring other benefits. In Part Two the case for a shift to site-value rates is set out.

The report has benefited from an extensive literature and does not include detailed citations. Acknowledgement must be made of prior work for FSB by Dr Jane Bryan of Cardiff University and the Final Report of the Business Rates Task and Finish Group, chaired by Professor Brian Morgan. Both have been drawn on in what follows, though the authors are not at all responsible for the inferences I have drawn or the conclusions reached.

2. Part One

The Distribution of NDR payments and receipts

Non-domestic rates (NDR) are an important source of finance for local government in Wales, raising almost a billion pounds a year. Councils collect the tax, where a central rate or "poundage" is set by the Welsh government and applied to the rental value of business properties, as assessed every five years by the UK's valuation office. Between valuations rental value is assumed to increase in line with the Retail Price Index (RPI).

Councils do not retain all the NDR they collect. It is notionally aggregated in a central pool and then reallocated among councils according to complicated formulae that assess the spending needs of each council. In effect NDR merges with central government money and revenue support grants are made to each council to supplement its council tax.

Evidently this leaves local councils with no direct revenue benefit from the expansion of business in their area and the report of the Task and Finish Group, commissioned by the Welsh Government favoured allowing councils to keep some of their receipts. In England, the Business Rates Retention Scheme embodied in the Local Government Finance Act of 2013 gives ministers the power to allow local councils to retain a proportion of business rates generated from new developments completed from April 2013 on. The starting point (baseline) is a council's spending level at 2013–14, which will then be increased by RPI inflation. An element of redistribution is retained with a tariff and top-up system whereby authorities whose baseline tax revenues exceed the baseline funding will pay a tariff which will help to top-up those areas whose baseline tax revenues are lower than their baseline funding. Councils will retain 50% of their business rate revenues including the business rates growth element.

No such element yet exists in Wales and in this paper we review the current redistribution of NDR and the pattern of revenue growth over time. Then we look at the potential effects of specific schemes for allowing some local retention of revenues.

Table 1 shows how NDR was redistributed in 2012–13. The first column shows the Welsh government's standard spending assessment per head for each local authority. These are broadly similar but with some variation based on the formulae that assess various sorts of need. The final column shows the per head redistribution of NDR and again the numbers are broadly similar, reflecting the same views on relative needs.

The three central columns show each authority's contribution to and receipts from the pool and hence the net transfer it makes or receives. Total receipts exceeded contributions by some £69 million in the year in question, which is the result of NDR payments made to central government by all-Wales utilities like Network Rail and Welsh Water.

Of the 22 local authorities, only five are net contributors: Flintshire, Pembrokeshire, Vale of Glamorgan, Cardiff and Newport. Of those, Cardiff is by far the largest net contributor in absolute terms but in percentage terms too. Its net contribution of £61 million is 36 per cent of its NDR receipts; Flintshire, the next biggest contributor hands over 22 per cent of its receipts. The local authority with the largest absolute transfer receipts is Rhondda Cynon Taf but the biggest percentage receipts are those of Blaenau Gwent whose net transfer of £9 million is 85 per cent of its own NDR receipts.

Table 1

2012 – 13					
	£ per head		£ thousands		£ per head
	Standard spending assessments and police grant	Contribution to pool	Paid from pool	Net transfer to/ from pool	Share of re-distributed non-domestic rates
Isle of Anglesey	1,853	14,440	22,024	7,584	315
Gwynedd	1,921	34,216	38,209	3,993	319
Conwy	1,827	27,797	36,466	8,669	323
Denbighshire	1,878	18,442	29,051	10,609	291
Flintshire	1,714	60,196	46,872	-13,324	310
Wrexham	1,680	38,856	41,399	2,543	302
Powys	1,840	26,012	41,732	15,720	308
Ceredigion	1,747	16,320	24,415	8,095	311
Pembrokeshire	1,859	44,938	38,078	-6,860	316
Carmarthenshire	1,813	36,773	57,149	20,376	305
Swansea	1,747	74,404	74,941	537	316
Neath Port Talbot	1,876	37,661	43,608	5,947	311
Bridgend	1,796	36,944	43,154	6,210	313
Vale of Glamorgan	1,708	40,707	38,833	-1,874	303
Cardiff	1,647	168,823	107,229	-61,594	303
Rhondda Cynon Taf	1,889	46,509	71,961	25,452	303
Merthyr Tydfil	1,969	16,109	18,079	1,970	322
Caerphilly	1,894	32654	54377	21723	311
Blaenau Gwent	1,979	11741	21664	9923	312
Torfaen	1,889	20059	27871	7812	307
Monmouthshire	1,621	20869	28377	7508	317
Newport	1,842	55734	43951	-11783	309
Total		**880204**	**949440**	**69236**	

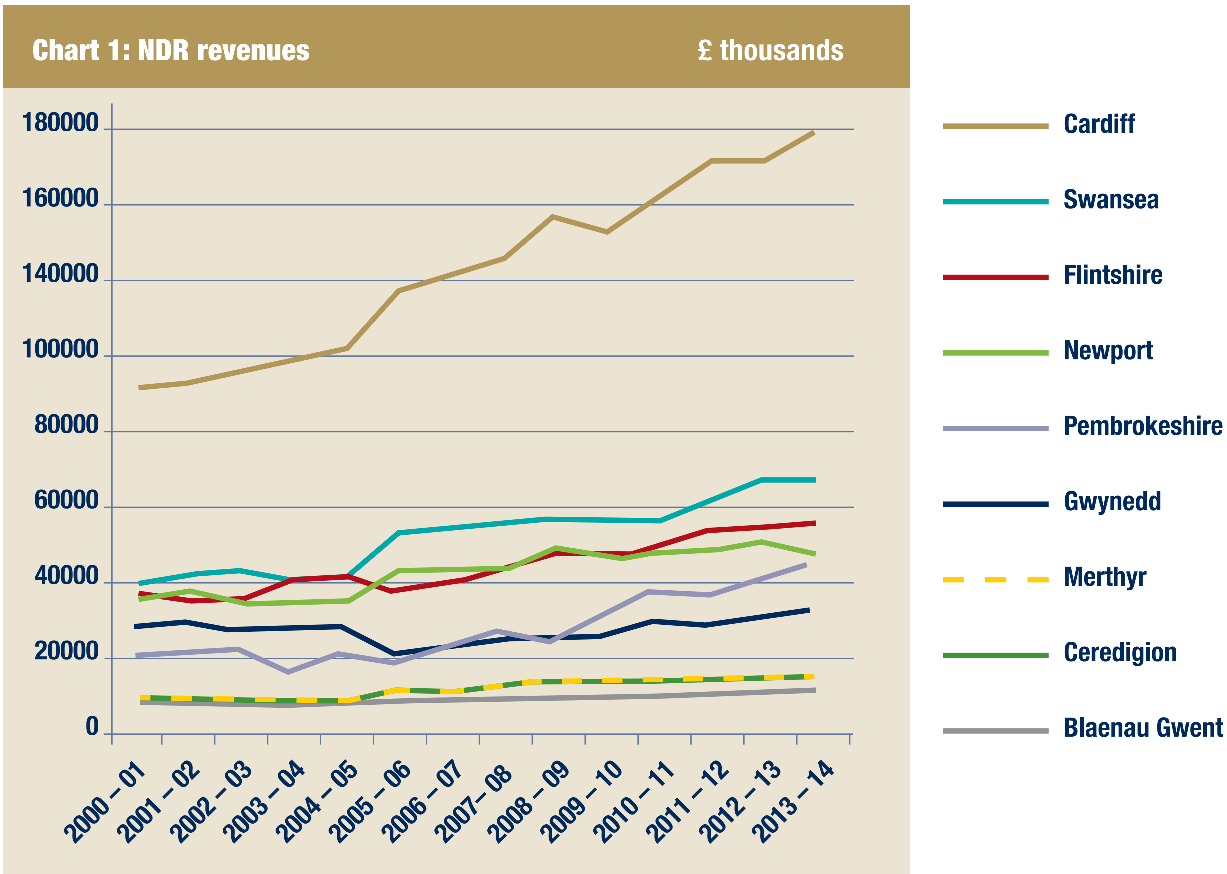
Source: Welsh government statistics

Data is assembled from various tables.

See https://statswales.wales.gov.uk/Catalogue/Local-Government/Finance/Non-Domestic-Rates

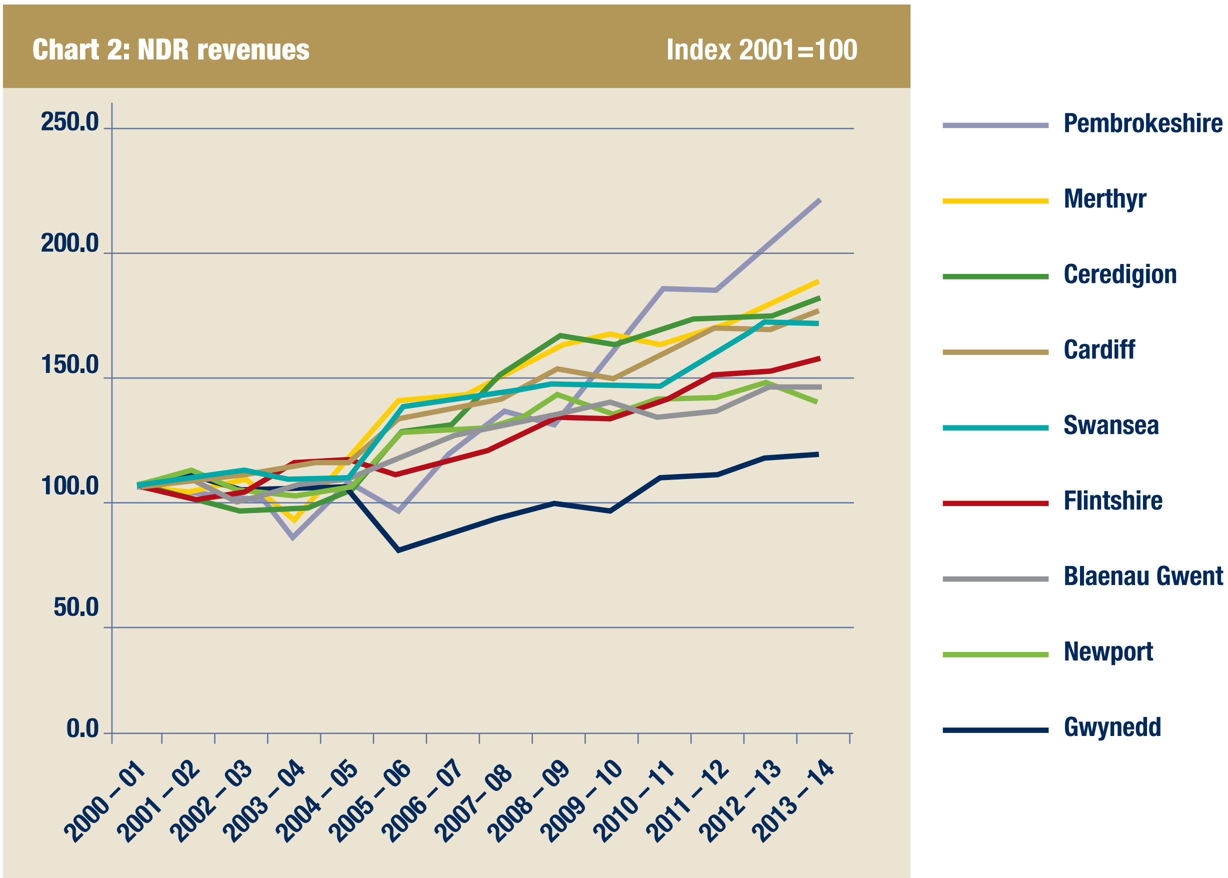
The growth of NDR receipts by area

Chart 1 shows the evolution of NDR receipts for selected council areas in Wales, including the three largest cities, two areas in the Valleys, one in the south-west, the west, the north-west and one in north-east Wales. The chart makes very clear the dominance of Cardiff, which collects two and a half times as much as Swansea, the next largest authority. Indeed the increase in Cardiff's receipts since 2000–1 is greater than the current total receipts of any other council. The labels are ordered according to size.



Source: Welsh government statistics; https://statswales.wales.gov.uk/Catalogue/Local-Government/Finance/Non-Domestic-Rates/Collection/collectionratesofnondomesticrates-by-authority.
Index computed by author

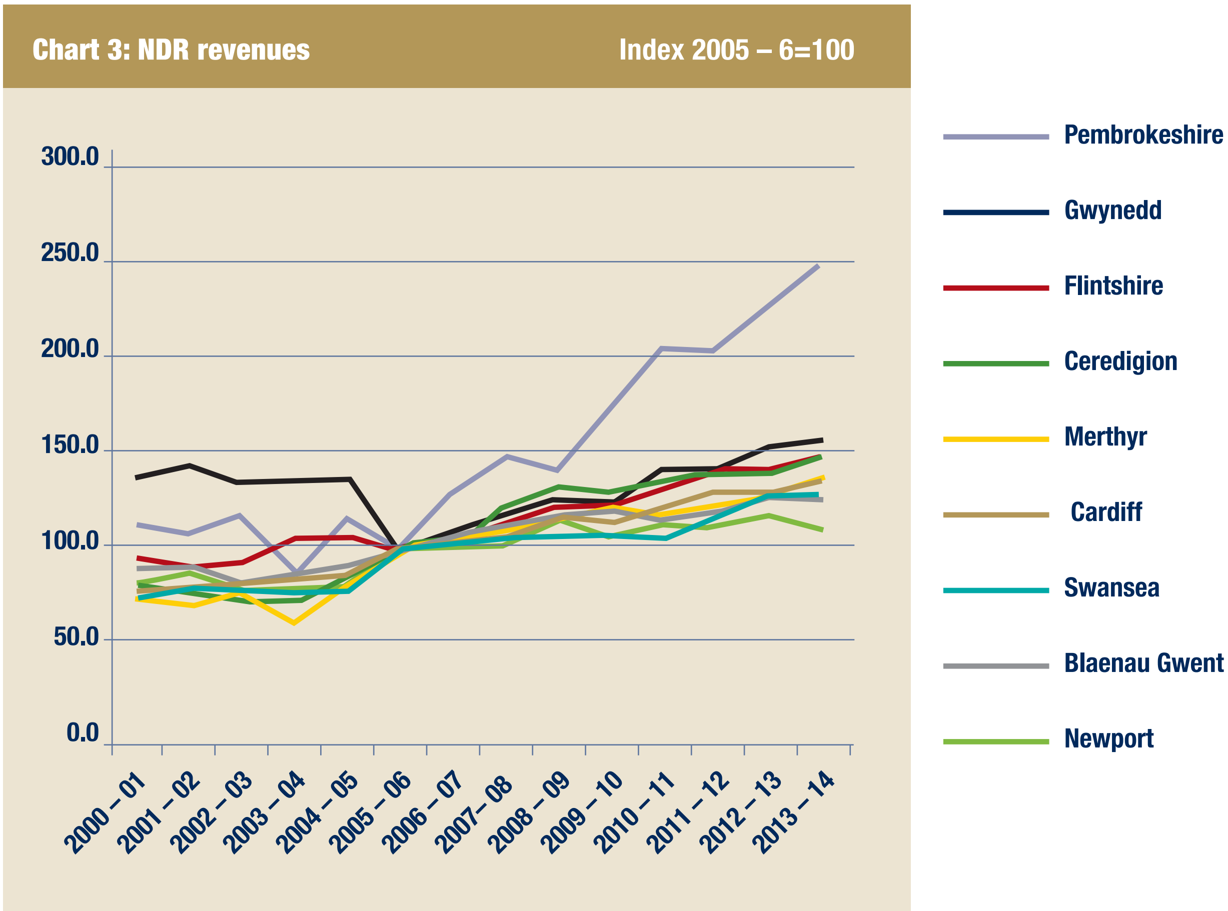
However, this dominance is of long-standing and in percentage growth terms Cardiff's receipts are behind those of other authorities like Pembrokeshire and Merthyr since 2000–1, as Chart 2 shows. Swansea is similar to Cardiff in growth terms with Gwynedd the laggard among this group. The labels reflect the order of the areas in terms of growth.



Source: Welsh government statistics, as above

However, the picture is very heavily influenced by the revaluation of 2005-6. The break in the growth paths at that point is clearly visible in the chart; the subsequent revaluation of 2010-11 has had a much less obvious impact. Evidently the revaluation reflected things that had gone on prior to its taking place so in assessing relative outcomes in recent years it is more informative to look at growth since 2005–6.

That growth is shown in Chart 3, which rebases indices to 2005-6. Pembrokeshire remains the stand-out performer, more than doubling NDR receipts, which are up 145 per cent since that date. No other area achieved more than 60 per cent growth. Gwynedd has had the second fastest percentage growth of receipts at 55 percent, just ahead of Flintshire with Cardiff and Merthyr together in the middle of the pack and Newport lagging with growth of just 11½ per cent in receipts since 2005–6.
All data are in current pounds, making no allowance for inflation.



Source: Welsh government statistics, as above

Incentive schemes

What would be the effect of a scheme that allowed councils to keep some of their NDR receipts above a certain growth rate? Such a scheme has been proposed in order to incentivise councils to promote business in their area. Under current arrangements they derive no direct revenue benefit if their planning and other policies encourage business rather than discouraging it.

The first task would be to pick a baseline growth rate above which councils could retain revenue. We added Rhondda Cynon Taf to the nine councils charted above and, for the sample of ten, the average growth of NDR receipts in the four or five years leading up to the 2005–6 revaluation was just 1.2 per cent. Suppose the government wanted to reward councils that achieved good growth, not just a normal rise with the retail price index. The standard deviation of growth across the sample of 10 councils in the 2000-2005 period was also 1.2 per cent. If the Welsh government had wanted one standard deviation above average it might have let councils keep some proportion of council tax above a growth rate of 2.4 per cent. Since 2005–6 the growth of NDR has accelerated, averaging 4.4 per cent across our sample of 10 councils (becoming 3.6 per cent if we exclude Pembrokeshire whose fast growth distorts the figures).

That shows picking an appropriate baseline is not necessarily easy. Let us make the arbitrary assumption that the Welsh government might have expected that some acceleration in NDR receipts would occur naturally so it set a target of the 2000-2005 growth rate plus two standard deviations, in practice giving a baseline of 3.6 per cent. Six of the ten authorities exceeded that average growth rate for receipts, namely Gwynedd, Flintshire, Merthyr, Ceredigion, Pembrokeshire and Cardiff, while the others, Newport, Blaenau Gwent, Rhondda Cynon Taf and Swansea did not. Of course, in noting that, we are observing an historical outcome that was unaffected by any change in incentives – since no incentive scheme was in place. Perhaps if the scheme had really been in place outcomes would have been different. This exercise can tell us nothing about how effective such a change in the NDR regime would be in stimulating business. The best it can do is indicate the magnitude of the redistributions that might occur.

After determining the baseline growth rate comes another big decision. Is the 3.6 per cent applied annually to the previous year with no deduction for past shortfalls? In other words, is the test annual rather than cumulative? The alternative is to apply the 3.6 growth rate cumulatively to the original NDR receipts in the base year. As we shall see, that makes a big difference.

Assume to begin that councils retain all NDR receipts above a 3.6 per cent increase on the previous year. If this scheme had been in existence since 2005–6 and the outcome was what occurred councils would have retained a total of £148 million over the period or some 2.1 per cent of the total of their NDR receipts over the period, not including the centralised payments from utilities. The biggest year would have seen 4 per cent of the pool retained, the worst year 0.9 per cent.

For 2012–13 we can work out what this means for each Welsh local authority. We assume it works as follows. The excess revenue above an annual increment of 3.6 per cent is retained and does not go into the pool. The reduced pool is then distributed exactly proportionately to the former distribution. That means the extra retained revenue is not counted against the revenue assessment. The results are shown in Table 2. The difference between total contributions and receipts is because contributions do not include centralised payments by utilities and distributions do not include the money for police authorities.

No change is greater than 2.5 per cent of total revenue from NDR and central government transfers. The biggest beneficiary for the year in question is Vale of Glamorgan that gains £3.8 million. No authority loses more than 0.6 per cent of total revenue. Cardiff is the biggest absolute loser at just over £2.1 million. The distributions obviously vary from year to year and sometimes Cardiff is a gainer. Given its very average growth of NDR, however, Cardiff is not in general a big gainer. Note 2012–13 is a typical year in terms of the size of the total redistribution effect. Retained NDR in that year is 2.1 per cent of total NDR receipts by local authorities, the same as the eight-year average on these assumptions.

Table 2

Simulation 1		£ thousands			
Parameters	Year	Base growth		Retention rate	
	2012 – 13	3.6%	1		
		Total resources, current system	NDR retained	Difference in total receipts	Percent difference
Isle of Anglesey		96,990	0	-429	-0.4%
Gwynedd		176,225	948	198	0.1%
Conwy		152,343	1695	995	0.7%
Denbighshire		147,410	0	-605	-0.4%
Flintshire		193,295	0	-927	-0.5%
Wrexham		173,650	1475	646	0.4%
Powys		185,144	350	-477	-0.3%
Ceredigion		104,705	0	-501	-0.5%
Pembrokeshire		165,865	3523	2797	1.7%
Carmarthenshire		263,405	0	-1130	-0.4%
Swansea		317,349	2777	1303	0.4%
Neath Port Talbot		211,479	0	-858	-0.4%
Bridgend		191,189	0	-833	-0.4%
Vale of Glamorgan		159,054	4594	3828	2.4%
Cardiff		433,421	0	-2142	-0.5%
Rhondda Cynon Taf		367,240	0	-1449	-0.4%
Merthyr Tydfil		90,050	16	-327	-0.4%
Caerphilly		265,098	1833	774	0.3%
Blaenau Gwent		114,080	320	-105	-0.1%
Torfaen		136,499	0	-558	-0.4%
Monmouthshire		97,364	764	216	0.2%
Newport		201,639	441	-415	-0.2%
Total		**4,243,493**	**18,736**		

Note: difference in total receipts combines NDR retained with smaller distributions from a reduced NDR pool.

Results are sensitive to the baseline specified. If a baseline growth of 2.4 per cent were specified the retained earnings in 2012–13 and over the eight years would have been 2.7 per cent of total receipts. Baseline growth of 4.4 per cent would have reduced the retained receipts to 1.8 per cent of the total in 2012–13 and over the eight years.

It might be thought that all these effects are rather small. We now examine the more radical scheme in which councils can keep growth in NDR above a baseline that is not adjusted annually for actual outcomes.

The effect of that over the 2005–2013 period would be to more than double the amount of NDR retained to £327 million, some 4.5 per cent of the total. Retentions in each year range from a low of 2.4 per cent to a high of 6.6 per cent as a proportion of total council revenues. It also leads to a different pattern of retentions and transfers as Table 3, for 2012–13 shows.

Table 3

Simulation 2		£ thousands			
Parameters	Year	Base growth	Retention rate		
	2012 – 13	3.6 cumulative		1	
		Total resources, current system	NDR retained	Difference in total receipts	Percent difference
Isle of Anglesey		96,990	0	-1,053	-1.1%
Gwynedd		176,225	5,317	3,479	2.0%
Conwy		152,343	0	-1,718	-1.1%
Denbighshire		147,410	78	-1,406	-1.0%
Flintshire		193,295	5,825	3,552	1.8%
Wrexham		173,650	465	-1,569	-0.9%
Powys		185,144	0	-2,030	-1.1%
Ceredigion		104,705	1,423	194	0.2%
Pembrokeshire		165,865	19,547	17,766	10.7%
Carmarthenshire		263,405	624	-2,148	-0.8%
Swansea		317,349	0	-3,617	-1.1%
Neath Port Talbot		211,479	8,337	6,233	2.9%
Bridgend		191,189	0	-2,044	-1.1%
Vale of Glamorgan		159,054	4,475	2,597	1.6%
Cardiff		433,421	1,999	-3,256	-0.8%
Rhondda Cynon Taf		367,240	0	-3,554	-1.0%
Merthyr Tydfil		90,050	0	-840	-0.9%
Caerphilly		265,098	422	-2,176	-0.8%
Blaenau Gwent		114,080	0	-1,042	-0.9%
Torfaen		136,499	0	-1,370	-1.0%
Monmouthshire		97,364	0	-1,344	-1.4%
Newport		201,639	0	-2,100	-1.0%
Total		**4,243,493**	**48,513**		

The big gainers in this case are councils like Pembrokeshire which have seen a sustained rise in NDR receipts. Differences are now material with one gainer receiving over 10 per cent more and a number of losers being over 1 per cent down. Recall that these are redistribution that would have followed an attempt to incentivise councils but where all changes are in a sense random because the NDR evolution was unaffected by incentives and would have happened anyway.

Presumably these distributional changes would in themselves not have been welcome to the Welsh Government since they go against its expenditure assessment. We could ask the question: what sort of business response to the incentivisation of local councils could we expect? And what sort of response would be necessary to compensate for the departure from distributional objectives?

There is no obvious way to answer the first question. Local authorities can often use their control of local planning rules and regulations to foster business and they can use their own resources to market their locality to potential investors. Otherwise their policy instruments are rather limited. From a Welsh point of view, too, generating business in a particular area is only of advantage if the business is genuinely new or comes in from outside Wales; displacing business within Wales is not the point.

We can attempt to answer the second question. Note from Table 3 that in 2012–13 the biggest percentage loser from the scheme we simulated was Monmouthshire, down £1.3 million or 1.4 per cent of its total receipts in that year; the biggest absolute loser was Cardiff, down £3.3 million, some 0.8 per cent of its total revenue. How much more would the NDR pool have had to have grown from 2005-6 to offset those losses? Distributions as a percentage of the pool have been very stable since 2005-6. Monmouth has drawn an average 2.9 per cent with a standard deviation of only 0.02 per cent; Cardiff has drawn an average of 10.9 per cent with a standard deviation of 0.26 per cent. For them to break even in 2012-13 the adjusted pool, after retentions, would have to be 6.3 per cent bigger than it was.

The pool distributions to local authorities (excluding payments for police) grew almost 36 per cent between 2005–6 and 2012–13. To ensure there were no losers in that year the pool would have had to be 44 per cent larger than in the base year to allow for its loss of retained NDR receipts. Yet if it had been, there would surely have been more retentions, necessitating still faster growth. In other words the growth rate would have had to increase from an annual average of 4.4 per cent to at least 5.3 per cent and probably more.

It seems unlikely that total NDR receipts across Wales could accelerate by over one per cent each year simply because councils are allowed to keep any growth in Council Tax above 3.6 per cent. That does not in itself mean it is not worth introducing an incentive scheme but it does mean that there are sure to be distributional consequences of doing so, with some losers.

Greater incentives could be imagined, such as keeping all receipts above the base year level, in effect setting baseline growth at zero. That, of course, would lead to larger redistribution. If such a scheme had been introduced in 2005–6 and growth been what it was, by 2013–14 over one quarter of all NDR receipts would have been retained by the collecting council and over the seven year period nearly 16 per cent of NDR receipts would have been retained. Such an outcome would have entailed a squeeze on councils with slow-growing NDR receipts like Newport unless they had unusual opportunities to stimulate much faster growth or the re-distribution parameters from the pool were changed in their favour.

Optimal structure of an incentive scheme

Any general incentive scheme has three parameters: the baseline growth rate, the frequency of baseline adjustment, the proportion of NDR receipts above baseline to be retained. As we have seen, changes to any of these parameters can have an effect on outcomes. Frequent revision to the baseline, such as the annual revision simulated for Table Two above, results in rather small numbers for retentions. It could also reward erratic, one-year changes that are not sustained. A baseline adjusted every five years or more gives rise to larger retentions and is more sensible. There is evidently a trade-off between the baseline and the retention rate.

A high retention, high baseline combination gives the local authority more incentive to raise NDR receipts so long as exceeding the baseline is a feasible objective. If it is set too high for some authorities, however, it could have a lesser effect on them than partial retention above a lower, more achievable baseline. The difference in growth rates of NDR among council areas might well leave some councils in the cold if an aggressive baseline were selected.

Another possibility is to give each local authority its own specific baseline, reflecting its long-run record but encouraging a feasible “stretch”. This would, however, introduce significant complexity into NDR collection and distribution. To avoid haggles and perceived political bias it would also require the development of some formula for setting baselines parallel to existing spending assessment formulae.

In order to give realistic opportunities to the less dynamic areas, a low baseline is desirable but that would entail large retentions by dynamic areas. To offset the latter effect partial retention would be required. For example, if we allowed a retention rate of 25 per cent above a flat baseline, total retentions are of the same order of magnitude as those in the second simulation, with results reported in Table 3. The pattern of redistribution is, however flatter, as shown in Table 4.

If retention rates are set too low, however, the incentive effect might be inadequate. There is no evident optimum and different combinations of parameters need to be simulated and, perhaps, piloted before being generally adopted. The UK government’s proposals for partial retention in the 2013 Act referred to above are fairly complex but could provide another template.

Before the advantages of a general system of retentions have been explored, there is the option of an ad hoc arrangement which allows local authorities to retain revenues flowing from a specific development. In 2009 the UK Government passed the Business Rate Supplements Act, following the recommendation of the Lyons Enquiry of 2007. The Act provides a discretionary power for councils to levy a supplement on the national business rate and to retain the proceeds. Levying authorities must consult on the levy amount and duration as well as any related reliefs and exemptions with businesses in the area. The idea could be extended to retaining all or part of revenue consequent on changing planning regulations, also after appropriate mandatory consultation.

Table 4

	2012 – 13
	Percent difference
	Total revenue
Isle of Anglesey	-0.5%
Gwynedd	0.5%
Conwy	-0.3%
Denbighshire	-1.0%
Flintshire	0.9%
Wrexham	-0.1%
Powys	-0.5%
Ceredigion	-0.2%
Pembrokeshire	2.6%
Carmarthenshire	-0.4%
Swansea	-0.1%
Neath Port Talbot	0.6%
Bridgend	-0.5%
Vale of Glamorgan	0.6%
Cardiff	0.8%
Rhondda Cynon Taf	-0.8%
Merthyr Tydfil	-0.1%
Caerphilly	-0.4%
Blaenau Gwent	-0.5%
Torfaen	-0.8%
Monmouthshire	-0.6%
Newport	-0.2%

Parameters: baseline growth 0%, retention rate 25%

By tying retention to an increase in rates or to a particular development which the council has facilitated, e.g. through changed planning permissions, the incentive effect is maintained. At the same time redistributions occurring for reasons not related to council policy are limited. This approach therefore has much to recommend it.

3. Part Two

More fundamental reform

Recent concern about NDR has focused on the high relative value of business rates in the UK compared with other countries and the fact that the tax, being unrelated to business turnover or profit had become a greater burden in times of recession and slow growth, particularly on small business and most particularly those in the retail sector.

Experience with local government finance and various efforts at reform has predisposed many to be against major tax reform. That was certainly the perspective of the Welsh government in setting up the Task and Finish Group, chaired by Professor Brian Morgan to consider non-domestic-rates. The terms of reference, quite clearly, were to consider how to improve the operation of the tax with minor changes or reforms but not to question the basis of the tax itself. The Group has produced a series of detailed reports following that approach.

Valuation is a thorny issue with NDR. Quinquennial valuations mean actual rental values can diverge from those used in rate assessment. Most countries making extensive use of property taxes have more frequent revaluations. Australian states, for example, may revalue annually or every three years. In the UK the way legislation is drafted and the nature of the appeals mechanism means that there are many lengthy appeals, which makes it difficult to have more frequent revaluations. Problems are compounded by the use of the retail price index (RPI) to update valuations between revaluation exercises. Actual property rental values have fallen by as much as 40 per cent in recent years, while the RPI has gone up steadily. Moreover, the government in the UK has announced a postponement of rates revaluation from 2015 to 2017. The government has proposed more frequent but simpler, more standardised, valuations. The proposal has been greeted with suspicion but a simpler system providing fewer grounds for appeal would have many advantages for everyone except the lawyers.

While there is a widespread feeling in business circles that NDR is unfair in being so unresponsive to business conditions and revenues, it must be recognised that that characteristic is a virtue from the government's point of view since it reduces the variability of tax revenues. A reasonable compromise would retain an asset base for the tax but would make valuations more responsive to fluctuations in the market price of the asset. To the extent that those fluctuations reflected general business conditions, such an approach would make the tax at least marginally more responsive.

While the matter could stand further analysis, it can evidently be analysed to death. The outlines of a solution seem clear enough. Enough data are now available to construct an annual index of prices of various kinds of commercial property – industrial, retail and office – from transactions or advertised prices. Evidently there could be divergent movements in prices of property of different sizes or in different locations. The granularity or geographical disaggregation of the index will be limited by the data available and that is a matter for investigation. Yet there is no sense in making the best the enemy of the good; an average price index for the relevant property type in the broad region concerned is a lot better than using the RPI. House price indices can be complex constructions using hedonic regression procedures (see below) but that, while desirable in principle, is not necessary to effect an improvement on the current situation. Since property price indices can be highly volatile, it makes sense to smooth them using a multi-year moving average. That can be justified by the reflection that the rental value of a property depends on what rental contracts are in place as well as by its intrinsic characteristics. If rental contracts in a sector have an average duration of, say, five years, some one fifth of properties are subject to negotiation at current prices. It could be justified therefore to make the revaluation index a five-year moving average of property price changes. It would then reflect large declines such as those seen since 2008 but do so relatively smoothly. That would be a good proposal to table subject to revision and refinement on the basis of data research and testing.

The tax base

Business shares with the household sector a particular resentment of taxes on assets as opposed to taxes on income. However if the state has to collect a certain amount of tax it makes sense to broaden the base rather than have high rates on a narrow tax base of incomes alone. Some asset taxes have a strong economic rationale in terms of their effects relative to income taxes and they are easy to collect and hard to evade. Countries that rely less on property taxes than the UK countries do almost invariably have much higher social security contributions. While people may resent such contributions less, associating them with entitlement to welfare benefits, they are, in effect, a tax on employment. As such, they are not an attractive option in a country like Wales with relatively low levels of economic activity. Local turnover taxes have not been a success in Germany or Italy where the tendency is to move away from them towards property taxes. Calls for taxes on property to be replaced by employment, profit or turnover taxes are likely, therefore, to fall on deaf ears. Some element of asset taxation will remain and the objective is to make it as efficient, as fair and as incentive-compatible as possible.

The Mirrlees report on the UK taxation system noted that business property taxes were a combination of two taxes, one on land and one on the structures put on the land. They pointed out that all economic theory declares the first to be an excellent tax and the second to be a very bad tax. They therefore argued for replacing business rates levied in effect on property and its rental value with a tax on the land value.

Why in principle would that be a good idea? The quantity of land is more or less fixed. As Mark Twain said, they're not making it any more. Planning restrictions as well as location mean that land is not homogenous; some tracts are more valuable than others. Nonetheless, unless planning restrictions change all types of land are in fixed supply at any time. That means a tax on land is generally and eventually capitalised in its price. Bringing in such a tax would alter land prices by the amount of the tax leading to windfall losses for landowners but it does not thereafter change economic behaviour at all.

No-one has an incentive to do anything different because land is taxed. That is not true of a tax on buildings. If the buildings have a commercial purpose, taxing them will tend to discourage investment in them because it reduces the expected return to that investment. Shifting the tax from business property to land removes a disincentive to investment or upgrading of business properties.

Moreover if unoccupied land is not taxed at all, there can be an incentive to demolish buildings on it or to hoard it for speculative purposes. A land value tax removes those perverse incentives. Since a land tax can be levied at any rate up to the full annual rental value of the land, it can be levied at the rate which confers fiscal neutrality with current business rates. A land value tax or site-value rating could therefore replace existing business rates. Indeed a slightly higher rate would also pay for phasing out of stamp duty on commercial property transactions, another tax that inhibits commercial development.

As Mirrlees asked, if this case is so obvious, why has it not happened already? There are a number of bodies campaigning for such a tax but it is not being proposed by any political party. There are two broad reasons: political and practical or administrative. Switching the basis of a tax will inevitably lead to winners (people with expensive buildings on cheap land) and losers (people with cheap or no buildings on expensive land). It is a law of politics that beneficiaries from a political change are generally ungrateful while losers are resentful, even vengeful. The political calculus therefore usually enjoins doing nothing.

The second reason is more respectable. There is a reasonably active market in business properties of various sorts so it is possible to value their capital and rental value in most districts by direct observation of market prices for similar properties. The market in vacant land is thinner and in some areas no or few transactions may occur over quite long periods of time. Valuations would therefore have to follow less direct methods and there is a fear that these might be opaque and contentious. If the system were bogged down by endless appeals, some of the theoretical advantages could be lost.

This is a serious consideration and some astute and experienced people would oppose replacing NDR with a site-value tax on those grounds. It should also be acknowledged that while taxing land would have great advantages in ceasing to penalise commercial property investment it would remain a tax that was not very responsive to business conditions. One of the features that make NDR unpopular would remain.

If we accept that as inevitable and further suppose that politicians could be persuaded to do the right thing if appropriate transitional arrangements were in place, the case against switching to land-based business taxation comes down to the transitional costs of the change and the concern over valuation, so let us examine those issues.

We should note, first of all, that the issues have been resolved in practice in other countries. Australia, New Zealand and Denmark all have systems of land taxation, as do a number of localities in the United States.

There is a wide range of approaches to valuation. It is almost always carried out by dedicated agencies but in some countries it is centralised like the Valuation Office Agency (VOA) in England and Wales while in other places provincial or local authorities each have their own agency. In some places, such as Victoria, Australia, valuations are detailed. In other Australian states there is more of a mass production approach to valuation. Revaluations range from being annual to five-yearly.

In any event for a land-based tax or rate to operate a complete land registry is necessary or at least one covering all the land types to be subject to the tax. The registry must cover the ownership, size and value of each landholding or hereditament.

Some campaigners argue for a land value tax to replace a wide range of other taxes, including Council Tax. Such a change would require a complete survey of all the landholdings in the UK. The partisans for such a tax point out that extensive valuation was accomplished in just a few years after 1910 when Lloyd George introduced some land taxes in his “People’s budget” (later abolished). It was done without benefit of aerial mapping or computer-based data bases. Moreover William the Conqueror managed to compile the Domesday Book in 1085-86, covering much of England, with even more primitive technology. However the effort required does seem to daunt modern politicians and surveyors.

It is just as well, therefore, that the effort required would be less if we suppose that land-based taxation in the UK would replace just NDR and stamp duty on commercial real estate transactions. In that case we do not need a complete register of residential land. Moreover we can assume that agricultural land, particularly in Wales, would be zero rated. Farmers could be asked to declare their holding for tax purposes – self assessment – but it would not entail any payment.

Current Valuation Office Agency registers for NDR purposes would provide most of the information required for a site value tax. The main gap would be land that is zoned or available for commercial use but is unused. The register would have to be completed for such land. The effort could be reinforced by legislation encouraging self assessment. One proposal is that the local authority should have first refusal on buying any vacant land for sale at the price that the owner has put on it in self assessment. One would not expect the right to be exercised but it would militate against under-declaration. (This is an example of the fair cake-cutting theorem in economics. If two people are sharing a cake, give one person the knife and the other person the right to choose the first slice. Chances are you get a fair division.)

One key point to note is that it does not matter if the VOA cannot value the absolute price of land accurately. It is the relative value of one piece of land compared with another that counts. Why so? Recall that the objective is to replace NDR and stamp duty land tax (SDLT) on commercial properties. Therefore we know what the total revenue has to be for the site-value tax to yield. That yield can be seen as the product of the land rental value and the multiplier. If the land values are too low in aggregate the multiplier will be higher and vice versa. Knowing the total land in Wales available for commercial use or in such use, the average tax or rate per hectare is determined. (This data is not currently in the public domain.) The key issue is how individual plots relate to that average.

The basic method for valuing land is sales comparisons, which work well when there are a number of transactions for each distinct type of land in every valuation area. Where there are not, valuers may be accused of not comparing like with like or of treating exceptional cases as typical. For that reason information from price comparison will generally need to be supplemented by other methods.

The most straightforward is the cost approach. The valuer assesses the replacement cost of buildings on the site and subtracts that from the assessed value of the property to arrive at a residual which is taken to be the land value. Since construction costs are fairly uniform in most parts of the country, this method leads to the conclusion that the main regional variation in property values is down to varying land values.

Clearly such an exercise could be carried out at the next NDR valuation point. The suggestion leads to two objections in the case of Wales. One is that in some parts of Wales the residual value would be zero or negative, reflecting the fact that developers do not find it worthwhile to develop all the available sites in such areas. The second objection follows: that if substantial parts of Wales were assessed as having valueless or almost valueless land, a few areas, such as Cardiff would have to provide all the revenue for the tax.

The second point has rather less force than one might think. Recall from Chart 1 that Cardiff already yields more than three times as much NDR revenue as the next local authority area in Wales and almost a quarter of the total. It is one of only five local authority areas that makes a net contribution to the NDR revenue pool. The other 17 local authorities are net recipients from the pool. The incidence of NDR is already quite heavily skewed and that would not change. Site-value rating would also be very lop-sided in its incidence.

Another method for tackling the valuation method that might be used to address the zero-value problem is to use hedonic regression. That is a technique requiring fairly advanced statistical methods of which, however, there is lot of practical and academic experience. Essentially a large data base of all types of commercial property in all parts of Wales is assembled. A number of characteristics are assigned to each property; these will generally be known as a result of previous valuations: size, number of storeys, quality and condition of the building, extent or proximity of public services and the location of the property. The value of the property is the quantity to be explained and the regression analysis in effect explains it by assigning a role to each of the factors. In effect it identifies an equilibrium “price” for each factor. Most analyses go a stage further and further analyse the price of each factor to try and determine a supply and demand function for it. The analysis then can be used to find and isolate the contribution of location and those factors, like public services, that would affect the land price. Such an analysis could be quite involved but the main cost of doing it would be fixed; once the analysis had been done once it would be simple to repeat it. The sophistication of the statistical analysis would however make the procedure opaque to the public. In any case the results would need to be compared with the simpler cost method and with such price comparisons as are available to arrive at a final valuation.

It is conceivable that commercial land in some parts of Wales is actually valueless. People would be prepared to buy it if they were allowed to build houses on it. It may have a price as a lottery ticket, representing a small probability that planning restrictions will be changed. But if forced to put a shop, office or warehouse on it, no-one wants it. That does raise the issue: if the value in the best use which is legally permitted is nothing, why should it attract any rates at all?

In the final analysis, assessing the relative value of plots of land should actually be a lot simpler than comparing properties because there are far fewer variables to be concerned about. Plots of land in the same area with the same planning permissions will usually have similar values. There are differences owing to slope and drainage as well as proximity to roads and other facilities but land is more homogenous than property. It does not appear to be the case that countries with land-based tax or rating systems have more disputes over valuation than those with property based systems. If the UK were to introduce such a tax, however, it would have to reassess the appeals system and set out carefully what were and were not grounds for appeal against a valuation.

Because of the wealth redistribution involved in such a change, it should be phased in so that people have time to arrange their affairs appropriately. If the Valuation Office Agency immediately begins to divide rental value into rental value of the land alone and rental value of the property, existing business rates could be viewed as an equal tax on both elements. Over time, the government could raise the tax on the land component and reduce the tax on the property component while preserving revenue neutrality. Eventually, perhaps after a decade or so, all the tax would fall on the site value.

The transition costs in moving to the new system are not negligible. Rather than go it alone, it would be better if the Welsh government and business aroused the interest of the rest of the UK in making the change. The introduction of site-value business rates in Wales could then be viewed as a pilot project for the rest of the UK – in the same way that the poll tax was piloted in Scotland, though, one hopes, with a happier outcome. Such an approach would enable Wales to negotiate a sharing of the costs with the rest of the UK.

4. Conclusion

Some changes to the present NDR system would be advantageous in the short term:

- Make the current small business relief permanent immediately and research at what threshold it should apply. This research would attempt to balance revenue losses against the effect on business activity.

- Change the indexation method between valuations, using customised indices for different broad property types. The index should be a smoothed version (moving average) of actual property prices and its geographical scope should be determined by data availability; the area has to be large enough for a reasonable number of property transactions to be observed each year.

- Provide for councils to retain some additions to their rate receipts rather than contributing them to the rating pool. In order to maximise incentives and reduce arbitrary redistributions, it would be better if retentions were allowed for specific developments that the council could claim it had facilitated through some change in planning rules or provision of amenities. The UK system, of allowing an increase in rates to be declared for specific developments and the revenues to be retained, should be maintained in Wales.

In the longer term Wales should look to make a more radical change by moving to site-value rating. That would entail:

- Completing the register of land zoned for commercial purposes, making use of self-assessment.

- Get the Valuation Office Agency to begin separating out the land value when assessing property values for NDR.

- Investigate more advanced methods of computerised valuation using statistical techniques, making these as transparent as possible and determining the grounds for appeal against valuations.

Given the set up costs of moving to a new system, including possible increased appeals, the Welsh Government should consider a gradual introduction of site-value rating, beginning with slightly different tax rates on land and property, moving over time to increase rates on the former while reducing them on the latter. The Welsh Government could also propose Wales as a pilot area for site-value rating, facilitating its introduction elsewhere in the UK. As such it could require the UK Government share some of the initial costs of implementation.

Gerald Holtham
gerald.holtham@cadwyn-capital.com

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Contact:

Federation of Small Businesses Wales

1 Cleeve House, Lambourne Crescent, Llanishen, Cardiff CF14 5GP

Telephone: 029 2074 7406

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