Cynulliad Cenedlaethol Cymru
National Assembly for Wales

Cofnod y Trafodion
The Record of Proceedings

Pwyllgor yr Economi, Seilwaith a Sgiliau

The Economy, Infrastructure and Skills Committee

05/10/2016

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The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Hannah Blythyn Bywgraffiad|Biography	Llafur Labour
Hefin David Bywgraffiad|Biography	Llafur Labour
Russell George Bywgraffiad|Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Vikki Howells Bywgraffiad|Biography	Llafur Labour
Mark Isherwood Bywgraffiad|Biography	Ceidwadwyr Cymreig Welsh Conservatives
Jeremy Miles Bywgraffiad|Biography	Llafur Labour
Adam Price Bywgraffiad|Biography	Plaid Cymru The Party of Wales
David J. Rowlands Bywgraffiad|Biography	UKIP Cymru UKIP Wales

Eraill yn bresennol
Others in attendance

Debra Carter	Dirprwy Gyfarwyddwr, Polisi Cyllid Llywodraeth Leol, Lywodraeth Cymru Deputy Director, Local Government Finance Policy, Welsh Government
Mark Drakeford Bywgraffiad|Biography	Aelod Cynulliad, Llafur (Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol) Assembly Member, Labour (The Cabinet Secretary for Finance and Local Government)

David Magor	Prif Weithredwr, y Sefydliad Ardrethu a Phrisio Refeniw Chief Executive, Institute of Revenues, Rating and Valuations
Joanna Valentine	Pennaeth Polisi Trethi Lleol, Llywodraeth Cymru Head of Local Taxation Policy, Welsh Government
Andrew West	Sefydliad Brenhinol y Syrfewyr Siartredig Cymru Royal Institute of Chartered Surveyors Wales
Matthew Williams	Cynghorydd Polisi, Ffederasiwn Busnesau Bach Cymru Policy Advisor, Federation of Small Businesses Wales

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

Mike Lewis	Dirprwy Glerc Deputy Clerk
Gareth Price	Clerc Clerk
Gareth Thomas	Y Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 10:00.
The meeting began at 10:00.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Russell George**: Good morning, welcome to the Economy, Infrastructure and Skills Committee this morning. I'd like to welcome Members, members of the public and our guests this morning. I would like just to explain that we do operate bilingually, especially for our witnesses this morning. Channel 1 is for Welsh to English, and channel 2 is for amplification. There will be a full transcript of proceedings after the meeting, which can be made available. There's no need to touch the microphones this morning; the microphones will come on without you pressing anything at all.

If there is a fire alarm, please take directions from the ushers.

[2] Can I ask if there are any declarations of interest from Members this morning? There is one from myself. I have got an interest in a small business that pays business rates, so that is an interest I'd like to declare myself this morning, as listed in the Members' declaration of interests. Are there any other interests at all? There are none.

10:01

Ardrethi Busnes yng Nghymru—Panel Arbenigol
Business Rates in Wales—Expert Panel

[3] **Russell George**: So, I'd like to move to item 2 this morning. We've got an expert panel in front of us. I'd like to warmly welcome you to the meeting this morning. We very much appreciate your time. I would like to invite you to introduce yourselves. Mr West, do you want to go first?

[4] **Mr West**: Yes, my name's Andrew West. I sit here before you representing the Royal Institution of Chartered Surveyors in Wales. We look after interests of the public and property people on advice and on aspects of landed property. I must say I have worked in the business rate system for some 33 years, first in the Valuation Office Agency and currently at Cooke & Arkwright, based in Cardiff. Thank you.

[5] **Mr Magor**: My name is David Magor, I'm the chief executive of the Institute of Revenues Rating and Valuation. We're a professional body, UK wide, with approaching 5,000 members. Our members are drawn from private sector valuation, public sector valuation and local government, working in revenues, benefits and social security—also growing numbers from the private sector. Prior to becoming chief executive of the institute, in a former life, I was a career local government officer and I ended my local government career as director of housing and revenues at Oxford City Council.

[6] **Mr Williams**: I'm Matthew Williams. I'm policy adviser for the Federation of Small Businesses in Wales. We represent about 10,000 SMEs across Wales, many of which pay rates and many of which fall under the small business rates relief threshold.

[7] **Russell George**: Great. Members will have questions this morning,

don't feel obliged that you all have to answer, but if you have got a different view or you've something important to add, then, please, each of you, feel free to speak. I will ask the first question. We have got Mark Drakeford, the Cabinet Secretary for Local Government and Finance coming to us after yourselves, so I think the first question is: what do you think his priority should be with regard to business rate policy? What do you think his main priority should be?

[8] **Mr West**: Consistency and transparency would be two words I'd use—consistency in terms of providing a stable, understandable base for business rate payers. One of the issues that constantly come across in my discussions with businesses and ratepayers is not understanding the system and the basis of the tax, which is the rateable value: 'What does a rateable value mean?' So, if you have a rateable value and your new rate bill drops on your desk with what is now a very high tax rate—it's almost just shy of 50 per cent in Wales, which is the latest projection that I've had, and perhaps could be a little bit more than that—I think it's incumbent upon Welsh Government or the Valuation Office Agency, which sets the new assessments, to explain how that assessment is arrived at. That would be with comparable data with most properties, so ratepayers can understand the basis of that varied tax rate, understand it and accept it more willingly and easily than they do at the moment. I'd also, briefly, like to see us maintain the differences with England in terms of—. I talked about understanding the tax basis. In Wales, the actual Bill itself is quite simple to understand: there's a rateable value, there's one multiplier in Wales, there are two in England and there are no transitional adjustments in Wales either. So, I said that the rateable value portion needs to be understood more, but the actual Bill itself, which is produced by local authorities is, by and large, relatively simple and understandable, which has got to be good for the basis of a good understood tax.

[9] The final point I'd wish to make, whilst saying I'd like to maintain our distinctness from England, is that in George Osborne's last budget in March of this year, he did make some quite radical announcements in terms of business rates going forward. He mentioned that he was going to move in England from the retail prices index adjustment to a consumer prices index adjustment, which would make an impact in abating the annual increase in rates bills, which has been particularly poignant during the recessionary years. With the multiplier linked to the retail prices index, rates bills increased by 3 per cent or 4 per cent per annum during a very, very difficult period of trading. So, moving that to the CPI would abate the impact of those annual increases, particularly during recessionary periods. He also mentioned

a commitment to consider more frequent revaluations. He did mention three-yearly revaluations, and that's got to be an aspiration—to have a closer connection between the state of the economy and the values of properties. The two are linked. During recessions, property values will fall, and vice versa during boom periods.

[10] The final announcement that he made that's relevant to Wales is a permanent exemption of small businesses from business rates, from 2017. He increased the small business rate relief threshold from £6,000 rateable value to £12,000 rateable value, with one eye, no doubt, on the impact of the 2017 revaluation. So, he's doubled the rateable value under which you get 100 per cent relief from business rates, and, crucially, made it permanent, because in Wales we've still got this situation where we're renewing it annually, and there's uncertainty in terms of whether it will be continued into the future, although I do note the Minister has said that he is considering a permanent scheme, which would become effective from 2018. But the sooner that happens, and grants small businesses more certainty, the better.

[11] **Russell George**: We've got just over an hour, so we've got plenty of questions from Members as well. Much of this information that I'm sure you might want to provide us with will come out during questions as well, but if I can ask Matthew if you've got a succinct headline that you think should be the Cabinet Secretary's priority.

[12] **Mr Williams**: I think we'd agree with quite a lot of the things that Andrew has said, in terms of they should be short to medium-term policy priorities for the Cabinet Secretary. But it's our view that business rates as a tool—as a policy tool for promoting economic growth, economic development, regeneration—is pretty blunt. It's a tool that's designed to raise a relatively fixed amount of revenue for local authorities to spend. So, trying to tinker around the edges of that in order to create some levers to promote economic development isn't necessarily going to work. Moving forward, we should be looking at alternative systems that might allow us to do that better. Whilst we acknowledge that the fixed stable pot is a virtue, that there are services that need to be paid for, taxing—. You're not actually taxing business activity, as it were, you're taxing businesses' fixed assets, and that doesn't recognise variability in the market, in profit et cetera.

[13] So, moving forward, we would like to see the Minister, or the Cabinet Secretary, look more closely at alternative models for business taxation, or a replacement for non-domestic rates in Wales.

[14] **Russell George**: Okay, thank you. And David.

[15] **Mr Magor**: I'll be very brief. I think just continuing the modernisation process and making sure that he keeps his eye on the ball, particularly because business rates are a very important tax. It yields an awful lot of money. If you're going to take business rates away from local government, you've really got to replace them with something as effective—and the alternatives are just not there—and have regard to the World Bank and the International Monetary Fund and other experts in the world about the future of property taxes. Perhaps also significant is to keep an eye Brexit, particularly in relation to key issues around business rates. The one that particularly comes to mind is state aid.

[16] **Russell George**: Okay, thank you. Jeremy Miles.

[17] **Jeremy Miles**: Thank you, Chair. I just want to pick up and develop that thought about the relationship between business rates and economic growth generally. The task and finish group, I think, said that they didn't feel there was a relationship particularly between business rates and the rate of business start-ups, for example. But, equally, if you look at Scotland, they feel that the business rates policy is a key tool for the Government in Scotland to drive competitiveness. You've made your position clear, if you like, but what is your perception of the contribution that business rates make currently to economic growth in Wales—if you have a view on that?

[18] **Mr Williams**: That's a relatively difficult question to answer, I think. Clearly, since 2008 and 2010 we have seen businesses' non-domestic rating bills not reflect the actual rateable value of their properties. That has been a problem for significant numbers of our members, especially those ones who fall outside of small business rates relief. Whether there is any impact of schemes such as small business rates relief on rates of start-up, I'm not entirely clear. I don't think the evidence is clear on that either. Even if you look at evidence from Scotland or elsewhere, it's not clear to me that there is a linkage between small business rates relief and business start-up. It's obviously got to be said as well that a large amount of the business start-ups don't have premises, so they fall outside of the system entirely. That is perhaps increasingly the case in today's modern world where business is less tied to property.

[19] **Jeremy Miles**: In terms of economic growth more broadly, i.e. beyond

the question of start-ups specifically, is it also your view that the current business rates policy contribution to growth is not clear? What's your perspective on that?

[20] **Mr Williams**: I think it's unclear. The Cabinet Secretary and the Welsh Government in general haven't been clear in setting the relationship between their economic strategy and their business rates policy. They haven't in the past been a kind of explicitly tied, intrinsically linked thing. They've sat as two separate systems, and I'm not sure that that is a sensible position going forward; it's something that needs to be looked at going forward. As I said in my intro, if you are seeking to do economic development with as blunt a policy instrument as business rates, that's difficult. There are probably better ways of doing it.

[21] **Jeremy Miles**: And that's business rates policy however configured.

[22] **Mr Williams**: However configured.

[23] **Jeremy Miles**: Okay. Do either of you—?

[24] **Mr Magor**: I'll just make a point quickly on the business rates retention scheme that's been taking place in England. It's been running for three years with 50 per cent retention, from 2020, moving forward to 100 per cent retention, and, from next year, the new combined authorities are trialling or piloting 100 per cent retention. I think the early signs are that the retention scheme has not really worked as effectively as Government hoped it would, purely and simply because of the complexity and the different tiers of local government in England. I think, in Wales, allowing local authorities to retain business rates and business rates growth could actually help the development of infrastructure, and therefore could encourage business.

[25] But I think the real issue around business rates, and around any property tax, is the way that you finance local government. A good, healthy, strong local government in Wales will encourage business. So, you've got to have some kind of financing instrument for local government, whether it would be business rates or contributions in the Exchequer or whatever. I often listen to Ministers and Chancellors and wish that they would actually make a decision, because they keep talking about business rates—they keep saying, 'Perhaps we'll abolish it. Perhaps we'll replace it with this and replace it with that', and there's no realism in those statements. I just feel that once there's an acceptance that business rates are here to stay and that it's an

important tax for local government, I think we can move forward. But until that decision is finally made—. Even the Chancellor, when he talked about the reform of the rating system said, 'But you can reform all of these things providing that yield stays the same.' Well, in fact, you can't reform anything unless you've broadened the tax base. There's just not enough vision in actually taking rates forward as a fiscal instrument. I just think Government should start to perhaps think outside the box a little.

10:15

[26] **Jeremy Miles**: So, on the question of retention, you can envisage that a policy that encouraged or permitted greater retention could create more stimulus in local economies. What other conditions would you need for that to happen from a local authority's perspective?

[27] **Mr Magor**: I think you'd need to blend it in with other policies, particularly in relation to planning and economic development generally. The important thing is to ensure that the services that are run by the local authority are clearly stabilised and that all this passing of services from central Government to local government stops, but, if services are passed to local government, that an appropriate funding instrument comes with those services and that local government has actually got the tools to do the job. Local government is the foundation of democracy in all countries. I just think making local government strong and giving it strong financial revenue-raising instruments will actually deal with the issue, but there's just not enough vision. I just think we need to look for extra sources of revenue and there are broader ways of looking at it rather than just looking at alternatives—taking business rates away and replacing them with something.

[28] **Jeremy Miles**: What's your view of local variability between local authorities in the multiplier?

[29] **Mr Magor**: I think we got misled back in 1990, when the community charge was introduced and business rates were localised. I think the majority of local authorities—something like 95 per cent of them—could have been trusted and were trusted for many years. They consulted with local businesses very effectively and the business rates worked, and it worked in conjunction with domestic rates. We had the upheaval of the community charge, then we went to council tax. So, we've now got a property tax on domestic properties that hasn't been properly maintained—no revaluations. We've just got to accept that, if the property tax is going to be an important

part of financing local government, it's got to be modernised and those in charge of it have got to keep their eye on the ball.

[30] **Russell George**: Matthew, you wanted to come in.

[31] **Mr Williams**: Yes, can I just come in on the local retention aspect? It's something that we're broadly comfortable with. However, we wouldn't want to see that put in place without local authorities being given a statutory duty towards economic development.

[32] **Jeremy Miles**: Okay.

[33] **Russell George**: Mark Isherwood. Sorry, did you finish?

[34] **Jeremy Miles**: I just had one further point.

[35] **Russell George**: Yes. Sorry.

[36] **Jeremy Miles**: This is all predicated on the availability of evidence, this discussion, essentially. I know there are questions about the evidence base, in the sense that I think the FSB in particular, and others, have commented on the paucity of data, effectively. Do you want to elaborate a little bit about the risks that you're seeing?

[37] **Mr Williams**: I think our biggest concern is that our only real data around business rates come every time revaluation happens. So, we have a big gap in knowledge in those five years, or seven years, between revaluations about what is actually happening on the ground and whether the things we've done with business rates in that interim have had any effect. So, we don't know what impact small business rates relief has had beyond what we get in the revaluations every five years.

[38] **Jeremy Miles**: But what's the solution to that?

[39] **Mr Williams**: I think more frequent revaluation would be a relatively good solution because it brings alongside it a whole host of other benefits. We've also got issues around the quality of economic data in Wales generally, and I think our lack of data around business rates is part of that. We don't have good economic data relating to local authorities, for example. There should be a responsibility on Welsh Government perhaps to collect and publish better and more quality data, more generally. But that's probably a

discussion outside of the remit of this committee at this time.

[40] **Russell George**: Mark Isherwood.

[41] **Mark Isherwood**: It was actually leading on from that. What specific evidence or economic modelling can you point us to that show the impact of different models—greater flexibility or higher thresholds and tapers—would have on economic development and therefore on revenues?

[42] **Mr Magor**: I think the starting point, it always—. Again, many, many things frustrate me in life but one of the things that really does frustrate me is the complaint generally from business that rates are such an enormous burden. When I gave evidence to the parliamentary committee in Westminster, I said, 'I wish someone would actually tell me what exactly the rates burden is to businesses', when you talk about the big multiples like Tesco and others and then the small businesses. What is it against turnover? What are the actual facts? If a company is making a profit, business rates are paid out of the profit. If you actually take business rates away, what would be the impact of that? The money will have to be raised elsewhere. 'Let's lift up the rate of income tax by 5p in the pound at the standard rate, let's ask the public whether they'll be happy to see the standard rate of income tax increase by 5p, 6p or 7p in the pound, then, we'll do away with business rates and they'll be really happy about it—the public'. I don't think they will. There's not enough evidence about the approach.

[43] There's been some really excellent work done by the World Bank, particularly in the PIGS—Portugal, Ireland, Greece and Spain—where they've been forced, told and instructed to actually sort out their property taxes. I think what we need here, not just in Wales, but Scotland and England and Northern Ireland, is a really good evidence base. You're quite right, the basis is the valuation list, but local authorities receive the NNDR return every year. You need to look at those. You need to look at the rate burden. You need to compare the rate burden against the profitability of business. There are many models that could be created. There's plenty of data out there. Someone needs to grab hold of this and actually do some proper data modelling so that, when policy decisions are made, they're made from a position of strength rather than one of weakness.

[44] **Russell George**: Hefin David.

[45] **Hefin David**: I listened to Matthew with some alarm, actually, when he

talked about being in favour of a local retention of rates—that it would be seemingly no problem.

[46] **Mr Williams**: To be clear, 'potentially' in favour, I think, would be a better word. At the moment, we see nothing to alarm us particularly. However, it's very conditional on a local government reform in Wales. We need to look at what we are asking local government to do and how it is doing it. We would say that local government should have a statutory responsibility to pursue economic development. Without that in place, I don't think we could support retention of business rates. You can't give, from our perspective, local authorities responsibility for spending the money without giving them some levers to affect the way in which it is raised.

[47] **Hefin David**: For example, I know the limitations of the statistics we've got available, but there'd have to be substantial economic growth in Blaenau Gwent if they were to compete with Cardiff in terms of business rates.

[48] **Mr Williams**: There are significant issues around how redistribution would work if local retention were to come in in Wales on the model that we've got in England. That all would need to be worked out. We, in principle, are not opposed to the idea, but there are big technical difficulties in bringing it forward.

[49] **Hefin David**: So, you'd be looking at a significant timescale before you'd be able to do such a thing.

[50] **Mr Williams**: Quite possibly, yes.

[51] **Hefin David**: Okay.

[52] **Russell George**: We'll move on to a fresh area now. Adam Price.

[53] **Adam Price**: Rwyf am ofyn yn Gymraeg, os caf i. Rydym newydd, wrth gwrs, gael yr ailbrisiad diweddaraf ar gyfer gwerth ardrethol ac mae'r ffigurau'n dangos bod y gwerth yng Nghymru wedi gostwng 2.9 y cant o gymharu â 2010, ond rydym ni wedi gweld cynnydd yn Lloegr o 9.1 y cant. Jest i fi ddeall,

Adam Price: I'll ask my question in Welsh, if I may. We have just, of course, had this latest revaluation for rateable values and it appears that the value in Wales has decreased 2.9 per cent as compared to the 2010 valuation, whereas we've seen an increase in England of 9.1 per cent. Just for me to understand, that mae hynny siŵr o fod yn adlewyrchu'r gwahaniaeth rhwng perfformiad economaidd Cymru o gymharu â Lloegr. A ydw i'n iawn i gymryd hynny?

probably reflects the difference between the economic performance of Wales as compared to England. Is that the case?

[54] **Mr West**: Looking at the high-level figures that were produced by the Valuation Office Agency last Friday, if my memory serves me, which I think is what you're alluding to, yes, some of those figures are quite stark. If you look at the average—and averages can be dangerous because there's a huge variation between property types and property sectors within those variations—it's quite stark. If you look through the regional breakdown for England—. The London effect has clearly had a massive impact on that average 9.1 per cent increase in England because, if you push London to one side and look at the other regions, it's not that dissimilar to the outcome in Wales, which shows similar variations by property type. It would be interesting to take those Welsh figures down to a bit more detail and perhaps look at it on a local-authority-by-local-authority breakdown, because there's going to be pockets of quite strong growth in the conurbations—Cardiff, Newport, Swansea—and then a very mixed picture outside of those urban areas. But to answer your question, yes, fundamentally, the values are a reflection on the movement in the economy over that period of time, if you accept the theoretical argument that there is a relationship between property value and the economy, and I think there is.

[55] **Adam Price**: Un o oblygiadau ymarferol hyn, fel rwy'n ei deall hi, ydy bod rhaid, felly, cynyddu'r lluosydd er mwyn sicrhau bod refeniw ddim yn gostwng. Roedd cyfeiriad gennych chi gynnau i luosydd dros dro yng Nghymru, a fydd yn codi i fymryn o dan 50 y cant efallai, fel y trothwy seicolegol bwysig yna. Ond, fel rŷch chi'n ei ddweud, dros dro yn unig yw hi, ac efallai y bydd yn cynyddu dros 50 y cant. Mae hyn ar ryw lefel, onid yw, yn golygu bod lefel yr ardreth busnes—bod y baich trethiannol busnes yn fwy yng Nghymru nag yw

Adam Price: One of the practical implications of this, as I understand it, is that we have to increase the multiplier in order to ensure that revenue doesn't decrease. There was reference made by yourselves to a provisional multiplier in Wales, which will increase to just a little below 50 per cent perhaps, as the important psychological threshold. But, as you say, that's a provisional measure that will perhaps increase over 50 per cent. But at some level, does it not mean that the level of the business rate burden is greater in Wales than it is in England?

yn Lloegr.

[56] **Mr West**: Just jumping back to the point that you made on the multiplier, we did some crude figures before the figure of 0.499. That comes from the Valuation Office Agency website, so I guess that that figure came with some guidance from the Welsh Government. But if you do some crude calculations and look at the current multiplier—add 2.9 per cent for the loss in the rateable value pool and then add 1.6 per cent for retail prices index—you'd get to about 51p. So, I think we were all very pleasantly surprised when the figure was announced at just shy of 50p. So, that's got to be good news, because it is a psychological barrier, although perhaps Matthew can comment on what he thinks business will think of that. But I think the bottom line is that they look at what the actual rate bill is and the overall impact of the revaluation.

[57] In England, it's increased by 9.1 per cent; in Wales, it's decreased by 2.9 per cent. In England, the multiplier is falling; in Wales, the multiplier is increasing. Is that good news? Probably not, but inevitable if the intention is to raise the same amount of revenue in real terms. But I emphasise again that the picture within that will have huge variation across the length and breadth of the country.

[58] **Adam Price**: Jest cwestiwn i chi, efallai, Matthew: a ydy'r ffaith bod y lluosydd yma yn uwch yng Nghymru, o ran canfyddiad—lle rydym eisiau cyflwyno Cymru fel gwlad sy'n agored i fusnes, i ddyfynnu Ysgrifennydd y Cabinet dros yr economi, ac fel gwlad sydd yn hybu entrepreneuriaeth ac yn y blaen—ydy'r ffaith bod y lluosydd yn uwch efallai yn hala'r neges anghywir, neges ychydig bach yn negyddol? A beth yw eich barn ynglŷn â'r cynllun trosiannol o ryddhad y mae'r Ysgrifennydd Cabinet dros gyllid wedi'i awgrymu? A yw hynny—rhyw £10 miliwn yw hynny—yn ddigon o ryddhad o ystyried y cynnydd yn y lluosydd?

Adam Price: Just a question for you, perhaps, Matthew: does the fact that this multiplier is higher in Wales, in terms of perception—where we want to present Wales as a nation that is open for business, to quote the Cabinet Secretary for the economy, and a nation that promotes entrepreneurship and so on—does that send the wrong message or perhaps a negative message? What's your opinion of the transitional relief plans that the Cabinet Secretary for finance has suggested, which represents around £10 million, I believe? Is that sufficient relief, considering the increase in the multiplier?

[59] **Mr Williams**: Rydym wedi croesawu'r trefniadau trosiannol achos bydd yna fusnesau a fydd yn colli mas drwy *re-rating*. Ond i ddod at y pwynt cyntaf, i'n haelodau ni, rydym yn credu mai'r peth pwysicaf yw'r bil sy'n dod trwy'r drws. Mae'r *multiplier*—y *poundage rate*—yn eithaf anodd i weld i'r rhan fwyaf o bobl sydd o fewn busnes, sydd jest yn mynd ymlaen ac yn gwerthu pethau neu'n gweithio yn eu siopau nhw. Y peth pwysicaf yng Nghymru yw'r bil sy'n dod trwy'r drws. Y peth pwysicaf i'n haelodau ni yw'r bil yna, ac nid y *poundage rate*.

Mr Williams: We do welcome the transitional arrangements, because there will be businesses that miss out through the re-rating. But to come back to the first point that you made, for our members, we think that the most important thing is the bill that comes through the door. I think the multiplier—the poundage rate—is very difficult to see for most businesspeople, who are just getting on with it and selling their wares or working in their shops. The most important thing in Wales is the bill that comes through the door. The most important thing for our members is that bill, and not the poundage rate.

[60] **Adam Price**: Jest ar hynny, jest i gloi, wrth gwrs, yn Lloegr, maen nhw wedi cyflwyno lluosydd gwahanol ar gyfer busnesau bychain. A fyddai mantais i ystyried y math yna o luosydd deuol ar gyfer busnesau bach, a mwy, yng Nghymru hefyd?

Adam Price: Just on that, just to conclude, of course, in England, they have introduced a different multiplier for small businesses. Would there be an advantage to considering that kind of dual multiplier for small and larger businesses in Wales too?

10:30

[61] **Mr Williams**: Efallai, ie. Ond, mae'n anodd gweld beth yw'r fantais o gael dwy system wahanol—un yn Lloegr ac un yng Nghymru—ar hyn o bryd, achos nid ydyn nhw wedi dechrau eto. Felly, mae Cymru a Lloegr wastad wedi bod â systemau gwahanol; nid ydyn nhw wedi cael systemau cymharol ers tua 10 mlynedd neu fwy, nawr. Mae sblit yn

Mr Williams: Possibly, yes. But it's difficult to see what the advantage would be of having two different systems—one in England and one in Wales—at the moment, because it hasn't started yet. So, it's difficult to know. Wales and England have always had different systems, and I think we haven't had a comparable system for some 10 years, because they've split y *multiplier* wedi bod yn Lloegr, ac un *multiplier* yng Nghymru. Felly, mae yna wastad wahaniaeth wedi bod rhwng y ddau.

the multiplier in England and there's one multiplier in Wales. There's always been a difference between the two.

[62] **Mr West**: Could I respond? If we did decide to go down that route—. In England, big business pays. So, someone will ultimately pay to reach that level of £1 billion worth of liability, and I've always been an advocate of simplicity. I mentioned earlier that, in Wales, it's easy to understand your bill with one multiplier, and then you'll always get the issues of those businesses around the margins of the cut-off point for small business categorisation trying to shuffle their way back south of the border. So, I'd advocate simplicity, and maintain one multiplier. If you talk to stakeholders up and down the UK, the Welsh system is seen as a good model of a good business rates system in terms of its simplicity. It's not perfect, but it is understandable, compared with the system across the border, which can be nightmarish in terms of understanding rate bills, particularly with transitional adjustments.

[63] **Mr Magor**: Can I just make a point about the list? Because I think it's really dangerous to go down a generalist path. In Wales, the overall effect is 2.9 per cent, but, of course, if you look at the individual classes of property, for retail the reduction is 8.8 per cent, for industry it's 4 per cent and for offices it's minus 7 per cent, so three strong negatives. Obviously, with individual properties, those values are going to be all over the place—it's not going to be a straightforward reduction for all types of properties. Sitting in the waiting room, I'd just got from my office some detailed analysis on Cardiff, and I really haven't had a chance to look at it properly—because we've got a very clever database that we use to help us come to some conclusions on this. But, the interesting thing about Wales, more than anything else, is the central list, because the central list has gone up by 4.7 per cent, and I'm not sure exactly what happens to the central list revenue for Wales. I sit on the steering group for England for business rates retention, and I know that the central list revenue for England is retained mainly by the Treasury. Because the central list has gone up by 4.7 per cent—and it's a significant amount of value—you need to factor that in to the overall calculations. But there's a real danger in generalising around the 2.9 per cent, because there will be individual ratepayers and individual groups of properties that will be more dramatically effected, and if they get the message it's 2.9 per cent and their bill goes down by less, or perhaps goes down by more, or perhaps even increases, they might be a little bit

concerned by these general figures. So, you need to look at it from an authority-by-authority basis, looking at individual values, and what the impact of the incidence of the rate is across all properties, not just looking at general figures.

[64] **Russell George**: If you can share any of that information publicly with us, I think we'd welcome that as a committee. I'll leave you to—

[65] **Mr Magor**: Fine.

[66] **Russell George**: —consider that.

[67] **Mr Magor**: Basically, the valuation office makes the information available—now it's free of charge, they used to charge for it—anyone can download it. But it's how you manipulate that information and what the historic information is that's the key. But I've done the figures for Cardiff, so I'll happily send you the figures on Cardiff.

[68] **Russell George**: Thank you, we'd appreciate that.

[69] **Mr West**: The point I'd make on that it's probably fair to say that the VOA website isn't very friendly in terms of its searchability. I think what David is talking about—and we have access to it too—is a much more user-friendly, searchable facility to churn out these statistics. But we all agree that statistics can be dangerous.

[70] **Russell George**: Yes, well, 99 per cent of statistics are made up. Hefin David.

[71] **Hefin David**: I addressed it in my question earlier. I'd like to see whether there's consistency between the positions of the three of you. For example, you're talking about permanent exemption for a small business—it's a good thing that it's now been introduced—and the fact that there's no other more effective method is what you said. Is that right? Have I understood that correctly?

[72] **Mr Magor**: I think the issue with regard to small businesses is how you deal with small businesses and the rate burden. Small business rates relief is hopelessly regressive because you give it to everybody, irrespective of whether the business is making money or not. But on a personal level, I've drawn up a scheme of individual relief to small businesses as opposed to

collective relief, so that you can actually target it at businesses that are struggling. For example, you would target it towards the high street to try and stimulate the high street. So, I think there are better ways of doing things, but there is no doubt that with a small business, the rates burden is a much higher pressure than it is with large companies, and they're less able to defray that expenditure. So, anything to relieve small business and to stimulate the economy, keep the high street alive and keep the economy going is to be welcomed. But I just wish more care was taken in making sure that that relief and support was properly targeted to actually deliver the goods to help people to keep their businesses going and to maintain their businesses.

[73] **Mr West**: One of the issues we've had in Wales—and, no doubt, in England—is the various schemes that have been devised during the recession. And they were helpful—the new development scheme, the open for business scheme, the retail relief scheme—but I did get the impression from talking to businesses that a lot of them weren't even aware that these existed. When you point it out to them, they're very, very welcome and do make a difference in terms of occupying high street retail, or perhaps pushing a development out of the ground that wouldn't otherwise have done so, because new development decisions are more marginal in this part of the world than they are in London. So, that's to be welcomed, although it does, in my view, overcomplicate the system. But if the people that they're targeted at don't know about them, that can't be very good.

[74] **Hefin David**: That's where the nub of my question was. There seems to be a desire for simplicity, but that simplicity then becomes ever more complex when you try and introduce systems of relief.

[75] **Mr West**: Yes, and I suppose a lot of these schemes were devised during the stresses and tensions caused during the recession to try and do something meaningful. And commendable though that is, as I say, in my experience a lot of businesses or developers weren't aware of their existence.

[76] **Mr Williams**: We have previously said that the funds that were allocated to some of those schemes that were brought forward during the recession should now simply just be allocated to small business rates relief, because it is simpler and more transparent. It's very clear as to whether you qualify for that or not.

[77] **Hefin David**: And what about those who don't?

[78] **Mr Williams**: For those who don't, that becomes a more difficult question then about how you configure business rates policy to support either certain sectors or certain areas—

[79] **Hefin David**: You add layers of complexity.

[80] **Mr Williams**: And you add layers of complexity back in. The thing that is great about small business rates relief is that it is so simple, that—

[81] **Hefin David**: But it's regressive.

[82] **Mr Williams**: Yes.

[83] **Hefin David**: But it's regressive, David.

[84] **Mr Magor**: It is.

[85] **Hefin David**: So, simple and regressive or complex and fair?

[86] **Mr Magor**: You have that problem with all relief schemes. You needn't look further than housing benefit and all the other social security reliefs. The important thing is to start from a strong statistical base—proper stats; ones that are actually true—and actually make decisions based on the evidence. When you talk in terms of the rate burden and what is the rate burden, what is the rate burden on business? What is the real impact of the rate burden? When you contrast perhaps a small business struggling to survive against a massive multinational, what is the real impact? Let's have the truth so that we can do it in percentage terms against turnover, against profit—whatever. Let's agree a way of actually measuring the impact of rates, then you can make policy decisions in a balanced and fair manner. But the real danger is making policy decisions without the facts. And there is a lack of information about the business rates system, about the yield of business rates across all different types of properties, and also about the impact of that business rates burden on the individual types of industries and businesses.

[87] **Mr West**: What is interesting is that if you look at the recent history of business rates, if we'd been having this meeting 10 years ago I don't think business was terribly concerned about business rates. It's a tax, and as a tax it was unpopular, but it was accepted as there was a sensible relationship

broadly between the rent you were paying and the rates you were paying. Broadly, your rate bill was half your rent bill. That was completely blown out of the water with the recession, which is where all these tensions have come into the system, and there are not many days when it doesn't hit the headlines in the national media.

[88] But going back to one of the points I made earlier, regular revaluations would begin to address that problem in terms of following the economic state of the country. Of course, over the last seven years, it's been exacerbated in terms of those relatively high rate bills by the postponing of the 2015 revaluation by another two years, which has made a bad situation worse.

[89] **Russell George**: When we met with businesses this morning, informally, businesses were telling me that what they value is a flexible approach when there's a circumstance that comes up, such as a recession, so that Government can implement something quickly. So, in that sense, they were advocating flexibility. Does that make things more complicated for you?

[90] **Mr Magor**: Not necessarily. That's a very interesting statement, because obviously, when we went into recession, you could have had some kind of central involvement in fixing the multiplier to actually relieve the pressure of rates, going through the struggle through 2008 and 2009.

[91] It was interesting, in Wales, to hear the argument around the steel industry and the rate burden on the steel industry and whether or not the rateable plant and machinery should be exempt or not. That was quite an interesting debate. I was in this room, actually, when it was discussed. The problem was that no-one actually knew what the rate burden was of the rateable plant and machinery. So, you didn't know how much relief you were going to give. But, of course, the problem then was state aid. That's why I made the comment about state aid earlier on. Lots of the things you're talking about will now be possible because the burden of state aid and dealing with the issues around state aid will be removed—well, I assume they'll be removed, I can't see how they can stay. That will make local decision making in reliefs and support that much easier, because you won't be answerable to Europe. Whenever you look at the state aid rules, it does seem that the United Kingdom, the countries that make up the United Kingdom, tend to follow the rules where all the rest don't. I think that's a generalisation I'm making there, but I think that is definitely the case, and I think the steel industry—. There was also talk about plant and machinery

being exempted generally and how that would actually help business as well, and the Chancellor looked at that quite seriously a couple of years ago.

[92] **Russell George**: In the Government's programme, there was a commitment to a tax cut for 70,000 small businesses; is that welcome? I'll ask the FSB that question.

[93] **Mr Williams**: Yes, of course we welcome a tax cut for 70,000 small businesses. I guess what you're driving at is the announcement last week around business rates.

[94] **Russell George**: Well, you made a very clear statement that you believe that is misleading, so I wanted you to expand on that, really. Why do you think it's misleading?

[95] **Mr Williams**: As a result of last week's announcement by the Cabinet Secretary, no business will receive a lower ratings bill this year. They might receive a lower ratings bill by virtue of revaluation, but making small business rates relief permanent doesn't deliver a lower ratings bill or a tax cut for anyone in the next year.

[96] **Mr West**: It's still frozen at £6,000 and, as I said, in England from April next year it's £12,000, so it's doubled and made permanent. So, we've got more work to do there.

[97] **Russell George**: Okay. Hannah Blythyn.

[98] **Hefin David**: Can I?

[99] **Russell George**: Hefin David, yes.

[100] **Hefin David**: The system wasn't there. It was coming to an end, wasn't it?

[101] **Mr Williams**: The system has always been retained, year on year since 2005; it's never been a permanent system.

[102] **Hefin David**: But what the Cabinet Secretary's done is make it permanent.

[103] **Mr Williams**: From 2018.

[104] **Hefin David**: Which is therefore certainty and an ongoing tax cut.

[105] **Mr Williams**: Which we would welcome, but we don't think that you can describe that as a tax cut. There are things the Cabinet Secretary—

[106] **Hefin David**: A reduction in business rates is a tax cut.

[107] **Mr Williams**: But no-one is receiving a reduction in business rates, other than perhaps because their rateable value has changed.

[108] **Hefin David**: But the relief system gives a reduction in tax rates, doesn't it?

[109] **Mr Williams**: That wouldn't be our view. Making the system permanent, a system that has been retained continuously, isn't the same as delivering a tax cut. But we do think—

[110] **Hefin David**: But business rates relief is a tax cut.

[111] **Mr Williams**: Yes.

[112] **Hefin David**: All right.

[113] **Russell George**: This is an interpretation of what a tax cut is. This is an issue that I suspect will be raised with the Cabinet Secretary later as well. Hannah Blythyn.

10:45

[114] **Hannah Blythyn**: The talk about permanence then links quite nicely into the question I wanted to ask. You've all been quite clear on the importance of having a permanent regime in place in terms of stability, and you'll be aware that the Cabinet Secretary has used the extension of the release scheme to actually examine the effectiveness and look at something that might be more effective for the Welsh economy. I think David touched on the talk there's been about: actually, can we look at relief for the steel sector for machinery and the cost of manufacturing? So really I'd like to know your views on: should that regime look at targeted support for particular sectors within the Welsh economy?

[115] **Mr Magor**: It's about deciding what the rates system is. Is it a tax on property? When you look at the rating system, it's been around for many hundreds of years and it needs modernising. The modernisation over the years has been piecemeal. What you want to do, if you're going to have a property tax, is to deliver a property tax that's as fair as it possibly can be, and I think in terms of actually getting the basis of the assessment right, which is the rateable value, there needs to be some work done on that. The methods of evaluation need to be looked at. They're all based on case law that's been around for many hundreds of years, and the acceptance that the rental value is the basis for certain classes of properties, and you use formulas for others. Once you get that right—. But it's going back to this issue about having a good, solid model to actually start building from. You do need that model before you can actually determine exactly how you're going to structure the tax.

[116] If business rates are to stay, and to be modernised, they need to be looked at in the modern context. Certainly when we talk about revaluations, revaluations ought to be delivered for business rates no less than every three years. But to actually deliver those revaluations every three years you need to use some computer automation in the valuation process. You need to actually make sure that you've got the tools to do the job. So, there are lots of things that need to be done, but with the exit from Europe there is more ability now to actually manipulate the tax at a local level, and I think it just needs to be a tax that needs more flexibility for local decisions to be made locally, and to actually affect local economies. But again, you've got to look at the overall financial position on that individual local authority and on the quantum.

[117] **Mr West**: I think there is certainly a case for targeted exemptions and reliefs. I have seen some statistics in the past produced by Tata comparing their annual rate liability in the UK with comparable plants in Holland, and they're significantly higher in this part of the world. Plant and machinery would form a substantial part of that valuation—many millions of pounds of rateable value. That would make a meaningful difference in that example of a stressed industry, but David touched earlier on state aid rules, because that would be capped at a relatively meaningless sum for a business of that size. Is it €210,000 over three years?

[118] **Mr Magor**: Yes.

[119] **Mr West**: Yes, €210,000 over three years is all that you can give. So, as

I say, for a business of that size in that amount of distress, that's not a meaningful sum of money.

[120] **Mr Magor**: And it's really hard to compare country with country because the reality is that the two recurring property taxes in the United Kingdom are 3.2 per cent of GDP. No other countries in Europe can match that. The only countries that can match that are the USA and Japan. So we accept that the property tax is a major part of financing our life, basically. So if you're going to replace it with something, then you've got to look at the alternatives, and the alternatives are more taxes on business, or taxes on the individual. So, one way or another, you've got to raise the money.

[121] **Hannah Blythyn**: Thanks. It's interesting you said that the regime goes back many hundreds of years, because I'm sure people in this room around the table have had individual anecdotal stories of people that think the current regime or scheme might not reflect the realities and challenges of the modern economy now. I think one of the things that is perhaps being considered, looking into the future, is that if you look at something like, in my constituency, a bookshop that's been at the heart of the local community for many years—it plays a role there, it's invested in the high street—now, from 20 years or so ago when it was established, its biggest competitors are probably online. So, do you think there's any merit in terms of introducing an internet sales levy alongside any targeted relief scheme for the high street?

[122] **Mr Magor**: I did send a paper. When I last presented evidence here I did send my paper, because I think an internet levy is an obvious move, and in that paper I said that the internet levy should then be distributed back to the high street to actually deal with the problems we have in the traditional high street. Of course, a lot of people in the traditional high street use the internet anyway. But having said that, it seems inappropriate that you can trade through the internet without any sort of tax pressure at all apart from the normal taxes. To me, it seems—. I've got my eye on the internet and my mobile phone, so I think they're the two things that should be taxed.

[123] **Russell George**: Some of the witnesses this morning raised with us the issue of market traders as well. Have you got views on market traders with regard to business rates?

[124] **Mr Magor**: We go back to the rating hypothesis and whether they're there sufficiently long. In certain parts of the country, certainly in Wales, you'll find that market sites are actually rated, and if there's a degree of

permanence, they can be rated, and therefore the market traders, by construction, have a rate burden as well; they may not have an individual rate bill. But it's about modernising the tax and making the tax fit for purpose in the twenty-first century. Now, lots of the rules we talk about now—. Andrew and I could have a very long discussion about rating law and we could argue about cases that were passed in the 1800s and we would still argue as though they would have an impact on today's life, but the reality is that we need to stand back and look at the whole basis of land and property taxes and decide what's best for the country.

[125] **Russell George**: The issue raised with us was that you may have a shop selling a particular item and a market trader is selling exactly the same item, but one's paying business rates and one's not.

[126] **Mr West**: I think possibly the issue with market traders is the unit of assessment as well. I think if you went back 10 years, probably most markets had one assessment on the whole haul. Over the last few years, most if not all markets have been split up into individual stalls as being the paramount occupier of those stalls, thereby attracting a rateable value of, probably, sub £6,000 and having full small business rate relief.

[127] **Russell George**: David, I think you had some questions that may well have been addressed earlier on the implications of changes in England and the impact on Wales.

[128] **David Rowlands**: The question here in front of me is with regard to the detail from RICS about the changes being introduced and them making us a less desirable place to bring business, compared to England. Do you have any further detail on that?

[129] **Mr West**: I think you're referring to the announcements made in George Osborne's last budget.

[130] **David Rowlands**: That's right.

[131] **Mr West**: Yes, I thought they were a revelation. They're the sort of things the Royal Institution of Chartered Surveyors and the Institute of Revenues, Rating and Valuation have been calling for for many years, just to abate the impact of the tax. So, the three things link in the multiplier from the retail price index to the consumer price index, which I mentioned earlier, making business rate relief permanent and doubling it from £6,000 rateable

value to £12,000. We're still at £6,000—although it's been extended for one more year in Wales, it's still at £6,000 rateable value, not £12,000 rateable value as in England. And there's the commitment to move to three-yearly revaluations, so, all of a sudden, he's pushed England ahead of the game.

[132] Prior to that, we were taken as a very good example of a business rate taxation system, because of the simplicity, as I mentioned earlier, assuming rate payers understand what a rateable value is and a lot don't and that's an issue that needs to be addressed in terms of understanding the basis of the tax, which is still a mystery to most businesses that pay the tax. I think that the announcements were laudable, and I'm hoping we'll follow them. We're not quite there yet; as I said, I think England's ahead of the curve. And, yes, it does give a perceptible advantage to England in terms of business rate policy.

[133] **David Rowlands**: Fine. There's something that I'd like to touch on, which was brought up today and Dave actually mentioned it in our meeting with small businesses—not so much small in the case that I'm going to bring up, which is Chris Hagg who has the Celsa steel plant and is a representative from there. Dave touched on the business of whenever you put new plant into your business, in something like the steel industry, you have to pay extra rates. Now, surely that would be—. It's a ludicrous situation that you're actually improving the output of your plant or whatever, and you're actually charged on that.

[134] **Mr Magor**: It does depend on the plant. The only plant that's rateable—. There are very complex rules in relation to it, unfortunately, when it actually forms part of the building. So, putting a piece of moveable plant machinery in would not necessarily be rateable. So, that doesn't follow. It's not logical—if you put a new lathe in a building, it doesn't mean that the rates increase. If you change the building fundamentally and you put a new piece of machinery in that forms part of the building, then, yes, the rates could increase. But that's the whole issue around rateable plant and machinery and how that should be addressed. There are lots of other aspects to plant and machinery that are in everyday buildings as well. It's one of the things that—. When George Osborne announced these three major changes, he went short of going down the whole path of looking at exemptions, for example, and looking at the unfairness in the system, you know charity shops—. There are many, many things that he could have looked at, and he stopped short of actually taking on the whole modernisation programme.

[135] **David Rowlands**: Just one other thing: you mentioned very much about the retention of the rates and the amount that is generated by them for local government, but most businesses find there's very little relationship between the rates they pay and the benefits they get back from local councils. Therefore, it's seen as a tax that they're paying without any real benefits for themselves.

[136] **Mr Magor**: It's interesting. I recently gave a paper in the US, where property tax is equally as high as it is here. I was really pleased to hear tax collectors from the audience saying that they have the same problem in the States—exactly the problem you've just outlined. The reality is, the business rates are used to finance local services. If you run a business, you've got employees—they use local services, they're children are educated, if their house is on fire a fire engine comes, and you can go on for ever and ever. You have to finance local services somehow. If it's not going to be a property tax, it's got to be by some other method. Do you actually retain local independence with their taxing systems or do you actually assign revenues from the centre, and therefore lose local independence? That's a much, much bigger argument. I think the rate bill—and I'm very biased because I was a former rate collector as well—I think it offers excellent value for money.

[137] **Russell George**: In our meeting this morning with businesses, one business brought up a very valid point to me that there's no sliding scale—or there is a sliding scale to a point—but if a business is paying £13,000, or rather their rateable value is £13,000, then they don't get the rate relief and they pay the relevant contribution for that £13,000. They were suggesting it should work like income tax, where the first £6,000 is discounted. That seemed to be a reasonable proposition to me. I wonder if you have a view on that, David.

[138] **Mr Magor**: I think it's just that you model the system for the whole of Wales and then you decide what sort of reliefs you want to deliver. That's as good an argument as many I've heard. How you actually deliver support to businesses with their rate bill—. I just don't think small business rate relief, even though I welcome any form of relief that actually stimulates the local economy and helps small businesses—. I think the unfairness of it going to all businesses, whether they make a profit or not, is a real issue and it's been an issue ever since small business rate relief was introduced. I think there are better ways of doing it. I think you could link it to corporation tax. Many, many years ago, the rate bill—you used to formally make a return to the Inland Revenue so that the rate bill was actually allowed against income tax.

That was many, many years ago, when I was a junior in the rates office—too long ago, actually, now I think about it. I think the real issue is that it's an important fiscal instrument for local government. It's got to be made fair and this is a great opportunity now—this change process that we're all going through is a wonderful opportunity to look at this and change it. I think, to create a stronger, fairer local tax is what we'd all like to achieve. I don't think there's any argument about that at all.

11:00

[139] **Mr West**: No. Could I briefly add, in my paper I did mention, again looking at the distinction between Wales and England, the proposals in England in terms of the appeals process against your rateable value and back to the point I made in terms of understanding your rateable value? In England, they're going to move to a totally different appeal regime—three stages: check, challenge, appeal. For a lay ratepayer to negotiate this system is a challenge—a big challenge. At stage 2, which is the substantive phase, the ratepayer—and I guess this will apply to a lot of your members, Matthew—will have to put a reasoned valuation to the Valuation Office Agency, which will show the comparables upon which you founded that opinion then put forward an alternative valuation. That's a big ask for most ratepayers. If you don't comply with that, the Valuation Office Agency will send your challenge back and say, 'That's not enough information to mount a sustained challenge'. Now, it would be nice if we didn't do that in Wales, and the reason I say that is, again, talking about transparency—and it's an important word 'transparency'—. I mentioned the 50p tax rate earlier. Is it unreasonable for ratepayers to understand the information and the background to that rateable value—that £10,000, £20,000 or £30,000 rateable value that has come out of the revaluation? In terms of transparency and democracy, and having a more settled, fairer system, would it be unreasonable to ask the Valuation Office Agency to produce that information to justify the basis of the tax? There's no other tax that I can think of where you get a bill without really understanding the justification behind that tax. When I talk about the Welsh way—and we have done distinct things in this country, which are better than England, despite George Osborne's march last March—wouldn't it be great if we could perhaps maintain the current system? We haven't got the strains and pressures they've got in England in terms of dealing with appeals.

[140] The final thing I wish to mention in terms of this new check, challenge, appeal procedure—and it's interesting that the Minister mentioned

in his letter that uprating appeals can take one or two years to resolve—under these check, challenge, appeal proposals in England you can take two years and 10 months to get to the appeals stage. You then have to pay a fee to take it to the valuation tribunal to have your case heard in the valuation tribunal if you can't resolve the appeal with the Valuation Office Agency. Most frighteningly of all, in England the proposal at the moment—we sincerely hope that this will change—is that if you get to valuation tribunal, the valuation tribunal will only have jurisdiction to make a determination if the valuation is beyond reasonable professional judgment. Now, what that means, nobody knows, but in terms of the system becoming more transparent, understandable and accepted, the Royal Institution of Chartered Surveyors' view—and, I guess, your organisation, David, the IRRV—would see that as being a backward step, and perhaps two or three backward steps in terms of the future of the tax base.

[141] **Mr Magor**: Yes, and the background—

[142] **Russell George**: Just be brief because I've only got a few more questions to get in. If you can comment, I'll then ask Mark Isherwood to come in.

[143] **Mr Magor**: It was going to be very brief. I was just going to say that the new process could lead to a complete and utter disaster because there is a fixation in the valuation office, and in Government, about appeals, saying that appeals are bad things. I think appeals are good things. It gives the taxpayer a right to challenge their liability. And actually trying to water that down is a big mistake. I think we will see that over the next six months.

[144] **Russell George**: That's helpful. Mark Isherwood.

[145] **Mark Isherwood**: On your previous point about profit, linking rate relief to profit could create a perverse incentive for a small business to keep profit below eligibility levels. Would that not therefore require complexity in terms of tapering systems?

[146] **Mr Magor**: It would, I'm afraid, yes. With any relief scheme that you introduce, if you try and relate it to means, you do create that sort of habit, or behaviour, rather.

[147] **Russell George**: Do you have any further questions, Mark?

[148] **Mark Isherwood**: Not on this section.

[149] **Russell George**: That's fine. Did you have any further questions on the appeals process?

[150] **Mark Isherwood**: Not on the section we're on. I think I may have some questions in a few minutes.

[151] **Russell George**: Okay. I'll come to Vikki Howells and I'll come back to you next, Mark. Vikki.

[152] **Vikki Howells**: Thank you, Chair. I'd like to look with a more long-term perspective now. We know that while the previous Cabinet Secretary wasn't in favour of looking at the land value tax, the new Cabinet Secretary has said that that's an area he'd be willing to look at. We know that the Federation of Small Businesses put it in their manifesto for the 2016 election, and I was just wondering, really, as a panel, what were your views about the potential, perhaps, behind replacing the business rates model with the land value tax. Do you think that that is a realistic prospect? What could be the benefits, and also what could be the challenges if we were to consider that?

[153] **Mr Williams**: I think the theoretical benefits of land value tax are fairly well explored. So, there's probably no reason to go over them now. As I said earlier, as a tool for promoting economic development, tinkering with business rates is fairly blunt. Other systems may allow you to do that better—land value tax may be one of them. Land value tax does have quite a lot of theoretical merits, and we would be very keen to work with the Minister and others to explore what that might look like in Wales, alongside a whole host of other systems. Business rates have merits compared to other systems as well. But we do think that there is fairly good reason to begin exploring what we can do with land and property taxes in Wales now they're fully devolved—stamp duty land tax, council tax and non-domestic rates.

[154] If the goal is to do economic development with your tax policy, there may be other means of doing it that are better than business rates: small business rates relief, maybe offering sectoral reliefs to certain sectors that are struggling, or even geographical reliefs to things like high streets. But business rates are perhaps not the best vehicle to do that, given that it was designed for a very specific purpose of raising x amount of revenue for local government spend.

[155] **Mr Magor**: I'm going to answer your question in one word—well, two words, or three words: it won't work. There's so much theory about land tax, I just wish someone would come up with a model. I'd like to see the model. I'd like to see the whole of Wales, a land map, and find out exactly who the taxpayers are, exactly what the yield from land tax—what yield you require, are you looking to replace the whole of business rates or whatever, and exactly how the taxpayers would feel about that. Because you should ask them.

[156] I've participated in so many exercises around land tax, particularly in my old local government days. My members were very keen to carry out a couple of studies, and we carried out a study in partnership with a couple of universities, and I wanted them to use the centre of the city of Oxford as the sample area. 'No way'. They wanted to use an urban area with dwelling houses. So, it's quite easy to actually calculate the individual tax liability because they're just semi-detached or detached houses standing on a plot. When you look at the land tax in the centre of a major city—and it would be exactly the same in Cardiff—in the centre of Oxford, you would have eight rate payers. And then if you look at the total yield of the business rate in the centre of Oxford, and you say it's got to be replaced and payed for by eight rate payers, those eight rate payers—sorry, they'd be land taxpayers—they would be very unhappy. They'd be very rich, and they'd most likely be able to afford it, but—. Someone needs to come up and talk about a workable model for land tax.

[157] They direct you to the States, and they talk about the Pittsburgh example. You go to Pittsburgh, and the tax failed after three years. I'd like to see someone come up with a real model—I just don't think it's a real option. This is why I want this decision on business rates to be made. If it's to stay; modernise it. If it's not to stay, find a sensible alternative, and say whether it's one alternative or several alternatives. Is it going to be a basket of taxes, or an individual tax? And no-one's actually put that argument forward, so I just don't think the argument's been put forward sufficiently strongly regarding land tax. Lots of theories—it's a very theoretical thing, as opposed to the practical application.

[158] **Mr West**: Yes, I think the last time it was looked at comprehensively was the Lyons report in 2007, which was a review into local government—a very well-regarded, authoritative report. He rejected it. As a practitioner in the valuation of land and property, I can see big, big challenges in terms of valuing the land. One, there's a lot less data. A lot of the properties we see

appearing in the rating list now—. In broad terms, a rateable value equals a rental value, and there are lots of rents in the UK upon which to found and justify the valuation. With site value rating, there's very little. And then, if you look at other means, they're very artificial, and potentially monstrously complex in terms of arriving at the value of that land.

[159] Politically, I suppose, if we did seriously consider it, we'd all have to consider the agricultural community as well, which don't pay rates at the moment—they are exempt. They do pay council tax. I suppose, politically, that's a bit of a hot potato, but that's for others to deal with rather than me. So, I think that's got massive challenges. There are lots of theoretical arguments for it, but they're theoretical. David's more of an expert on this than me. He says where it's been tried, it does occasionally fail, and we wouldn't want to go back to the days of community charge and the poll tax.

[160] **Russell George**: Vikki, have you finished your line of questioning?

[161] **Vikki Howells**: Just one further question, which is quite specific regarding that. If you were to take an example of a high street where there are derelict sites—and councils have had problems trying to get landowners to actually build on those—would there be any potential for a form of land value tax to act as an incentive, or maybe the opposite to that, really—more of a stick—to encourage the regeneration of some of our more disadvantaged town centres in that respect?

[162] **Mr Magor**: There are tax instruments used in other parts of the world. Derelict sites are valued on the basis of highest and best use. So, you look at the highest and best planning use, and then you levy the tax on that basis. There is evidence that that does actually encourage the owner of the site to bring that site into realistic use. I just think it's a case of—. The challenge of the high street, and all the issues around that, I think there are several things that deal with that. I think the empty property and the levy of the empty property rate and how you actually manipulate that or relieve people from that, or incentivise them, and the retail reliefs that Andrew talked about that came and went in England, and, as I've said already, vacant land tax, derelict land tax, where you can actually come up with a taxable model perhaps based on highest and best use: it's a basket of things, but I think there are options within the property tax sort of family where you could actually assist that regeneration.

[163] **Vikki Howells**: Thank you.

[164] **Mr West**: An analogy I'd wish to draw in terms of bringing sites into use and occupation is empty property rates, which came to us in its present form in April 2008. It was devised and promoted as being a scheme to encourage land and building owners to bring their buildings back into use because, otherwise, they'd pay empty property tax. I don't think there's anyone who'd seriously argue that that had any impact whatsoever in bringing properties forward and being occupied, partly because it coincided with the deepest and longest recession we've seen in a while. The raison d'être behind that tax is to get landlords to lower their rents and get buildings occupied. During the depths of the recession you couldn't give buildings away, even in prime high street retail. So, I think as a vehicle to bring a building—to encourage a landowner or developer to develop—. I feel that's very unlikely.

[165] **Mr Magor**: Again—

[166] **Russell George**: We're just drawing to an end. By all means comment, but there are a couple more questions. I'll just say be succinct in questions and answers. But I'm grateful for your comments.

[167] **Mr Magor**: I was just going to make a very short comment on avoidance innovation. I think the problem with 100 per cent empty rates and the move towards empty rates is that the owners are coming up with some very clever ideas of avoidance, creating art exhibitions and charitable occupations, to actually avoid liability. That's a massive problem, particularly in central London. I think the other issue is around the tax base. It's about maximising the tax base. Unfortunately, even though the valuation office have done a good job over the years, there are still lots of gaps in the tax base. There needs to be a real serious exercise to actually make sure that every rateable property in Wales, England, Scotland and Northern Ireland is actually in the list. I think that's another issue that needs to be dealt with.

[168] **Russell George**: Adam Price.

[169] **Adam Price**: As an economist, I think land value tax, its attractions—. At a theoretical level, almost at a philosophical level, it's almost incontrovertible and I'm perplexed by the fact that the few experiments that we've had have been pretty poor in execution. The Minister has said that this working group that's going to look at this is not going to rehearse the academic arguments, but look at sort of some real-world modelling, which I

think is very valuable. If we're going to do that, should we also widen it beyond non-domestic taxations, so, to look at land value tax overall and including, then, council tax, which is in itself an imperfect and regressive tax? If you're going to do it once, why not do it comprehensively? Why is it limited to just commercial property?

[170] **Mr Magor**: I see no reason why it should be limited to commercial property. If you're going to do a modelling exercise, do a modelling exercise for the whole country.

[171] **Mr West**: Yes. I'd agree with that.

11:15

[172] **Russell George**: Mark Isherwood.

[173] **Mark Isherwood**: Moving on, really, what aspects of the business rates appeals process, in your opinion, require reform?

[174] **Mr Magor**: Andrew touched upon challenge and appeal, and what's happening in England. I've said already and I'll repeat it: I don't think appeals are a bad thing. I think appeals are part of the democracy of the system and the taxpayer needs to have a right to challenge their value. I don't think the volume of appeals should be taken as a weakness, necessarily, in the system. It just means that the valuation office, when they assess their values—. Andrew made a very strong argument about transparency. If there's openness in the way they value property, and the rate payer is told exactly how the property's valued, yes, that would give the rate payer more right to challenge. What's wrong with that? What you want to do is get the tax liability correct. So, appeals are healthy—that's my view.

[175] **Mr West**: Yes, and what I'd add to that is that I really don't think we've got a problem in Wales. There is a problem in England, with still a huge backlog of appeals—2010 rating list appeals. The problem here, in terms of the backlog, is minor in comparison with England. England is having additional resources from other parts of the country to help the Valuation Office Agency deal with these appeals. So, in terms of the number of appeals made, I think in this part of the world the system copes very well and handles them relatively quickly.

[176] The Cabinet Secretary talks about delays, in his letter, of a year or two.

It's getting much, much better in this part of the world—I mean Wales, as opposed to England—but I just repeat the point that I made earlier that this challenge appeal proposal is happening in England. In terms of getting an appeal dealt with quickly, you could end up taking two years, 10 months just getting to the appeals stage. I'd see that being a real problem with rate payers who are locked into that system—that delay is just too long. There's an aspiration—. Those are backstop dates. There's an aspiration to deal with appeals quicker than that, but, if everyone appeals on day one in England, it's going to take many, many years for that appeal to be dealt with properly by the Valuation Office Agency—a big step backwards, in my view.

[177] **Russell George**: One more question.

[178] **Mark Isherwood**: Right. You refer to business rate retention schemes at local or regional level. How do you respond to calls—for example, from the North Wales Economic Ambition Board—for internal fiscal devolution in Wales linked to this, and for the linkage of business rates to, for example, the enterprise zone incentives being applied?

[179] **Mr West**: Sorry, do you mean local authorities having total autonomy in terms of the collection and the rates of collection?

[180] **Mark Isherwood**: This is more about tax increment finance and utilising the added revenues generated by local economic activities from business rates locally within the 'A Growth Vision for the Economy of North Wales' document, amongst the calls being made.

[181] **Mr Magor**: I think the whole issue around TIFs—. Again, there's been plenty of evidence of TIFs not working. I think that when you want to go down the path of considering that approach, you need to look at—. There are still four or five running in Scotland, and they've not been that successful. There have been several run in the States, particularly in New York, and it's patchy. I just think that the whole retention model—when it was introduced as a 50 per cent retention model in England, and then the Chancellor modified it to a 100 per cent retention model and discussed the transfer of services, it created this massive debate in local government. That debate is still going on in England and no final decisions have been made.

[182] We still haven't made final decisions on the services that are going to be transferred, because you can't give local authorities more financial autonomy and not give them extra services, otherwise they'll be awash with

money. So, that issue has been just debated, and we're going to have to wait, I suspect, until the autumn statement to see which direction the new Chancellor wants to go in. But I think that anything to do with any retention models—TIFs or anything else—is part of the great opportunity you have in Wales. The pool is now devolved—it's yours—and I think how you manage that is critical. And I would advise against going for any of these schemes without properly researching them and modelling them.

[183] **Russell George**: Can I thank our witnesses today for their time? If you do think that there's an area of information that you do want to provide to us that wasn't drawn out in questions, we'd be grateful for a note on that. I'm grateful for your time this morning. I propose that we don't have a break, unless Members are strongly telling me that they do want one, so we'll just have a quick turnaround. We'll have a short five-minute break.

Gohiriwyd y cyfarfod rhwng 11:20 a 11:24.
The meeting adjourned between 11:20 and 11:24.

Ardrethi Busnes yng Nghymru—Craffu ar Waith y Gweinidog
Business Rates in Wales—Ministerial Scrutiny

[184] **Russell George**: I'd like to welcome the Cabinet Secretary for Finance and Local Government to our committee this morning. I've said this to your colleagues who have been before the committee—that, as it's the first time, we very much welcome you, and that as a committee we very much hope to have a good working relationship with you, Cabinet Secretary. We'd appreciate it if you could make any opening statements and to introduce your colleagues, and then we'll go straight into questions.

[185] **The Cabinet Secretary for Finance and Local Government (Mark Drakeford)**: Chair, thank you very much. Thank you for that welcome. With me this morning are Debra Carter and Jo Valentine, who are policy leads in relation to the topic that we will be discussing. I'm very happy just to answer questions if that would be a good use of the time.

[186] **Russell George**: Thank you; I'm very grateful, Cabinet Secretary. Jeremy Miles.

[187] **Jeremy Miles**: Thank you. I'd like to start, if I may, by looking at the relationship between business rates and economic growth. The Scottish Government's view is that business rates are a key lever for it to drive

competitiveness. Yet we've heard this morning from the FSB in particular that they regard business rates as a blunt tool, effectively, in the context of economic growth. Can you give your assessment of your view of the contribution of business rates to improving economic growth in the Welsh economy?

[188] **Mark Drakeford**: Chair, I think my assessment would be that the usefulness of business rates as a tool is modest but important. I do not think that business rates are a panacea for business growth. Members will be aware that there was work carried out in the Assembly in the last Assembly term. The business rates task and finish group and a business rates panel both explored this area and they both came to the conclusion, I believe, that, when businesses have a range of conditions that promote their future growth, then business rates policy can make a contribution to the set of circumstances that promotes growth. If other things are not in place, then business rates by itself will not compensate for the absence of other things.

[189] I think it is important, maybe, Chair, just to remind Members of the context within which the current business rates relief arrangements were brought about, because they date back to 2010. In a way, they were a defensive measure. They were there to take account of the impact of the 2008 recession. So, they were there to try and help people to cope with the difficult circumstances they were in, to provide some stability and some assistance to those businesses that were struggling because of those conditions. It was never intended originally to be a permanent feature, and most of the literature that there is does tend to put an emphasis on the need for them to be targeted short term and, as conditions improve, for the system to be amended or to be withdrawn.

[190] **Jeremy Miles**: Can I just take that one step further and look at the question of whether your answer is different in the context of local economic growth, and the question of the retention of business rates by local authorities? Do you think the factors are different in that context, if you look at it at a local level rather than at a Wales-wide level?

[191] **Mark Drakeford**: The system we have, Chair, is a pooling system, as you know. Business rates are collected at local authority level, they are pooled into an all-Wales pool and redistributed on the basis of need. I think I would need quite a lot of persuasion to move away from that key principle. There would be four local authorities in Wales that would benefit from local rates retention, if you were to move entirely in that direction. That means

that there are 18 local authority areas in Wales that would be negatively affected—some of them very badly affected.

[192] There's a difference, however, I think, in thinking about whether partial rates retention as a means of incentivising growth in this revenue stream is worth exploring. I'm more open to that, and we're open to it explicitly in the Cardiff capital city deal arrangements. It's part of the deal that we will explore with the city deal local authorities that, if, by their actions, they are able to demonstrate that they are increasing the flow here, then I think it is fair to think that, if, by their own efforts, they are making a difference, that they should get some share in the conditions that they will have brought about.

[193] **Jeremy Miles**: Okay. Thank you. The IRRV and the FSB have made the point that they believe that the base of data that supports policy consideration in relation to business rates is weaker than it should be, in a sense. There are gaps in the data available to consider policy. Is that—? Well, would you comment on that? Do you recognise that issue, and, if so, what can be done to tackle it?

11:30

[194] **Mark Drakeford**: Well, Chair, this is an issue where I will be very interested to look at what the committee concludes, having heard the evidence that you will have heard. I would be particularly interested in specific suggestions as to where data gaps might exist. I'd also need to see what the committee said about the difference that filling those gaps might make. In other words, how significant a gap is this, because it isn't as though we are without information in this field? So, the Welsh Government publishes already, publicly, all information on collection rates. We publish all the information that we get from local authorities on the financial assistance provided through the rate relief scheme. We publish all the information, at a local authority level, on local authority contributions to the non-domestic rates pool. The Valuation Office Agency publishes the state of the property market report annually—that's a public document. It publishes analysis of property distribution across the rateable value range, and it publishes market sector analysis. So, there are quite a lot of data already available. There are very significant rules around commercially sensitive information. And you can imagine that, when you're talking about businesses and their viability, for example, data that expose some of that would have to be handled carefully and are fairly tightly governed by statute.

[195] So, I'm open to this debate, and I've seen some of the information that has been passed to you in written evidence. If the committee is able to identify specific gaps, and to put an argument that filling those gaps would make a difference to policy decision making, then I'm very keen to see the conclusions that you would come to.

[196] **Jerermy Miles**: One of the issues was about the interval in the valuation between—that a reduction of that would give, almost by definition, more useful data. Do you recognise that as a benefit of that process?

[197] **Mark Drakeford**: I recognise the argument. I think there are some things to think about in the argument. It would increase the usefulness of the data in making them more contemporary. It's likely to introduce greater volatility into the system because the position faced by individual businesses would shift more rapidly, and would be a bit more vulnerable to shifts in economic cycles.

[198] The VOA, I think, is also very clear in its position that, if you were to reduce the cycle, you could not simply collapse the existing system and do it more quickly. It would have to be a different system, so we would have to look carefully at that as well. There is some work that's been done by the parallel department in England as to how you could run a system on a shorter interval basis. It involves things like self-assessment, so there would be major changes if they were to move in that direction. So, I understand the argument and I'm open to seeing the sense of it. How it would operate in practice is something that we would want to look at as to the work that's gone on across our border, and then to make sure that we would discuss that closely with the interests involved, so that we are in a position where the advantages outweigh any disadvantages, because there will be a combination of both.

[199] **Jeremy Miles**: Thank you.

[200] **Russell George**: Mark Isherwood.

[201] **Mark Isherwood**: Just a very quick question: you said you would consider partial rates retention for the Cardiff city region as an incentive. How do you respond to the equivalent call from the North Wales Economic Ambition Board?

[202] **Mark Drakeford**: Yes, I was with members of the North Wales Economic Ambition Board on Thursday of last week. The principle would be the same for me in any city deal or growth deal—that we would explore with them that where there is an increment of growth, and that growth is attributable to the actions that they have taken, that there would be an equity argument in allowing_them to have a share of the beneficial effects of the decisions that they've made.

[203] **Russell George**: Adam Price.

[204] **Adam Price**: Rŷm ni wedi cael yr ailbrisiant ardrethi busnes ac un o sgil-effeithiau hynny, oherwydd y gostyngiad yng Nghymru o ran gwerth ardrethol eiddo, yw cyflwyno lluosydd dros dro, sydd yn cynyddu i 0.499 ac sy'n uwch na'r ddau luosydd yn Lloegr. A ydych yn poeni ynglŷn â'r effaith canfyddiadol, o leiaf, o ran busnesau sydd â gwerth ardrethol cyfatebol yn Lloegr a Chymru, fod y baich trethiannol yng Nghymru yn fwy? Pa effaith y gall hynny ei gael ar ein hysbryd cystadleuol ni ac ar ein canfyddiad ni fel economi?

Adam Price: We have had the revaluation for the business rates and one of the effects of that, because of the decrease in Wales in the rateable value of property, is having the temporary multiplier, which is increasing to 0.499 and is higher than the two multipliers in England. Are you concerned about the effect of perception at least, in terms of businesses that have a corresponding rateable value in England and Wales, that the burden of rates in Wales is higher? What effect might that have on our competitiveness and on our perception as an economy?

[205] **Mark Drakeford**: Chair, the points are important ones and need to be thought through. I think it is important that we understand a couple of things about the way that this system works. First of all, let's remember that this is a zero-sum game here. The multiplier does not lead to more money being taken from businesses in Wales—it just changes the distribution of the take, depending on the changes that have happened during the revaluation period. So, there's no more money being raised from businesses in Wales; they provide the same contribution as they would have done previously.

[206] How is that contribution worked out? The multiplier is one aspect of it, but you are multiplying something, aren't you? And you're multiplying against the rateable value. The impact of this revaluation is that rateable values in Wales will have fallen in the round. So, the multiplier goes up, but the denominator goes down. When you compare across the border, what you

really want to find out is whether businesses in similar circumstances in the Welsh economy as in the English economy are being treated in a more disadvantageous way.

[207] So, just to give you one practical example: the average rateable value in Wales is £22,000 and the average rateable value in England is £33,000. If you multiply £22,000 by our multiplier and you multiply £33,000 by the English multiplier, a business in Wales pays about £5,000 less than the equivalent business in England. So, I'm absolutely attuned to the fact that the arguments are important and to work them out, but it is not a simple argument that says, 'Because the multiplier in Wales goes up, that means that businesses in Wales are automatically in a more disadvantageous position than their colleagues in England', because the sectors are very different.

[208] **Adam Price**: I can understand the logic of what the Cabinet Secretary has just said, but I would just ask him now to consider a sub-segment of cases of mobile businesses—businesses that could operate on either side of the border—for which the difference in the multiplier and, indeed, other aspects of business rates policy might be an influential factor in them making a decision on business location.

[209] If I understood the previous evidence as well, he referred to a zero-sum game, but actually if you had raised the multiplier so that the total revenue was at a standstill, you would have raised the multiplier even further, to 51 per cent. You haven't done that, which suggests to me that you're at least conscious of, in this case, the need to keep it below the psychological threshold of 50 per cent because it does have some impact, surely, on Wales's reputation as being open for business.

[210] **Mark Drakeford**: There are two separate points there, Chair. If the committee does have hard evidence that the business rate multiplier is a decisive determining consideration in businesses moving across the border, that would be very interesting to see. My expectation would be that that would be very difficult to find in that cause-and-effect way. It will be one of a whole series of factors that mobile businesses will be weighing up in deciding where it is best for them to locate. So I'm not, for a minute, suggesting that it isn't a factor. I think Mr Price asked me a question about whether it would be a factor that would make the difference, and I'm slightly sceptical as to whether or not isolating this factor and saying, 'Well, if it wasn't for that, we would have come'. If there is evidence of that, I would

find that very interesting. I think the decisions that businesses make are more likely to be decisions in the round, and I could argue, I suppose, that the fact that the rateable value that they will find when they move across the border is likely to be lower than the rateable value they would have faced on the other side of the border for similar premises might be a counter-balancing factor in that.

[211] As for the question of the rate at which the multiplier has been set, I don't disagree about the psychological impact of goods that are priced 99p rather than £1, but the decision to propose a 0.499 multiplier is the result of a number of different factors, including estimates of appeal levels, for example, and the costs that you would have to set aside in order to cover all of those things. So, it is a bit more complicated than simply the zero sum that I indicated earlier.

[212] **Russell George**: Mark Isherwood.

[213] **Mark Isherwood**: Although the draft rateable value of properties in Wales is down 2.9 per cent, we heard this morning that the central list is up 4.7 per cent. How would you propose to accommodate that?

[214] **Mark Drakeford**: Well, that's a useful point to make, Chair, because actually when you factor the two things together, rateable values in Wales are not down by 2.9 per cent, they're down by 0.9 per cent, when you take the central list into account as well as the local list. The system has always operated on those two lists, and there are very good reasons for it, given that the businesses on the central list are those very big businesses that operate right across the country. I've not seen any suggestion that we should move away from that system. But on the combined effect, which I think is the point Mr Isherwood makes, it is important to put the things together and see what the combined outcome is.

[215] **Russell George**: Hefin David.

[216] **Hefin David**: How transparent and consistent is the current system?

[217] **Mark Drakeford**: Well, I think the current system is capable of being improved. Its consistency you might measure against the level of appeals in the system and the extent to which those appeals succeed and are dealt with in a timely fashion. There is a significant level of appeal against a determination of rateable values. Of those, over two thirds do not succeed.

So, seven out of 10 appeals—nearly 7 out of 10 appeals—make no difference. Of those appeals that go to the tribunal level, 15 per cent only are determined at the tribunal level. That suggests to me that the system isn't as transparent or straightforward as we might like to make it. And those things have adverse effects on businesses as well, because they are caught up in very lengthy appeal processes, and for some of them, at the end, there is a big build-up of a backlog bill as a result. So, I think the system is capable of improvement, and I'm keen to bring forward some proposals to help to make that happen.

[218] **Hefin David**: And that particular issue was raised by RICS, by Mr West. The IRRV suggested that either you need to keep business rates or we need to find an alternative. Are business rates here to stay?

11:45

[219] **Mark Drakeford**: Well, Chair, I think that's a very good question. Business rates are here to stay in the short term. That's for sure. There are things we can do in the short term to make the current system work better, and to work better for businesses as well. In the longer run, I think that it is important that, during this Assembly term, we take an applied look at some of the major alternatives that there are to the current system of local taxation. There are a whole series of recent reports—one done by the London authority, one done by the Scottish Government and the Convention of Scottish Local Authorities that was published in December last year—that rehearse the merits of alternative systems such as land value taxation. What I am keen to do, and to work with others on this as well, is to take not a theoretical look at the pluses and minuses of these different ways of doing things, but to say, 'If we were to move in that direction in Wales, what would be the things that we would have to do? What would we need to have in place? What would be the actual impact, insofar as you can predict it, on real businesses in real places of doing the business in a different way?' Then, to be in a position by the end of this Assembly term, for whoever would be taking decisions, to have a much more real set of alternatives than just a theoretical rehearsal of the pluses and minuses of different approaches.

[220] So, I intend that work to happen. We've begun the business of drawing a group of people together. It's a mixture of people: with academic experience, Professor Iain McLean, who is from Oxford University, who is one of the leading authorities on land value taxation; we've been lucky enough that we've secured some help from the Scottish Government—they will allow

one of their officials who worked on their work to sit on our group; and we want practitioners to be part of that as well. As I say, my aim is to move the debate on in Wales, on just a very general and high-level idea of, 'You could do it this way, but you could do it that way', so we are in possession of much better information about the real-world impact of different systems. It may be, when we do that, that this system, for all its imperfections, will turn out to be better than alternatives. It may be that there's some better way of doing it.

[221] **Hefin David**: It was interesting that David Magor of the IRRV made the point—and you've already talked about the differences with England, and you've talked about the short-term retention of business rates, notwithstanding what might happen in the longer term—that if business rates are to stay, they need to be modernised. One of the criticisms of England was that, when George Osborne announced the changes, he actually stopped short of modernising the whole system. One of the benefits that we might be able to get from looking at business rates is to take the advice there and look at how we modernise the system. Have you got any views on that?

[222] **Mark Drakeford**: Well, Chair, I do want to move—. As I say, in the short term there are things we can do to improve the system as it is today. On appeals specifically, I plan to publish a consultation document during the next half term, so we're quite close to having some practical examples of how we could modernise parts of the system. Because I do want to make sure that we—. I don't want us to get so interested in the big picture reform that may happen in several years' time that we lose sight of the here and now, and what we could do in the here and now. If there are proposals that the committee has heard from people that are specific and could make a contribution to improving the system as it is today, then I will be very interested to read them.

[223] **Hefin David**: One last question: can I have a little bit of clarity on what you consider to be the short, medium and long term in terms of time?

[224] **Mark Drakeford**: Well, there are measures I want to propose in the short term, immediately, around things like appeals. Chair, in relation to the small business rate relief scheme, you know that we are committed to extending the current scheme for a further year, and I will have to bring regulations in front of the Assembly to get agreement to that happening. I've made a commitment to a long-term scheme from 2018 onwards, and I want

to use the final year of the temporary scheme to see how we can improve that scheme. There are a number of things I want to look at in that scheme. It is meant to be a small business rate relief scheme. I've asked officials to look at the extent to which there are large businesses that operate from multiple premises that are able to claim a relief for every premise that they occupy, and to see the extent to which the scheme is actually not benefiting 'small' businesses in that sense, but large businesses that operate from small premises. I want to look at dead weight, which might be a difficult thing to disentangle, but our scheme helps every small business, whether they need help or not.

[225] **Hefin David**: I suspect that's what we mean by modernisation of the system.

[226] **Mark Drakeford**: I want to offer help to those businesses where the help really matters, and I'd like to do more to help those businesses where the help really will help them either to stay on their feet or to put them in a position where they can grow and expand in the future. The scheme we have has enormous advantages of simplicity, and we shouldn't discount those, because they are real. They are real to the people who use the scheme, because it's easy to understand. Administrative costs in the scheme are low, because simple ways of doing things are administratively efficient. The more you try and segment a scheme to make it more targeted, inevitably, the more complex the administration becomes.

[227] But I want to look at the issue of dead weight to see whether we can do more there, and then I do want to look at the rules of the scheme. Are the rules in relation to empty properties right? Are the rules in relation to charitable relief right? When we've got the right rules, are we confident that they're being properly policed? Because I was, myself, taken aback—I have to say that to you—when I read the responses to the draft Bill, the draft local government Bill that the Government pursued in the last Assembly term, which had things to say on small business rate relief, to hear people in the sector reporting the extent to which they believed the current system was vulnerable to abuse. So, I don't imagine myself that that is other than in a very small proportion of instances, but when abuse happens in any scheme, the consequences of that are carried by the people who play by the rules and who don't abuse them, and we ought to act to protect their interests.

[228] **Russell George**: Adam Price.

[229] **Adam Price**: I'm wondering if—we've already crossed swords on this, Cabinet Secretary, but on this issue of the tax cut and the presentation of the extension of the existing relief scheme as a tax cut, you'll have heard previously, and again this morning, the FSB saying that this is misleading. I just wanted to be clear: the Welsh Labour manifesto pledge that was repeated in the programme for government to deliver a tax cut for business rates, meaning smaller bills for 17,000 businesses and bills reduced to zero for half of all eligible firms—is it your position that that pledge has now been delivered?

[230] **Mark Drakeford**: That pledge is being delivered, Chair. The status quo would mean that there would be no scheme of business rate relief next year, because the scheme that the Assembly has endorsed ends at the end of March next year. So, if the Government were to take no action, the status quo would mean there would be no scheme of small business rate relief next year. The Government will act to meet the pledge that we made. We will put in place a scheme for next year that will mean that 70 per cent of businesses in Wales will benefit and over 50 per cent of businesses in Wales will pay no business rates at all. We will have met our pledge, and we will continue to meet it beyond that.

[231] **Adam Price**: Right. However, my question was quite specific. Has that pledge been met as of now? Whatever happens next year, the pledge—is what you're saying that the pledge is going to be met next year when you bring forward your new proposals, or has the pledge now been met as set out in the manifesto? Because I'm still not clear about your position.

[232] **Mark Drakeford**: Well, Chair, I'll be as clear as I can. I believe that the pledge will be met this year, but the rules that we operate under this year were set by the last Assembly, not by the Government that was elected in May. But under the rules that we inherit and have this year, I believe the pledge will be met, and I am confident that the rules that I will propose to the National Assembly for next year will mean that the pledge is met again. And the permanent scheme that I will introduce for 2018 onwards will mean that that pledge goes on being met, throughout the term of this Assembly.

[233] **Adam Price**: But bills will not be reduced to zero for half of all eligible firms this year, and smaller bills will not be introduced for the 70,000 businesses this year—

[234] **Mark Drakeford**: No.

[235] **Adam Price**: —which was how you defined the tax cut in the programme for government. So, how can what you've presented now be the tax cut? I mean, it contradicts what you actually said.

[236] **Mark Drakeford**: No, Chair, it doesn't. I'll try a third time. The system that we inherit for this year, I believe, means that 70 per cent of businesses in Wales in this financial year will be paying less tax than they otherwise would've been and that half of businesses will pay no tax at all. If the Government took no action, all those businesses would be paying tax next year. That's what the status quo means, because the current scheme is a temporary scheme and it finishes at the end of this financial year. If we took no action, all those businesses would be paying tax next year. The fact is we will act; we will bring a scheme in front of the Assembly, which means that next year, those businesses will not be paying tax. The tax they would have had to pay if we took no action will be cut. It will be cut to zero for half of businesses, or more than half, and it will be cut for 70 per cent of businesses altogether.

[237] **Russell George**: Hannah Blythyn.

[238] **Hannah Blythyn**: Thank you, Chair. I'm pleased to hear you mention the importance of modernising the current regime, because from the evidence we've had and from what we've all heard from the various people in the sector, it often feels like the current regime doesn't necessarily meet the challenges and demands of the modern economy. How will those modernisations—and actually looking to use the period now up to 2018 to look at long-term reform—not only make the system more fair and equitable, but also meet the needs of small businesses and target, perhaps, specific sectors?

[239] **Mark Drakeford**: Thank you, Chair. The question draws us into some of the proposals that are often put forward for wanting to provide additional help for particular sorts of businesses. I've seen at least two of these possibilities rehearsed in some of the written evidence that the committee will have received, so maybe I'll respond specifically to those and then I'm going to stop talking for a little while and ask my colleagues if there's anything that they want to add to what I'm going to say on this point.

[240] I see some suggestions put to the committee that there should be a specific relief for start-up businesses. Again, I'm very open to hearing what

the committee has to say on any of these things. I do think we have to think very carefully about new reliefs. I do believe that the hurdle should be high for introducing them and I think there are a number of tests that you would want to apply to any new relief: is that relief consistent with the overall policy objective of the Government? Is there evidence there that that particular sort of relief meets that policy objective? Are we certain that the relief, if offered, would go to the business that is seeking that relief? Because not all reliefs turn out to be like that; you give them for one purpose and it turns out the beneficiary is somebody else completely. So, I think there are some important tests.

[241] In relation to start-up businesses, at the moment, I'm struggling slightly to see, having read the evidence, what sort of start-up businesses would not be captured by the small business rate relief scheme as it stands. You'd have to be a start-up businesses that was in the top 30 per cent of all businesses in Wales on the day that you start up not to benefit from the existing small business rate relief scheme. Now, maybe I'm missing something. Maybe you'll have heard evidence that there are start-ups that manage to start up at that very top end of the Welsh business spectrum, and that despite their ability to be operating at that level they need a tax relief in order to be successful. So far, I've not quite seen what the case for that will be.

12:00

[242] The second area that I've seen in the evidence you've received is the retail relief scheme. That was there for two years and ended at the end of the last financial year. The first thing to say on that is that we were able to introduce that scheme because it was a temporary scheme in England. The first year that it was a temporary scheme we got a Barnett consequential, and we mirrored the scheme in Wales. The second year, there was a Barnett consequential, so we mirrored it in Wales. When, in England, they decided not to continue with the scheme, the Barnett consequential stopped when their scheme stopped. So, we've had no money in order to carry that scheme forward. But we do have two years of hard evidence now to draw on, and in an area where hard evidence actually is in fairly short supply, I am keen that we take that opportunity to look to see what that relief scheme actually managed to secure. If there is a compelling case that it made a direct contribution to a shared policy ambition, which would be to support businesses on the high street, then I'm open to looking at that evidence.

[243] **Russell George**: David.

[244] **David J. Rowlands**: Could I just come in on that? Obviously, there's no placebo there, is there, except the fact that you may take the next two years, and maybe businesses will then be going out of business because they don't have that relief, and you can compare that then with the time before. But there's no real placebo there in saying you are taking this data for two years.

[245] **Mark Drakeford**: Chair, that's a fair point to make. I think it does sort of draw you into one of the big debates about reliefs altogether, which is that they are almost always proposed as a short-term—. You know, they're there to deal with a particular problem. Withdrawing them, even when the world has moved on and the problem is different, is very difficult, but you do have to find a mechanism for being able to proceed on the basis of evidence on it.

[246] **Russell George**: We had an informal session with businesses this morning over breakfast, and the three small businesses around my own table, all based around the Millennium centre, had great frustration of, when major events are put on, how that affects their business. One mentioned that their normal trade on a Saturday goes down from £600 to £20, which is their average, when they know that there's a particular event on. Another mentioned that, with particular events, their business can go down by 75 per cent. They were particularly talking about the autumn internationals impacting them as well, and road closures. Some said that some events support their business, but are you sympathetic to the view of addressing that? Are you sympathetic to that situation?

[247] **Mark Drakeford**: Well, Chair, I'm certainly aware of the dilemma. If you are a Cardiff Assembly Member, you will hear that reported to you quite regularly—the impact on businesses of major events, positively and negatively. There are businesses that definitely take a lot of trade as a result of them. I'll make sure that I relay that issue more formally to the Cabinet Secretary who has the wider responsibility for the economy. I don't immediately see how a business rate solution could be devised to meet that set of circumstances.

[248] **Russell George**: Well, that was, of course, what they were putting to us, but what are the obstacles in involving a mechanism to reduce business rates in situations like when events are put on? What are the obstacles in having a solution?

[249] **Mark Drakeford**: Well, I would have to think about it harder than I've had a chance to think about it so far, but I imagine volatility will be one immediate difficulty because these events are not set like a church calendar, are they? They don't happen on the same day every year. Events come and events go. Assessing their impact sectorally would be, I imagine, open to dispute and so on. I'll ask my officials whether there's any experience elsewhere of using business rates as a way of responding to the dilemma, which I'm certainly alert to.

[250] **Russell George**: I appreciate the obstacles and difficulties.

[251] **Mark Drakeford**: Thank you.

[252] **Russell George**: David Rowlands.

[253] **David J. Rowlands**: I want to bring up something that was brought over to us at the breakfast this morning. I was talking to Chris Hagg—not particularly a small business, because he's with Celsa Steel. He did mention to me that as and when he put new plant into the business, it can increase the rates. In all fairness, David Magor did point out that it wasn't actually if you put in a new machine, as such, but if you extended your building to have some other operation, it immediately brought you into another tax increase. That seems to be a very negative way of dealing with business expansion, doesn't it? It also comes down, actually, if I can just mention it—if you have a run-down shop in a town centre and you improve it over a period of years, then the next review of your rates could very well increase them, and it's another negative side to rates.

[254] **Mark Drakeford**: Thank you, Chair. I'm familiar with some of these arguments in a particular context, so I'll try to respond briefly on that and then I'll probably ask Debra to pick up the wider point. The context in which I'm most familiar with it is in relation to the steel industry, where in discussions with Tata, as part of a much wider range of measures that the UK Government and the Welsh Government have been considering in support of the steel industry in Port Talbot, the issue of plant and machinery and its relationship with non-domestic rates has been raised by the company. There's been some work done specifically with the Valuation Office Agency on that, which I'll ask Debra to comment on.

[255] On the wider point about successful businesses having to pay more, well, I suppose that is in the nature of the scheme, isn't it? We construct a

scheme on the basis that if you are doing well, you make a bigger contribution to the purposes that business rates are there to support. But, on the business of plant and machinery, and steel in particular, maybe Debra will let us know what has happened in those discussions.

[256] **Ms Carter**: I think it's fair to say that it is a complex area. One of the issues with plant and machinery is that it is valued as an integral part of whatever property you are dealing with for the purposes of non-domestic rates. As some of the earlier comments identified, non-domestic rates are a blunt instrument—they're not designed to be tailored to particular sectors or particular types of business or industry. So, the discussions that we've been having with the Valuation Office Agency are around the technical plant and machinery regulations, and trying to tease out from within that changes that would allow us to pinpoint the steel sector without bringing in provisions that would support businesses that do not need to be supported—I think it comes back to the point that we were making earlier—and that is not a straightforward task. The plant and machinery tends to be assessed as an integral part of a property. It's not as if particular types of investment can be teased out readily from the rest of the non-domestic rates system. So, we are looking at those things, and we are continuing to look at those things. There are also issues, though, about support in particular sectors and the potential state-aid implications of that. So, these are not things that are addressed quickly or simply.

[257] **David J. Rowlands**: Okay, can I just make a small analogy? If you had a small brewery, for instance, and it has a certain size of building that it's paying rates on, it's running one vat, for instance, and then it adds another vat, does that mean that that business would pay extra rates immediately on that basis?

[258] **Ms Carter**: I couldn't comment on the specifics. 'Not necessarily', I think, is the only answer I could give to that. It would depend on whether it changed the value of that property from a rental perspective. It's not an automatic result that any investment in plant and machinery adds to the overall value of the property for the purpose of business rates.

[259] **David J. Rowlands**: Thank you.

[260] **Russell George**: Have you finished your line of questioning, David?

[261] **David J. Rowlands**: Yes, I have.

[262] **Russell George**: We're a little bit short of time and we've got a couple more speakers to come in. I inadvertently cut Hannah off on her line of questioning earlier, so back to Hannah Blythyn.

[263] **Hannah Blythyn**: Thanks. It's related to sector support again. I think the focus in the response was on rates relief, but I think some of the things, the evidence we've had and some suggestions are: are there more innovative ways we could look at things? It may not even include rate relief. It was mentioned in the earlier evidence session the possible merits of support for an internet levy that then could be redistributed to support the retail sector in the local high street. If you look now at the nature of how it's changed many of those shops on the high street, their competitors can be online now rather than in a neighbouring retail park. The other thing that was raised with me at the business breakfast, more anecdotally, this morning, is that I was sat with representatives from largely self-catering cottages and there are perhaps anomalies there in terms of how the VOA assesses what they do. Perhaps there's scope when we're looking at it in the future, maybe not necessarily looking at rate relief, but at whether we need to look overall at how different sectors are assessed and whether it's the best way of doing it.

[264] **Mark Drakeford**: I'll try and address the two things separately. So, the internet levy idea is, in effect, a new tax. In the arrangements that we now have in Wales, the National Assembly will be able, in future, to propose new taxes. It's important just to be clear that that's what the power is. The power is to propose and the proposal is to be made to the Treasury, who consider the proposal. In the immediate future, our hands are pretty full in dealing with the consequences of the new taxation responsibilities that are coming our way: land transaction tax, land disposals tax and possibly the partial devolution of income tax. So, there's a lot of new responsibilities that the Assembly will be absorbing over the next couple of years.

[265] I myself am quite interested, however, in at least testing the track of new taxation proposals. Here's a new piece of machinery available to the National Assembly. I think we would learn quite a lot by just testing that out: how does it work, what would we need to do, what would be the questions we would have to answer in proposing a new tax? Bevan—I want to say 'commission', but I don't mean 'commission', I mean 'foundation'—have published a report with about eight different possible new taxes that could be considered. The internet levy could be another one. I think we'd have to choose the best. We'd have to have a good think between ourselves as to

which of these possibilities has the closest connection to our policy objectives in Wales and where the strongest case can be made for it.

[266] Again, I am genuinely looking forward to reading the committee's conclusions on some of these things and having a think about what the challenges would be in an internet levy. The internet is not a great observer of boundaries, is it?

12:15

[267] Goods purchased in Wales would be coming from very many parts of the globe, via the internet, and how might a levy be collected from a supplier of goods in some very other far part of globe, for example? We'd need to think about the practicalities of it. But we have an opportunity to do that, which we haven't had before. So, it's important, I think, that we explore that.

[268] On self-catering properties, it's a disputed area. There was a previous rule book around this. The rules were changed during the last Assembly. Not everybody likes the way the rules have been changed. As ever, when you change the rules, some people are advantaged by them and others feel that they no longer fit their circumstances. So, I recognise the debate, but I don't think it's a new one.

[269] **Russell George**: Cabinet Secretary, do you mind if we extend the session by 5 minutes to 12.20 p.m.?

[270] **Mark Drakeford**: No, that's absolutely fine.

[271] **Russell George**: I'm very grateful. I understand Mark Isherwood's got one question and then it'll be Vikki Howells to finish off with the last line of questioning. Mark Isherwood.

[272] **Mark Isherwood**: How do you respond to the evidence we've received from small businesses that the business rates appeal process is complicated and takes too long?

[273] **Mark Drakeford**: I agree with them, Mark. I think they're right. As I said earlier, the length of time that it takes to resolve appeals can be particularly onerous to small businesses who find themselves with a large bill at the end of what is sometimes a year during which the appeal process extends. So, it's in response to some of those concerns that I hope to bring

forward proposals to reform the way the appeals process works in Wales and then to be able to discuss that with Assembly Members after the next half term.

[274] **Russell George**: Mark's question and your answer, Cabinet Secretary, will be welcomed by those who were sitting on my table this morning over breakfast.

[275] **Mark Drakeford**: I can't guarantee that our new proposals will, you know, that they'll—. But I am keen to try and do what we can to address those concerns.

[276] **Russell George**: I think your willingness to accept the issue of the fact that it is complicated and expensive is to be appreciated. Vikki Howells.

[277] **Vikki Howells**: Thank you, Chair. In light of your major announcement yesterday, Cabinet Secretary, about the closer regional working relationships of local authorities, I'd like to just go back to some of the issues that Jeremy Miles started to draw out earlier on, regarding the possible impact of that on business rates. On our expert panel earlier on this morning, Andrew West talked about the issue of the new system and when it comes in to really make sure that it has, at its heart, transparency and accountability. I just wondered, based on your answer to Jeremy's earlier question when you said that you would look at the possibility of perhaps a partial retention of business rates at a regional level, whether you think that exploring that might actually address the concerns of businesses that say, on a local level, that they're unsure about where money is spent from business rates when it's raised and pooled centrally.

[278] **Mark Drakeford**: Chair, let me begin by saying that I think it's important that local authorities themselves continue to do some of the work that they have been involved in in recent times, which is providing better information to local rate payers, both domestic and non-domestic, about the purposes to which the money is spent. At the broad level, I don't think this is a particularly difficult question. Businesses that pay rates do so because, without the roads that councils provide, the pavements they keep clean, the rubbish that they collect, the buses that transport customers to their premises—. Without the people whom those rates educate in schools, so that when you want to recruit somebody, you've got someone who you're able to recruit—. The purposes that non-domestic rates support are absolutely the conditions that successful businesses need in order to be successful to

businesses. There's been no suggestion of it around the table here this morning, absolutely, but, every now and then, in some of the written evidence, you detect a slight tone of the fact that paying tax is a bad thing. That's not my starting point. We pay taxes because we all get the collective benefits of doing that and businesses get those benefits very significantly.

[279] **Vikki Howells**: Thank you.

[280] **Russell George**: Cabinet Secretary, can I thank you for your time today and your willingness to genuinely examine our comments and our report and take seriously our evidence? I'm very grateful for that. I appreciate your time this morning.

[281] **Mark Drakeford**: Thank you very much and, as I say, I look forward to seeing the report.

12:20

Papurau i'w Nodi
Papers to Note

[282] **Russell George**: Can we just move to item 4, papers to note? There are a number of letters from the committee out to others. Are they noted? They are noted.

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cynnig:	*Motion:*
bod y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod ac o eitem 1 y cyfarfod ar 13 Hydref yn unol â Rheol Sefydlog 17.42(vi).	*that the committee resolves to exclude the public from the remainder of the meeting and item 1 of the meeting on 13 October in accordance with Standing Order 17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[283] **Russell George**: Item 5, we do need to go—. We have got an item 1 next week when we do need to be in private session, so, can I ask that Members are happy, under Standing Order 17.42, to resolve that we exclude the public from the remainder of this meeting and the first part of the meeting next week? Yes, Members are happy with that.

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 12:20.
The public part of the meeting ended at 12:20.