

Explanatory Memorandum to the Non-Domestic Rating (Multiplier) (Wales) Order 2021

This Explanatory Memorandum has been prepared by Local Government Strategic Finance Division and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Minister's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Non-Domestic Rating (Multiplier) (Wales) Order 2021. I am satisfied that the benefits justify the likely costs.

Rebecca Evans MS
Minister for Finance and Trefnydd
11 January 2021

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PART 1: EXPLANATORY MEMORANDUM

1. Description

The Non-Domestic Rating (Multiplier) (Wales) Order 2021 Order (the 2021 Order)

The 2021 Order sets the non-domestic rating (NDR) multiplier for Wales for the financial year 2021-22. It reflects the decision announced on 15 December 2020 to freeze the multiplier rather than using the Retail Prices Index (RPI) to calculate an increase in the multiplier.

Between 2018-19 and 2020-21, the multiplier was increased in line with the Consumer Prices Index (CPI). This position was initially proposed for 2021-22, resulting in the making and laying of The Non-Domestic Rating (Wales) Order 2020 (the 2020 Order). The debate on the 2020 Order was scheduled for 8 December but was postponed, with the motion subsequently withdrawn on 15 December following the change in policy position to freeze the multiplier.

Calculation of the Multiplier

Under the Local Government Finance Act 1988 (the 1988 Act), the annual increase in the multiplier should be calculated using the RPI figure for the September preceding the financial year to which the multiplier applies. For 2021-22, the RPI figure would have been 294.3.

The multiplier is applied to the rateable value (RV) of each non-domestic property to calculate its non-domestic rates bill. The 2021 Order applies the figure required to ensure there is no increase in the multiplier in place of the RPI figure. This results in no increase in the 2021-22 rates bills to be paid by businesses and other non-domestic property owners, as opposed to a rise in rates bills which would be the case if the RPI figure were used.

The formula used for calculating the NDR multiplier in a non-revaluation year is:

$$(A \times B) / C.$$

A is the multiplier for the preceding financial year

B is the RPI for September of the preceding financial year

C is the RPI for September of the financial year two years before.

Welsh Ministers may substitute a figure for B which is less than the RPI figure. As no increase in the multiplier is used as the measure for setting the multiplier, B is calculated on this basis.

To calculate the appropriate figure for freezing the multiplier, the value for B divided by the value for C is required to be equal to 1. As C is set in primary legislation as RPI for September of the financial year two years before, the figure for B must also be this figure. For 2021-22, B has been calculated as 291.

This results in the multiplier for 2021-22 remaining at 0.535 instead of increasing to 0.541.

2. Matters of Special Interest to the Legislation, Justice and Constitution Committee

Given the change in the policy position after the laying and making of the 2020 Order, the 2021 Order revokes that Order, in addition to setting the value for B at 291.

3. Legislative background

Under the 1988 Act, for financial years in which new rating lists do not apply (ie. all years which are not revaluation years), the default position for determining the non-domestic rating multiplier for Wales is to apply the formula set out in paragraph 3B to Schedule 7 to the 1988 Act. An element in that formula is the RPI for September of the financial year preceding the year concerned. The financial year beginning 1 April 2021 is not a revaluation year and therefore there will not be a new rating list.

Under paragraph 5(3) of Schedule 7 to the 1988 Act, the Welsh Ministers have the power to increase a multiplier at below the level of inflation as measured by RPI. It is this power which the Welsh Ministers propose to exercise in making the 2021 Order.

The Welsh Ministers have adopted the approach of increasing the multiplier using CPI rather than RPI for each financial year since 2018-19. However, it has been decided that for 2021-22, the multiplier will be frozen.

As the Welsh Government is diverging from the prescribed practice of increasing the multiplier by RPI, Ministers are required, under paragraph 5(15) of Schedule 7 to the 1988 Act, after making the 2021 Order to limit the increase at below RPI, to lay it before the Senedd for approval.

The 2021 Order is subject to a made affirmative procedure and must be approved by the Senedd for it to be effective. It is also a requirement of the 1988 Act that any such Order is approved before the *Local Government Finance Reports* (for unitary authorities and police and crime commissioners) are approved by the Senedd, or before 1 March in the preceding financial year, whichever is earlier. This requirement for prior agreement of the multiplier arises because it plays a vital part in calculating the total funding available in the annual settlements.

The debate on the Local Government Finance Report for unitary authorities for 2021-22 is expected to be scheduled for debate in early March 2021. The debate to approve the 2021 Order is scheduled to take place on 9 February 2021.

4. Purpose and Intended Effect of the Legislation

The 2021 Order will have the effect of freezing the NDR multiplier rather than increasing by RPI for the financial year 2021-22. By freezing the NDR multiplier, the multiplier will be set at 0.535.

This will mean that non-domestic property owners and occupiers in Wales will receive lower rates bills for 2021-22 than they would have if RPI were used.

Primary legislation does not currently provide the Welsh Ministers with powers to permanently change the figure used to calculate the multiplier from RPI to a lower measure. Therefore, the 2021 Order will apply to 2021-22 only.

Similar orders were made to effect a change to increase by CPI rather than RPI for 2018-19 to 2020-21.

All owners or occupiers of non-domestic properties who pay rates will benefit from the change. Even properties which receive significant amounts of rates relief will benefit as the residual amounts will be calculated using a lower multiplier.

All the non-domestic rates collected in Wales are pooled centrally and distributed to unitary authorities and to police and crime commissioners as part of the annual local government settlements. The total amount to be distributed in this way is known as the Distributable Amount. It is calculated by applying the multiplier to the estimated national total of rateable value, taking account of any surplus or deficit carried forward from previous years.

The Distributable Amount is a key component of the annual local government revenue settlements and the 1988 Act requires that it is approved by the Senedd as part of the annual *Local Government Finance Reports*. The multiplier therefore needs to be determined before the annual settlements can be finalised.

There is a clear purpose to the policy behind the legislation. It is aimed at supporting economic growth and reducing the local tax liability for businesses and other non-domestic ratepayers in Wales, ensuring they are not at a disadvantage compared to other parts of the United Kingdom.

Freezing the multiplier rather than increasing the multiplier by RPI in Wales will reduce the income into the non-domestic rates pool in 2021-22. The reduction will be fully funded by the Welsh Government and will be reflected in the calculations for the local government settlements so that there is no financial impact on local authorities or police budgets.

5. Consultation

No consultation has been undertaken on the policy behind the 2021 Order. The proposals benefit all ratepayers in Wales and there is no impact on the resources available to local authorities. The policy position replicates changes made in England and ensures ratepayers in Wales are not placed at a disadvantage compared to those in England.

PART 2: REGULATORY IMPACT ASSESSMENT

Options

Option 1 – Use RPI to increase the multiplier

This option would increase the multiplier for 2021-22 by RPI at September 2020 (1.1%), resulting in a multiplier of 0.541.

Option 2 – Increase the multiplier by the equivalent of CPI

This option would increase the multiplier for 2021-22 by CPI at September 2020 (0.5%), resulting in a multiplier of 0.538.

Option 3 – Freeze the multiplier

This option would result in no increase in the multiplier, resulting in a multiplier of 0.535.

Costs and benefits

Option 1 – Use RPI to increase the multiplier

The following illustrates the effect of using RPI to increase the multiplier on the non-domestic rates bill of a property.

For example, if a property has a rateable value (RV) as assessed by the Valuation Office Agency of £15,000, the rates bill for 2020-21 (before any reliefs) would have been:

$$\text{RV } \pounds 15,000 \times 0.535 = \pounds 8,025$$

Applying RPI would result in an annual rates bill for 2021-22 of:

$$\text{RV } \pounds 15,000 \times 0.541 = \pounds 8,115$$

The increase in the annual charge would therefore be £90.

Option 2 – Increase the multiplier by the equivalent of CPI

This option would result in a lower increase in rates bills for all non-domestic properties than under RPI. Using the example from Option 1.

The rates bill for 2020-21 was:

$$\text{RV } \pounds 15,000 \times 0.535 = \pounds 8,025$$

An increase using CPI for 2021-22 would give a bill of:

$$RV \quad £15,000 \times 0.538 = £8,070$$

The increase in rates for the property would therefore be £45, £45 less than if RPI were used.

The total saving to non-domestic ratepayers across Wales is estimated at around £6m in 2021-22. This would be a recurrent saving as the multiplier cannot be increased at a level above RPI in future years. This saving is additional to the savings made from applying the same approach in each year since 2018-19.

Option 3 – Freeze the multiplier

This option would result in no increase in rates bills for all non-domestic properties. Using the example from Options 1 and 2.

The rates bill for 2020-21 was:

$$RV \quad £15,000 \times 0.535 = £8,025$$

A freeze in the multiplier for 2021-22 would give a bill of:

$$RV \quad £15,000 \times 0.535 = £8,025$$

There would therefore be no increase in rates for the property, rates would therefore be £90 less than if RPI were used and £45 less than if CPI were used.

The total saving to non-domestic ratepayers across Wales is estimated at around £12m in 2021-22. This would be a recurrent saving as the multiplier cannot be increased at a level above RPI in future years. This saving is additional to the savings made from increasing by CPI in each year since 2018-19.

Option selection

The cost of freezing the multiplier (Option 3) would be borne by the Welsh Government. There would be no financial impact on local authorities. The approach also means that ratepayers in Wales would not be at a disadvantage compared to other parts of the UK.

Option 3 is therefore the preferred option.

Analysis of other effects and impacts

Promoting Economic Opportunity for All (Tackling Poverty)

Freezing the multiplier provides support for all ratepayers which could help to prevent hardship. It also ensures ratepayers in Wales are not at a disadvantage to ratepayers in England benefitting from a freeze in the multiplier.

UNCRC

No particular impact on the rights of children has been identified.

Welsh language

No effect on the opportunities to use the Welsh language or the equal treatment of the language has been identified.

Equalities

No specific impacts, positive or negative, on persons who share a protected characteristic (as determined by the Equality Act 2010) have been identified.

Well-being of Future Generations (Wales) Act 2015

Freezing the multiplier will assist all ratepayers and, as such, will help to contribute to the achievement of the wellbeing goals of a prosperous and a more equal Wales.

Impact on voluntary sector

Freezing the multiplier will benefit all ratepayers including those operating in the voluntary, charitable and not-for-profit sectors.

Competition Assessment

A competition filter test has been applied to the Order. As the change benefits all ratepayers, no effect on competition within Wales is indicated. Freezing the multiplier means that ratepayers in Wales are not placed at a disadvantage compared to other parts of the UK.

Post implementation review

The Welsh Government will monitor the impact of the change on the non-domestic rates pool.