



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

**Y Pwyllgor Cyllid
The Finance Committee**

**Dydd Iau, 23 Ebrill 2015
Thursday, 23 April 2015**

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

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.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Ceri Breeze	Diprwy Gyfarwyddwr, Polisi Tai, Llywodraeth Cymru Deputy Director, Housing Policy, Welsh Government
Iestyn Davies	Uwch Bennaeth Materion Allanol (Gwledydd Datganoledig), Ffederasiwn Busnesau Bach Senior Head of External Affairs (Devolved Nations), Federation of Small Businesses
Lesley Griffiths	Aelod Cynulliad, Llafur (y Gweinidog Cymunedau a Threchu Tlodi) Assembly Member, Labour (the Minister for Communities and Tackling Poverty)
Nick Jones	Cyfarwyddwr Gwasanaethau Cyllid Gweithredol, Cyngor Bwrdeistref Sirol Rhondda Cynon Taf Service Director for Operational Finance, Rhondda Cynon Taf County Borough Council
Dr Mark Lang	Ffederasiwn Busnesau Bach Federation of Small Businesses
Jon Rae	Cyfarwyddwr Adnoddau, Cymdeithas Llywodraeth Leol Cymru Director of Resources, Welsh Local Government Association
Gary Watkins	Rheolwr Gwasanaethau Refeniw, Cyngor Caerdydd Revenue Services Manager, Cardiff Council
Simon White	Rheolwr y Bil, Llywodraeth Cymru Bill Manager, Welsh Government

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

Dr Richard Bettley	Gwasanaeth Ymchwil Research Service
Bethan Davies	Clerc Clerk
Tanwen Summers	Dirprwy Glerc Deputy Clerk

Gareth Thomas Gwasanaeth Ymchwil
Research Service
Joanest Varney-Jackson Uwch-gynghorydd Cyfreithiol
Senior Legal Adviser

*Dechreuodd y cyfarfod am 09:01.
The meeting began at 09:01.*

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** Well, welcome, everybody, to a meeting of the Finance Committee. Can I just remind Members that, if you've got electronic devices, if you put them on silent, I think that would be very helpful? I've had apologies from Alun Ffred Jones. Peter Black will be joining us later and so will Nick Ramsay.

Papurau i'w Nodi Papers to Note

[2] **Jocelyn Davies:** Before we go on to the first substantive item, there are a number of papers to note. Have Members got any comments on those? No, you're happy with those papers to note. Lovely, thank you.

[3] **Mike Hedges:** Just that there are a lot of them.

[4] **Jocelyn Davies:** There were a lot. It's further information that's been sent to us in some cases from people who have been helping us with our inquiries.

[5] **Mike Hedges:** I wasn't complaining; I was just observing there were a lot of them.

[6] **Jocelyn Davies:** There were a lot of them.

Y Bil Rhentu Cartrefi (Cymru): Sesiwn Dystiolaeth 1 Renting Homes (Wales) Bill: Evidence Session 1

[7] **Jocelyn Davies:** If we could move to our first substantive item on the agenda, which is our Renting Homes (Wales) Bill evidence session 1, I'm delighted that the Minister and her officials have been able to join us this morning. Would you like to introduce yourselves for the record and then we'll go straight into questions?

[8] **The Minister for Communities and Tackling Poverty (Lesley Griffiths):** Fine. I'm Lesley Griffiths, the Minister for Communities and Tackling Poverty.

[9] **Mr White:** I'm Simon White, Bill manager for the renting homes Bill.

[10] **Mr Breeze:** And I'm Ceri Breeze, head of housing policy.

[11] **Jocelyn Davies:** Thank you very much. Obviously, Minister, we're interested in this committee in the financial aspects of the Bill, rather than the policy, although it's very nice to see you again today, after scrutiny yesterday. [*Laughter.*] We'll try our best to stay away from the policy aspects. I'll start off, then. The regulatory impact assessment doesn't present the total costs and benefits figures for the Bill, so do you think that committee's got sufficient information to scrutinise the financial implications of this Bill? We do notice that that's a slightly different format than we normally see from Government Bills—that there are no total

cost figures for cost and benefit.

[12] **Lesley Griffiths:** Thanks very much, Chair. Yes, I do think there is. The costings in the explanatory memorandum have been very carefully considered. It's been done drawing on experience of previous legislation, and officials have only recently worked on the Housing (Wales) Act 2014, as you know. There's been a great deal of work done with stakeholders, probably since the back end of 2011. So, there's been a great deal of work done and very careful consideration, and so, yes, I do think that.

[13] **Jocelyn Davies:** So, you've worked up these figures in relation to stakeholders who were outside of Government so you can be pretty sure that they're accurate and that they're a proper reflection of the costs that'll be entailed by the Bill. Obviously, we've had information from others as well, as you can imagine, and you've probably seen that, in reply to the consultations of Assembly committees. So, have you done any assessment of the Residential Landlords Association calculations that the additional costs of the Bill will be £45 million—is it £45 million? Anyway, it's substantially more than the Government is estimating. Obviously, you do disagree with their calculations: in what aspect do you disagree with their calculations?

[14] **Lesley Griffiths:** I don't agree with the RLA's calculations. We see no evidence to support what they've said. I think that the vast majority of what they are suggesting—how they got at that kind of amount of money is that they've done a very crude estimation of saying that the cost per contract would be £100, and multiplied that by the number of contracts. I don't think, in reality, that will happen. If you have a landlord with a substantial portfolio, for instance, you wouldn't have the multiple costs. So, I think it is a very crude estimate. I know officials have looked into it in detail.

[15] **Jocelyn Davies:** So, I suppose what you're saying is that if you had one property, it might, in the first instance, cost you substantially more, but repeating that for all your other tenants is not going to give you the same costs. So, you challenge that. They mentioned that the initial publicity start-up costs, they estimate, would be something like £250,000, which is substantially more than your own. Do you challenge that as well?

[16] **Lesley Griffiths:** We would challenge that. There are a couple of things where we would see substantial savings. One of the main things is that a model contract would be provided free—it would be freely available on our websites. It would be available in English and Welsh, so there'd be no translation costs for landlords, which they have now. Obviously, we very much want to see far fewer disputes in court, so we think there will be substantial savings.

[17] **Jocelyn Davies:** So, in relation to the communication cost, you say 'A reasonable estimate is £100,000', and that's based on previous experience in Government of—. I think you told us yesterday that you expect this to affect about 1 million. There are 1 million renters, did you say?

[18] **Lesley Griffiths:** There are 1 million people living in rented properties.

[19] **Jocelyn Davies:** In rented accommodation. So, it's a substantial proportion of the population who need to have information.

[20] **Lesley Griffiths:** It's one in three.

[21] **Jocelyn Davies:** So, this £100,000, you think, is a reasonable estimate based on publicity campaigns the Government's held in the past.

[22] **Lesley Griffiths:** It's £160,000, I thought it was.

[23] **Jocelyn Davies:** Well, a reasonable estimate in year one.

[24] **Lesley Griffiths:** In year one, sorry, yes; it's £100,000 in year one. It is based on previous experience, particularly the housing Act legislation. What you also have to take into account with comms is the wider communication. I think it's reasonable to expect that landlords, you know, just going round their normal business, would come into contact with their tenants. So, they would be able to raise awareness through that as well. So, I do think it's a reasonable cost.

[25] **Mr Breeze:** And over and above the £100,000—we have used the housing Act and other experience to build that—you'll note that there are costings there for a policy team. Part of the role of that policy team is to reach out and to actually engage with the landlord fora in a similar way to what we did with the development of the Bill, reaching people through informal means. No cost, just going out, talking, and the cascade effect from that does have a big effect on how many people can be reached.

[26] **Lesley Griffiths:** The other thing that we're currently doing is the new landlord national registration scheme in relation to the housing Act. So, again, I think that's a good opportunity to raise awareness of this Bill at that time.

[27] **Jocelyn Davies:** So, you will be communicating with landlords anyway. That's covered by another piece of legislation. So, you'll have the cost of that. This can be added to that communication, so that reduces the costs here, and you are satisfied that this is a very good estimate of what you think it will actually cost the Government, based on experience.

[28] **Lesley Griffiths:** Yes.

[29] **Jocelyn Davies:** Thank you. Chris, shall we come to your questions, please?

[30] **Christine Chapman:** Okay, thank you. Well, following the Chair's questions, we've had evidence from individual landlords and bodies representing private landlords that the Bill will actually result in considerable additional costs to the sector, above those identified in the regulatory impact assessment. I just wonder what you thought of that.

[31] **Lesley Griffiths:** Again, I suppose it goes back to my first answer. You know, I think what this Bill is doing is providing clarity for landlords and residents. I mentioned the free contracts, which, at the moment, could cost landlords a great deal of money, particularly if they sought legal advice. What we're going to be providing is model contracts where, you know, they could seek legal advice if they wanted, but they'll be very clear and very concise, so I don't think that would be needed as much. I think that is the main thing, and costs would be much lower because we have those model contracts. Again, if they went to a letting agent in order to obtain a contract, there would be costs there. So, I think it will be far more straightforward. I think that is the main thing I would want to raise: the administration cost will be so much lower.

[32] **Christine Chapman:** We've also received evidence from the National Trust, and they stated or they thought that private landlords with large portfolios would incur additional costs, as, sort of, predicted in the regulatory impact assessment, in comparison, you know, if they have to familiarise themselves with the legislation in the same way as social landlords. So, how do you react to the National Trust's concern?

[33] **Lesley Griffiths:** Well, again, what I said at the beginning: if you've got somebody with a larger portfolio, you'd have economies of scale, compared with smaller landlords, for

instance. I know officials have met with the National Trust and I think you're going to meet again. Perhaps Simon could expand.

[34] **Mr White:** We are meeting with the National Trust again. They have told us there are some specific concerns they've got. For example, they have requirements in terms of the inalienability of their properties, so that they retain them for public benefit. So, we need to make sure that some of those more technical concerns they've got are recognised in the Bill. But, in terms of the cost issue, as the Minister said, I think they will have some lawyers. Once they understand that it's the same cost, that won't be repeated for every property they've got; that initial cost will apply across all of their properties. So, I don't think it's correct to say it's exactly the same as community landlords, for example.

[35] **Jocelyn Davies:** Before you go on, Chris, you mentioned letting agents. On the costs for letting agents to familiarise themselves with the Bill, is that included in the estimate?

[36] **Mr White:** The approach we've taken is essentially to say, if a landlord is using a letting agent, then the cost that's represented here would effectively be a cost on the letting agent instead. So, there wouldn't be a doubling up of costs because the landlord wouldn't be incurring the costs, it would be incurred by the letting agent instead. Again, I would stress that we've met with letting agents on a number of times and they're aware of what we're looking to do and they haven't raised specific concerns with us that this is going to be very costly to them.

[37] **Jocelyn Davies:** Okay, back to you, Chris.

[38] **Christine Chapman:** Do you think that the additional cost to private landlords of almost £30 million up to 2019-20 from the Housing (Wales) Act 2014 and this Bill is reasonable and affordable to the sector?

[39] **Lesley Griffiths:** I do accept that there will be short-term costs—there always are when you have new legislation. So, I do think that. But, I think, in the long term, the benefits will so much outweigh that for the reasons I've already said. So, I don't think it will create ongoing costs, for instance, for landlords. I think the clarity that it will provide will benefit them in the long term.

[40] **Jocelyn Davies:** You've probably seen the concerns expressed by the WLGA and Community Housing Cymru that you've underestimated the costs to their members in terms of providing advice and training, converting contracts and so on, and that these are potentially far in excess of the costs that you estimate.

[41] **Lesley Griffiths:** I accept, and the EM recognises, that there will be a certain amount of training needed for housing officers, for instance. Again, the WLGA and other stakeholders have been meeting with officials for several years. So, those sort of things are being flushed out. Obviously, familiarisation is included in the RIA and the EM. Training has been ongoing in relation to the housing Act. We've had 16 events right across Wales, 500 plus staff have come to those. I'd be very happy to look at providing similar training and awareness raising events if that was felt necessary, as we go forward. The CHC and the far in excess came about because they felt that landlords would need a face-to-face meeting with each tenant. Whilst I accept that's good practice, I don't think that will be necessary. So, I think that's where that accusation came from.

[42] **Jocelyn Davies:** I see. So, that would be their choice if they wanted to go to that length in terms of spreading the message.

[43] **Lesley Griffiths:** Again, what I said earlier, they will be picking up their tenants

during their normal course of business, and if they want to have that face to face—. I don't think the face to face would be necessary in the way it's been put forward here.

[44] **Jocelyn Davies:** What is your assessment of the view of CHC and some other associations that the removal of ground 8 possession will increase costs for them in terms of increased arrears and higher borrowing costs?

[45] **Lesley Griffiths:** I don't accept that removing ground 8 would have a significant impact on housing association finances. Not many of them use ground 8, as we discussed yesterday. It's something that isn't used widely, I don't think. Local authorities don't have access to ground 8. So, really, the level of rent arrears is determined more by how actively an association manages their arrears. So, I don't really accept that, either. If a housing association made a family homeless due to ground 8, who picks it up? It's the local authorities, so I wouldn't accept that.

09:15

[46] **Jocelyn Davies:** Would they be considered intentionally homeless? I think the argument by the associations is that, because ground 8 exists, tenants know the consequences, therefore they pay their rent and, actually, the low use of ground 8 is a demonstration that it works. If there are additional costs that are unforeseen because of this, would you consider recompensing associations for that, if your assessment is wrong?

[47] **Lesley Griffiths:** It's not something I've considered, but it's certainly something that I can consider looking at.

[48] **Jocelyn Davies:** Okay.

[49] **Lesley Griffiths:** Did you want to say something, Simon?

[50] **Mr White:** I was just going to say that what we would again point to is the fact that local authority arrears are the same as housing associations'. If the argument that having ground 8 sitting there in the background, if you like, was somehow encouraging housing association tenants to keep up their rents better than local authority tenants were, then you would expect the arrears of local authority tenants to be, perhaps, significantly higher. The fact that they're the same means that we don't think there's a case there.

[51] **Jocelyn Davies:** Okay, thank you. And the increased borrowing costs, because lenders might see them as riskier; have you talked to lenders about whether this is a genuine concern of lenders, or is this just a worry of associations and that wouldn't be the case?

[52] **Lesley Griffiths:** They were on the stakeholder group, so those discussions have gone on.

[53] **Jocelyn Davies:** And they disagree with that point, do they? Borrowing costs won't be higher because it's a greater risk?

[54] **Mr White:** The Council of Mortgage Lenders have been on the group from the start, really. I think it's fair to say that they would agree that they would like to see ground 8 retained for the same reason that housing associations are saying: they feel that it's that sort of backstop that an association has recourse to. But I did note in the evidence they sent to the committee that they themselves say that they don't feel it's possible to predict or judge in an evidenced way what the impact will be. So, there's not a particularly strong voice coming from that direction.

[55] **Mr Breeze:** No, and when we were developing the White Paper itself, I had this discussion with the Council of Mortgage Lenders and that's exactly the position. I think they'd like to see it retained, but as for evidence as to the actual impact, none has been forthcoming.

[56] **Jocelyn Davies:** But they could tell you if they would see it as a risk and therefore they would be making a greater charge and the borrowing costs would be higher. They know that, because that's in their gift. Have they indicated that they wouldn't be increasing the costs of borrowing because it wouldn't be seen as riskier?

[57] **Mr Breeze:** No. I think some of the factors that increase borrowing costs more than anything else are things like good governance and other issues, as opposed to simply arrears, although arrears are important.

[58] **Jocelyn Davies:** Well, as long as you've got that reassurance from them, then I'm very pleased with that. Julie, shall we come to your questions?

[59] **Mike Hedges:** May I, Chair?

[60] **Jocelyn Davies:** Sorry, Mike, you wanted a supplementary on this point.

[61] **Mike Hedges:** Just a short supplementary. I speak as somebody who welcomes the removal of ground 8, but I can see the financial position of it. If you remove ground 8 at roughly the same time as we're ending direct payments, it does bring greater risk of income to housing associations. Whatever the mortgage lenders are telling you now, when they assess risk, they will take the opportunity to increase or decrease charges, depending on the risk they find. Do you disagree with any of that analysis, or have you got a different analysis?

[62] **Mr White:** I think we just haven't seen any evidence that that's what would happen. I suppose I'd also refer to the situation in Scotland, where they haven't had ground 8 since they brought in the Scottish secure tenancy some 10 years ago, and the world hasn't fallen in, if you like, there.

[63] **Mike Hedges:** I was more interested in the fact that it's happening at roughly the same time that direct payments are also going to end, so consequently you've now got two things happening that are affecting income, and I think the second one will affect income far more than the first. But you've got two things there. Lenders get nervous, and lenders' nerves are very contagious, and the first thing a lender does when they get nervous is increase interest rates.

[64] **Mr Breeze:** In terms of direct payments, you're absolutely right, it is a fundamentally difficult issue, but I'm encouraged by the action that is being taken by local authorities and housing associations to actually address that. It will be a challenge for everyone. I don't think, in the context of this Bill, that the costs are unseen on that.

[65] **Mike Hedges:** I just thought that the two things happening together would exacerbate initial concerns, but you don't feel that way.

[66] **Mr Breeze:** It depends on the actions taken locally with tenants to help them manage their finances. I think there's a huge amount of work going on on that. So, I don't think it's going to exacerbate it any further than the arrears.

[67] **Jocelyn Davies:** Minister—

[68] **Mr White:** It really does come back to the point that it's used so incredibly rarely at

the moment. If it was being used in 20 per cent or 30 per cent of possession cases, then that may be, but it's used in less than 2 per cent, from the figures we have available, so it doesn't stack up, I think, that it need have that sort of significant impact.

[69] **Jocelyn Davies:** You will continue to have an ongoing dialogue with lenders about risk and about the regulatory regime in order that any concerns that they have are alleviated.

[70] **Lesley Griffiths:** Absolutely.

[71] **Mr Breeze:** Yes, and more than that: work with the sector to actively support them to actually manage issues like direct payments and continued pressures on welfare reform.

[72] **Jocelyn Davies:** Right. Lovely, thank you. Julie, shall we come to your question?

[73] **Julie Morgan:** Yes, thanks. I was going to ask about the ending of the six-month moratorium on private landlords obtaining no-fault possession orders. I think there is a great deal of concern about this, both in policy terms and obviously in financial terms. So, I think the local authorities feel that there's going to be an increase in homelessness because of this. Do you think that it is going to result in increased costs to local authorities as a result of ending this moratorium?

[74] **Lesley Griffiths:** You're quite right; there are concerns about ending the six-month moratorium—I think, in policy terms, but in financial terms not so much. I think the basis for saying that there will be more cost is that they think landlords will change their behaviour, and I don't see any evidence to suggest that landlords will change their behaviour. I think, if anything, it will encourage landlords to assist local authorities to perform their housing duties. They're more likely to take on somebody who's deemed to be more high risk, for instance. So, I actually think it will help local authorities.

[75] **Julie Morgan:** In terms of the high risk, even within the six-month moratorium, if there is anti-social behaviour or some other form of behaviour, I think you are able to give notice—get rid of those tenants, basically—within the six months at the moment. So, I can't quite see the justification there.

[76] **Lesley Griffiths:** I think there's a bit of a misunderstanding here about the requirements under the Housing (Wales) Act between—and we did discuss this yesterday—section 73 and section 75.

[77] **Julie Morgan:** Sorry, I wasn't there yesterday.

[78] **Lesley Griffiths:** Yes. Sorry, I am just trying to think now. I think there was a bit of misunderstanding around this.

[79] **Mr White:** Yes. I think that the Welsh Local Government Association's response is assuming that, in order to discharge the section 73 duty under Part 2 of the housing Act, there would be a requirement for the local authority to agree a minimum six-month contract in order to satisfy the wording in the housing Act, which, I think, is that the accommodation is likely to be available for at least six months. That's not the case, and certainly we feel that if that misunderstanding is out there, we need to correct it.

[80] So, what we're saying is, actually, by not having the six-month moratorium, if a housing officer is dealing with a case under that section 73 duty, they would be able to speak to a landlord they know and say, 'Well, I've got someone here. Okay, they've got a bit of a bad renting history, or some particular issue, but would you be prepared to take them on a month-by-month basis just to see how it goes?' At the moment, with the moratorium in place,

they effectively know that they're signing up and it is a minimum of six months before they would be able to get possession under a no-fault ground. I accept what you say. There are other grounds.

[81] I suppose what I would refer to there is that local authorities themselves have an introductory tenancy regime, where they actually have a one-month notice period for the first 12 months, and that can be extended to 18 months, I think, as well. So, the idea, I suppose, of having an initial period on a tenancy where it is a sort of probationary period, where the landlord can actually act to end a tenancy if things are not working out is accepted within the local authority introductory tenancy regime itself. So, if they were going to house someone into a local authority setting, through one of those duties, that person would be subject to a one-month notice, if they go down the route without the moratorium. In fact, what we're doing is effectively standardising arrangements for the termination of tenancies on an early basis.

[82] **Julie Morgan:** It just seems a step backward in terms of getting more security for tenants, but, obviously, the issue here is the financial implications, and I think there is a concern that there would be increased homelessness. The other issue that's been raised is that there may be an increase in rents if tenancies are ended more frequently: that there would then be a higher increase in rents.

[83] **Lesley Griffiths:** No, I don't accept that. I don't think this would lead to shorter contracts. I think what we have to remember is landlords don't want a quick turnaround of tenants. They want to keep their tenants, generally, as long as possible. So, I think even a landlord would really want an initial six or even 12-month contract. As I say, this is based on landlords changing their behaviour. I don't think there's any evidence to suggest that landlords would want to forgo the security of income that initial fixed-term tenancies would give them, so I don't think in the vast majority of cases the Bill would lead to shorter contracts, for instance. I don't think there is anything to suggest in the Bill that it would lead to an increase in rents either.

[84] **Jocelyn Davies:** Nick, shall we come to your questions?

[85] **Nick Ramsay:** Thanks. Morning, Minister.

[86] **Lesley Griffiths:** Morning.

[87] **Nick Ramsay:** While the regulatory impact assessment concludes that the Bill would be cost-neutral in respect of HM Courts and Tribunals Service, have you evaluated the potential court-related costs to tenants and landlords?

[88] **Lesley Griffiths:** I don't think there's, again, any reason to suggest there would be any additional costs as a result of the Bill. I fully accept the reduction in court costs that will come from greater clarity that this Bill will provide, but there'll be a reduction in the number of disputes, so I think there'll actually be benefits and gains.

[89] **Nick Ramsay:** Not even any short-term costs?

[90] **Lesley Griffiths:** I think, in the short term, yes. I think we have to accept, in the short term, there will be short-term court costs. If you think about it, courts would have to adapt forms, for instance. There may be training costs. I know officials have been speaking to judges, for instance, as we've been developing the Bill over the past couple of years. They're very supportive, I think, in general. We are talking to the right people. Officials have met with the Ministry of Justice, for instance, and other judicial groups and organisations. We do know that they may need to amend the civil procedure rules, so, again, there would be some costs

there. So, in the short term, yes, I do accept that there will be some costs.

[91] **Nick Ramsay:** Okay, thanks. What is your view on the financial implications for using an alternative body, such as the residential property tribunal, for mediation to address disputes arising from the Bill?

[92] **Lesley Griffiths:** Yes, I can see the merits in both of those. I think, in relation to mediation, that could be something for when we've got the model contract. Within the model contract, there's an opportunity to add additional terms, so I think mediation could be something that could be used and I think we could work that into the additional terms part of the contract. In relation to the residential property tribunal, I think the main issue there—and, again, it was something that we discussed at length yesterday in scrutiny—is the capacity. There isn't the capacity there now. If you think there's probably 30 courts across Wales, so if you need to replicate 30 tribunals you're talking substantial costs initially and also capacity building in the tribunals. So, I think, you know, I've got some sympathy with the suggestion that tribunals could play a much greater role. However, I don't think that kind of infrastructure is there now, and that would be something that would have to be built up long term, and it could cost significant amounts of money.

[93] **Nick Ramsay:** Obviously, you've accepted mediation is a way ahead. I was going to ask you next about whether there could be potential savings in comparison to the present proposals in the Bill, but, from what you've just said, you think that there would then be associated costs with building up the tribunal as well.

[94] **Lesley Griffiths:** Absolutely. So, in the longer term—

[95] **Nick Ramsay:** I've answered the question, haven't I? *[Laughter.]*

[96] **Lesley Griffiths:** You've answered the question yourself. Yes, that's good.

[97] **Jocelyn Davies:** Well, that's a cost saving in itself. *[Laughter.]*

[98] **Lesley Griffiths:** Absolutely. I do have some sympathy with it, and it is a matter of capacity building. If you think there's about 4,500 disputes, hopefully that number will reduce because of the Bill, but, you know, we just wouldn't have the capacity within the tribunals.

[99] **Nick Ramsay:** Would there be any way of streamlining that residential property tribunal, so that it potentially could be suitable in the future?

09:30

[100] **Lesley Griffiths:** I mean, there might be, but your question was about costs in the short term and longer term, so I was just trying to explain why I think it wouldn't work until the longer term.

[101] **Jocelyn Davies:** Yes, I don't suppose the streamlining of the property tribunal is a matter for you, Minister, is it? Your portfolio is very broad and might include that, but it's not under this Bill.

[102] **Nick Ramsay:** It wasn't the best supplementary question. *[Laughter.]*

[103] **Lesley Griffiths:** If you'd like to say that.

[104] **Jocelyn Davies:** But if you find that many disputes come from the Bill, you might want to look for another way of resolving those, would you?

[105] **Lesley Griffiths:** But the hope is that the number of disputes will reduce significantly because we've got so many different complex areas of housing law, and bringing them all together will make things much clearer, both for landlords and tenants.

[106] **Jocelyn Davies:** You are, however, introducing some new terms that we haven't seen before, in this Bill, and new concepts. There's no shortage of housing disputes that go all the way to the very highest courts, and you did tell us yesterday that you would expect the courts to decide on what some things mean. You mentioned, I think probably three or four times, that it would be a matter for the courts. So, it is an issue that it is possible that there could be new things going to the courts, even though you may have resolved some things that are currently under dispute. So, will you keep an eye on that in the future and, of course, try to clarify any of those terms in the passage of this Bill, in order that they can be interpreted properly?

[107] **Mr Breeze:** We'll keep a very close eye. You'll see we've costed evaluation into the proposals over a two-year period at least, and that'll look at all aspects of learning, including court cases' learning of implementation of the Bill. So, yes, we will keep a close eye on it and learn from it.

[108] **Jocelyn Davies:** That evaluation that you intend to carry out—I see that you've got that in, is it £5,000 or something? Anyway, it's a substantial sum.

[109] **Mr Breeze:** It's about £50,000 over three years.

[110] **Jocelyn Davies:** And that evaluation is built in from the beginning rather than, in two years' time, looking back and saying, 'I wish we'd done that differently.'

[111] **Mr Breeze:** That will be an independent evaluation commissioned before the actual Bill comes into force, in the same way as we are doing with the housing Act.

[112] **Lesley Griffiths:** And it's £50,000, Chair.

[113] **Jocelyn Davies:** Sorry. Is it £25,000 in the first year? I can't remember. Anyway—

[114] **Mr Breeze:** It's over three years.

[115] **Jocelyn Davies:** Nick, are you—

[116] **Nick Ramsay:** I'm done, yes.

[117] **Jocelyn Davies:** Okay. Mike, shall we come to yours?

[118] **Mike Hedges:** Yes. We passed a housing Bill last year—the Housing (Wales) Act 2014. There are communication and training costs associated with that. There are communication and training costs associated with the current Bill. Will there be an attempt to minimise additional costs by joining them together wherever possible?

[119] **Lesley Griffiths:** Obviously, the costs in this RIA are about this piece of legislation, but I think there's an opportunity, as I mentioned before, with the national registration scheme for private landlords. I think that will be a valuable area where we can continue to raise awareness about this piece of legislation. Again, the training that landlords are required to undertake in order to be licensed will also include the contractual requirements of this Bill. So, there are ways of helping to minimise it.

[120] **Mike Hedges:** Ten years ago, somebody used the word ‘synergy’. [*Laughter.*]

[121] **Lesley Griffiths:** ‘Read-across’ I think the Chair used yesterday.

[122] **Mike Hedges:** You’ve identified communication costs of £160,000. How do you intend to spend them?

[123] **Lesley Griffiths:** The communications costs? How are we going to spend them? Well, again, we’ll look at what has been done with previous legislation and pick up best practice. You’ll always get somebody who says, ‘Oh, I didn’t know about that’ and it’s about making sure that as many people as possible—. We need to look at how housing associations, local authorities and private landlords deal with their tenants. You do have that connection. Wider communications: if you think about housing associations’ bulletins, for instance. We need to look at how we raise awareness for the best. You know, we have to spend that money wisely.

[124] **Jocelyn Davies:** Mr White, did you—.

[125] **Mr White:** Thank you. Yes, just to add, I suppose, an example: Members may be aware there was the Your Benefits are Changing campaign, which was co-ordinated by Community Housing Cymru. We think that’s a good example of collective work in terms of communicating that sort of change. You could almost change the words: instead of Your Benefits are Changing, it would be ‘your tenancy is changing’. It is that sort of communication message that we recognise we need to get out there. I have had some discussions with Community Housing Cymru, and I’m actually attending their communication officers’ network shortly to talk about this in more detail. So, we are very much looking to work with partners, and I think we would be able as Welsh Government—as Ceri mentioned earlier, we would bear some of the costs of that policy team to make sure we can develop those sorts of materials and then share them with partners. So, clearly, we want to minimise costs wherever possible, but do it in an effective way, and we think working with partners through that sort of co-ordinated campaign is probably the best way to do that.

[126] **Jocelyn Davies:** I think with ‘Your Benefits Are Changing’ that some landlords found that it wasn’t until they did actually have face-to-face meetings with every single tenant that tenants understood that it was affecting them, so I hope that you’ll do an evaluation on the reach of that. Do you intend to do something like that? Because, I mean, if it’s affecting 1 million people living in households currently, it’s a substantial proportion of the population. Were you thinking of doing tv?

[127] **Mr Breeze:** We thought very carefully about how we’ll spend the £100,000, and, just to illustrate, we are doing exactly the same thing now on a private level with the landlord registration scheme. We’ve got a detailed communications plan, which is costed activity and non-costed. We’ve looked very carefully at radio, for example. You’ve got to think about the cost and the reach of it; tv can be very, very expensive and actually not necessarily reach the audience. But we’re looking at all options and we’ll pick the most cost-effective to reach them.

[128] I think, in terms of what Simon said about working with stakeholders and channelling information, that is a very, very cost-effective way of pushing it forward, but, where necessary, where there is need for broader, campaign-type activity, we’ll do that as well.

[129] **Lesley Griffiths:** I like the back of buses, myself.

[130] **Jocelyn Davies:** Yes, well, there’s that. [*Laughter.*]

[131] **Lesley Griffiths:** I think that it's really far reaching.

[132] **Jocelyn Davies:** That can be very effective—especially if you're stuck behind a bus at any point at traffic lights. [*Laughter.*] It can be very effective, but it gets the message across to a great many people. Mike, did you have—

[133] **Mike Hedges:** I was going to say, if you put it on the back of a bendy bus in Swansea, lots of people will read it. [*Laughter.*]

[134] **Jocelyn Davies:** Before you come back in—

[135] **Mr White:** I'd just say there's one other point to make on that in terms of we do envisage a long lead-in time, so that there is plenty of time for queries to be addressed by landlords before any changes actually take place. So, we make sure the model contracts are available six months in advance of when it would actually be implemented; we allow a long time afterwards for the landlords to actually issue the contracts. So, I think we recognise it's better to sort of do this right than to do it quickly, and that's an important part of the strategy.

[136] **Lesley Griffiths:** I think that the lead-in time is a really important point. I know it's more policy, but I think the Law Commission recommended two months. We've done six months, and then we're giving another six months for contracts to be issued. So, you know, it's a year, and you would expect a landlord to have contact with tenants during that period of time.

[137] **Jocelyn Davies:** Okay, then. Mike?

[138] **Mike Hedges:** My last one. I'll talk solely about your additional staffing, because I'm sure the housing associations and the councils will have their own views, as private landlords have their own views, on that. Will your additional staffing be new people, or will it be redeployment? And if it's going to be a mix, what's the mix going to be?

[139] **Lesley Griffiths:** Oh, it won't be new. It'll be done within existing resources, so, it'll be done from within Welsh Government.

[140] **Mike Hedges:** So, the net cost to the Welsh Government of this in terms of staffing will be zero.

[141] **Lesley Griffiths:** Yes.

[142] **Jocelyn Davies:** Okay? Ann.

[143] **Ann Jones:** Thanks, Chair. I wanted to talk about the financial impact on the third sector of this Bill. The RIA are example figures from one organisation, so, what attempts have been made to estimate the impact of the Bill on the whole of the third sector?

[144] **Lesley Griffiths:** It was one organisation, and that was Citizens Advice, and, again, officials had worked very closely with them. So, we used Citizens Advice as an illustrative model, but we also had discussions with Shelter Cymru, because, obviously, Citizens Advice and Shelter Cymru are the two main providers of housing advice and information in Wales. So, work was done with Shelter Cymru also. I know that Shelter Cymru have been very positive and very supportive, and they really do think that this Bill will help them provide much clearer advice and also reduce disputes. So, I'm hoping the burden will be less on them also, but, you're quite right, it was Citizens Advice that was used as illustrative model, but we did discuss with Shelter Cymru also. I don't know if Simon wants to add any more.

[145] **Mr White:** Yes. In all the discussions, and we've had many involving Shelter Cymru, they haven't raised the issue of additional cost to them as an organisation, because I think, as I suppose with all—it potentially applies to Citizens Advice as well—part of what they do, and part of what their staffing is there for, is to keep up to date with changes in all sorts of things, including legislation. So, it would be part and parcel of what they usually do, I think.

[146] **Julie Morgan:** I just wondered if I should declare an interest; my daughter works for Shelter Cymru.

[147] **Jocelyn Davies:** No, I don't think.

[148] **Julie Morgan:** Okay. It just was in my mind.

[149] **Jocelyn Davies:** No, but it's quite interesting; we know now that you have access to expertise in that area. [*Laughter.*] No, that's fine.

[150] **Ann Jones:** There are other third sector organisations that will deal with people within communities. I wondered—yes, Shelter Cymru and Citizens Advice—but have you made any attempt to talk to them about what they see would be the impact of any additional financial costs of this Bill?

[151] **Lesley Griffiths:** Other organisations?

[152] **Ann Jones:** Yes. There are a few, aren't there?

[153] **Mr White:** So, for example, I suppose, Tai Pawb is also represented on the stakeholder group; Cymorth Cymru are represented on the stakeholder group. Again, they haven't raised specific concerns with us about additional costs. Yes, there are other smaller providers involved, but we haven't actually represented that within the impact assessment.

[154] **Mr Breeze:** They would be included in the awareness-raising sessions, and materials made freely available to them as well.

[155] **Ann Jones:** Citizens Advice Cymru cite the additional cost to the third sector they believe that will need to be funded by the Welsh Government. Do you agree with that?

[156] **Lesley Griffiths:** Sorry, could you repeat that?

[157] **Ann Jones:** Citizens Advice Cymru—actually it was in response to the Communities, Equality and Local Government Committee—cite additional costs to the third sector that they believe will be needed to be funded by the Welsh Government, and they went on to list a number of things. Do you agree with that, and are you going to do it?

[158] **Lesley Griffiths:** No, I was quite surprised, because I think they gave us the figures in the first place, so it was quite surprising. Certainly, within my portfolio, I already fund Citizens Advice; I think it's about £5.5 million. So, no, as you can imagine, in these difficult financial times, there won't be any additional funding. Citizens Advice have been really helpful to us in doing this. As I mentioned, they're the ones we used as the illustrative model; there's been a lot of work done with them and their staff also. But I think, again, Ceri just mentioned it, we do intend to provide information and guidance, which will be freely available.

[159] **Ann Jones:** But any additional costs then to any third sector organisation, you'll expect them to meet from within their—either if they do receive core funding or—

[160] **Lesley Griffiths:** And I'm hoping that we will reduce the burden on them with this Bill.

[161] **Ann Jones:** Okay.

[162] **Mr Breeze:** The cost in there for Citizens Advice, the illustrative cost on updating information, for example, is something they do day-in, day-out anyway to keep their advisers up to date with new legislation.

[163] **Jocelyn Davies:** I guess they would need to train their volunteers, wouldn't they? If you tell us that landlords will need to be trained, then their volunteers—. Otherwise, there's a danger that they could be giving incorrect advice. Sorry, Ann.

[164] **Ann Jones:** I'm fine.

[165] **Lesley Griffiths:** You're absolutely right, and, obviously, we very much value volunteers, but I don't think we could've worked that into this.

[166] **Ann Jones:** All right. Okay. That's fine, Chair, thanks.

[167] **Jocelyn Davies:** Did you have a supplementary, Mike, on that point?

[168] **Mike Hedges:** Yes. I think that one of the things I find always very interesting is that no-one ever nets costs off; they always put the additional costs in, but they must also have savings for the things they're currently doing that they won't be doing because the new Bill will be coming in.

[169] **Mr Breeze:** That's a very good point. We anticipate savings as a result of fewer disputes, actually, because they deal with a lot of things that the Bill is trying to address.

[170] **Mr White:** I think that point is particularly made in Shelter Cymru's response to the CELG committee, because they recognise there should be fewer disputes and it will make their life easier.

[171] **Jocelyn Davies:** It's nice to see my Members helping the Government. *[Laughter.]* They've made a note of that now, Mike, and that'll be in their answers in the future. So, the training up of the volunteers that will be giving information to people you feel should be covered by the funding that you already provide to these organisations on an ongoing basis, because that's taken into consideration there. You wouldn't normally expect then to pay for training for specific pieces of work, because I suppose that would be never-ending for the Government in terms of all the advice they give out on a whole range of things, not exclusive to housing.

[172] **Lesley Griffiths:** As Ceri said, they're doing it as part of their normal business anyway, on a daily basis, I think.

[173] **Mr Breeze:** Citizens Advice and others will be in the awareness-raising events we run and then they will—. Typically, what they do is cascade the information down.

[174] **Jocelyn Davies:** So, they'll have access via your communications and your publicity and your training anyway.

[175] **Mr Breeze:** Full access.

[176] **Jocelyn Davies:** They'll have access to the information that they'll need. But you can't blame them for trying it on.

[177] **Lesley Griffiths:** No. [*Laughter.*]

[178] **Jocelyn Davies:** Okay. Were there any other supplementaries on that? Well, just that there are a number—and, Minister, this is the last question. There are a number of regulation-making provisions in the Bill that may have financial implications. Of course, we don't know what they are yet. What work has been done to ensure that you are aware of the full cost and benefits of these to stakeholders within the sector? Because, obviously, we haven't had access to that—we haven't seen them and they're probably not completed as yet. So, how will you ensure that you're up to date with all of the costs and the benefits?

09:45

[179] **Lesley Griffiths:** As you say, that's ongoing work, because we don't know what will come out of—. I mean, just yesterday, I think I picked up that Members would perhaps be keen to see a mandatory requirement for carbon monoxide detectors, for instance. So, as we go through scrutiny, I think that is ongoing work that needs to be worked up and developed because, if you have a battery one or a wired one, that would cost significantly different amounts of money. So, I think it's hard, at this stage, to work out the costs of subordinate legislation and regulations, et cetera. So, that is ongoing work.

[180] **Jocelyn Davies:** I think, though, that considering that one of the Members on the committee yesterday who asked you about that was a landlord herself, she did say that these were quite insignificant costs compared to the benefits that might very well accrue. But you will be—. The one thing that was raised about private sector landlords, of course, was the legislation on fitness for human habitation and that that might be a significant cost perhaps for some that might be passed on to tenants. How are you going to militate against those substantial costs perhaps being passed on to tenants?

[181] **Lesley Griffiths:** Well, again, I wouldn't expect to see rent increases. I think, if you've got some rogue landlords who provide a much poorer standard of accommodation than they should be doing at the moment—. You know, I don't accept that rents should rise for such landlords to provide property that is fit for human habitation. We know that landlords are able to provide that now whilst not charging exorbitant rents, so I wouldn't expect to see rents rise.

[182] **Jocelyn Davies:** Rise substantially. And I guess, with your fit-and-proper-person test, you are expecting this sector to professionalise and be a better sector anyway.

[183] **Lesley Griffiths:** Absolutely.

[184] **Jocelyn Davies:** Okay. Are there any supplementaries? Okay, Minister, we've got to the end of this session. Thank you very much; that was a very useful session with you and we're very grateful for that. We will of course send you a transcript, as always, and, if you check that, then we can publish it.

[185] **Lesley Griffiths:** Thank you very much. Thank you, Chair.

[186] **Jocelyn Davies:** Shall we have a break now? Our next session starts at 10 o'clock.

*Gohiriwyd y cyfarfod rhwng 09:46 a 10:00.
The meeting adjourned between 09:46 and 10:00.*

Casglu a Rheoli Trethi Datganoledig yng Nghymru: Sesiwn Dystiolaeth 1
Collection and Management of Devolved Taxes in Wales: Evidence Session 1

[187] **Jocelyn Davies:** Okay. Welcome, everybody, back to a meeting of the Finance Committee. We are now on agenda item 4, which is evidence session 1 on the collection and management of devolved taxes in Wales. I'm delighted that we've got representatives of local government with us to help us with our inquiry. I wonder if you'd introduce yourselves for the record, and then, if it's okay, we'll go straight into questions. Shall we start with you, Jon?

[188] **Mr Rae:** Yes, thanks, Chair. My name is Jon Rae; I'm the director of resources at the Welsh Local Government Association.

[189] **Mr Watkins:** My name's Gary Watkins; I'm the revenue services manager for Cardiff county council.

[190] **Mr Jones:** My name's Nick Jones, service director operational finance at Rhondda Cynon Taf council.

[191] **Jocelyn Davies:** Lovely; thank you very much. I wonder if we'd start off with a general question about what you believe should be the key role of the Welsh revenue authority. Who's going to answer that one? Because you're sitting in the middle, I'm going to ask you, Jon.

[192] **Mr Rae:** Thanks very much. [*Laughter.*]

[193] **Jocelyn Davies:** Just in general terms, what do you think the key role ought to be for this function?

[194] **Mr Rae:** In our response to the White Paper, the WLGA supported the setting up of a Welsh revenue authority. In our submission, and in the evidence we gave to the committee, we believed that it should be independent from Welsh Government, with strong accountability to the National Assembly. In terms of its membership, we thought it should be a non-executive board, with a chief executive. We thought—when we were looking at evidence that had been submitted to the consultation around the Scottish revenue authority, we did note in that that there was some suggestion that perhaps there should be a revenues commissioner in Scotland, and we thought that these alternative types of models should potentially be tested out. Obviously, we support the setting up of a revenues authority. Whether it should be a commissioning body, or itself have function to collect taxes, I think is still open to some discussion.

[195] **Jocelyn Davies:** Okay. Right. Thank you. Julie, shall we come to your questions?

[196] **Julie Morgan:** Yes. You've just referred to the fact about whether it should have responsibility for collection, such as council tax and national non-domestic rates. What is your view? Do you think that it should?

[197] **Jocelyn Davies:** Have you come to a view, as yet?

[198] **Mr Rae:** We think—. There are two things here for local government, which are cases that we've made to Welsh Government all along. Firstly, that there is expertise out there in local government in terms of tax management and collection—and I'm not talking about me; I'm talking about colleagues to my left and to my right here. There's a vast amount of expertise; they've been collecting taxes—not these two personally, but, certainly, local

government has expertise going back hundreds of years, collecting over £2 billion-worth of taxes. And that expertise should be tapped into. I think there's a role for local government in the collection of taxes because of the expertise that is out there. You're talking about—. Take the stamp duty for example; it's about £150 million, which is less than 10 per cent of what's collected through council tax and business rates, so I think there is a case for local government to have some role in the future around the collection of any devolved taxes, not just the taxes that are currently devolved, or planned to be devolved, but potentially those in the future as well.

[199] **Julie Morgan:** So, you'd be making a case for the local authorities to have a role?

[200] **Mr Rae:** I think, in the future, we would, because not only is there expertise out there in local government, they're actually very good at what they do as well, both in terms of performance and in terms of their collection rates. In-year collection rates for council tax in Wales are somewhere around 97%. They're higher when you take into account prior year, sorry the—

[201] **Mr Jones:** Cumulatively.

[202] **Mr Rae:** Yes, cumulatively, the rest of the tax. But that compares very favourably with revenues departments over in England. Currently, when you compare Welsh councils with unitary authorities in England and Scotland, now this year—sorry, for 2013-14 they have the highest collection rates. Their arrears I think are now falling for the first time since 1993; again, I'm talking collectively.

[203] There's a thing about cost as well. We don't have much information, or much up-to-date benchmarking information, about the costs of collection of council tax and non-domestic rates, but the last time we looked at benchmarking data—CIPFA did something in 2010 or 2011; I can't remember which year—the costs were, I think, as low as 60 per cent of the English average. The Welsh costs were 60 per cent of the English average. I'm happy to provide further evidence to the committee sourcing all those data and sending your members a little note about that.

[204] **Jocelyn Davies:** I think the general message that you're telling us is that local government in Wales has got a track record on collecting taxes—a considerable track record—and being effective, and a better record than elsewhere in terms of the collection rate.

[205] **Mr Rae:** Yes.

[206] **Jocelyn Davies:** And you know that from experience—

[207] **Mr Rae:** They compare very favourably. In fact, I'd go—well, the Local Government Association have gone further. Annually, there is a media frenzy, not so much here in Wales, but there certainly is in England, about council tax collection rates. Usually, it focuses on the negative—it focuses on the small percentage that isn't collected, and it focuses on the level of arrears. Just recently, I think, the LGA have actually been fighting back on that and saying 'Well, actually, when you look at the tax gaps in Her Majesty's Revenue and Customs, central Government aren't very good at collecting taxes'. And, indeed, if HMRC was as efficient as local government at collecting taxes, there would be an extra £20 billion in the exchequer. And that's the argument the LGA have been making. Now, there's a difficulty in comparing—

[208] **Jocelyn Davies:** Yes, it's not a like with like, but you make a good point. Julie?

[209] **Julie Morgan:** You've made your case.

[210] **Mr Watkins:** Sorry, could I just add there? I think the other thing to stress is that local authorities have got detailed records on all domestic properties in their area and all businesses. We're actually billing and collecting taxes every year from every household in the area. And, with these new taxes coming in, there's an opportunity, I think, for Welsh Government to start to join the dots with some of them, particularly with land tax stamp duty. We rely on information for change in occupation, and, with any tax, you need to try and keep it as simple as possible and bill as quickly as possible. And if there was a joining up of the legislation and linking in stamp duty to business rates, we'd be able to get bills out quicker for change in occupation because we'd get the information as soon as the property transaction took place.

[211] With business rates, ultimately, we're collecting over 99% of the tax already, but there's an opportunity to collect even more, because the sooner you bill the better your collection rates are. So, there are opportunities, I think, here to start making the legislation coherent across the board.

[212] **Jocelyn Davies:** Mr Jones.

[213] **Mr Jones:** I'd just like to endorse Gary's comments there, Chair, but, going back to your comments about the track record of local government, whilst local government has been tasked with collecting local taxes for, as Jon said, hundreds of years, we've also had quite a period of change over the past 30 years with the demise of the old domestic rating system, the introduction of the ill-fated poll tax and the switch to council tax three years later. During that period of transition—Gary and I have been around since those days—I think local government has a track record of effectively introducing those new taxes, but also doing that in incredibly short timescales as well, successfully, which I think is testament to the quality of the officers we have across Wales administering council tax and business rates.

[214] **Jocelyn Davies:** Okay. Chris, on this point?

[215] **Christine Chapman:** Yes, well, some of my questions here.

[216] Obviously, you talk about the expertise you have; could I just ask about the service standards? You've mentioned some, but what service standards do local authorities use in the collection of taxes? You've said some, but I just wondered if there was anything else.

[217] **Mr Jones:** There's a statutory performance indicator that we have to report on annually, which is the percentage of council tax collected in-year. There used to be performance indicators around the cost of collection per dwelling; that was dropped quite a few years ago now. Obviously, we have to report on the statutory indicator, but each authority is able to develop its own local performance indicators to measure performance. For example, we measure our collection rate of outstanding debt as well. That's a local performance measure. Ultimately, that is the most important thing—it is not the in-year collection, it's how quickly and the percentage of the total debt we collect. So, that is a local indicator for us. We also have internal performance standards and service standards in terms of responding to customer inquiries and mail, which may vary authority to authority, but we aim to answer customer correspondence within 10 working days. So, we measure and report on that performance indicator as well.

[218] **Mr Watkins:** If I could just add, every year, we do a survey within Cardiff council of our customers, and we always include questions about tax collection. We need to make sure that customers have the right method of payment opportunities. So, we listen to our customers. A few years ago, we didn't offer debit card or credit card payments, but, through a result of customer feedback, changing ways that people manage their finances, we introduced

debit card and credit card payments for customers. They can pay online, they can pay over the telephone—which is automated—if they want to. So, we're constantly in touch with our customers. We make sure that they understand the bill. Obviously, it goes without saying that it's bilingual. So, it's a constant engagement. I think it's the local presence; we like to think that, because we've got that local presence, we actually know what's important to customers, and I think we could actually build on that as we move forward.

[219] **Christine Chapman:** Can I just ask, I mean obviously that's a very good basis to start with, but what then about efficiencies? Do you think that using local authorities to collect all devolved taxes—. Can you anticipate the efficiencies that could be achieved?

[220] **Mr Watkins:** I'm sure there would be. Obviously, we've got systems already in place for tax collection, covering every domestic and commercial property. If you were going to set up something from brand new, with a totally new organisation, the set-up costs are bound to be higher. In local government, I don't need to tell this committee there have been quite severe spending cuts in recent years and, even in tax collection, those areas haven't been exempt from cuts. So, we're constantly looking at our processes to make sure our processes are efficient. We're making sure that we utilise new technology as efficiently as possible. And things like payment methods, direct debits are by far the cheapest way to pay. We've got over 80,000 households in Cardiff that pay by direct debit now every month. We've promoted that, and we've pushed it. We give people a range of dates; they can pay four times a month, if they want to. So, you make it user-friendly for customers. I think it's that experience that we could bring to the table to ensure that these new taxes are set up in as efficient a way as possible.

[221] **Christine Chapman:** Is that a view you all share, then?

[222] **Mr Jones:** Yes, I agree. As has been said, we're constantly looking to implement new technology that can drive costs down, allowing us to collect tax quicker at a reduced cost, as Jon has already alluded. I think the Chartered Institute of Public Finance and Accountancy research—. Some of the local authorities are in benchmarking clubs operated by CIPFA, and we compare favourably unit costs with our English counterparts, unitary authorities in England. But it's a constantly evolving process and we also take into account customers' perceptions. In Rhondda Cynon Taf, we haven't got the same penetration of direct debit because of the issues we face and the social deprivation we have, but we still don't switch off to that, and we're constantly looking to try to encourage the take-up of more cost-effective ways of payment, pushing people down self-service channels to reduce our operating costs. So, there's a culture already there for us to deliver this process efficiently and effectively.

10:15

[223] **Jocelyn Davies:** It all sounds very, very positive. I think we'd better scrutinise this a bit. Chris, did you have any further questions?

[224] **Christine Chapman:** No, it's fine.

[225] **Jocelyn Davies:** Julie, did you?

[226] **Julie Morgan:** Yes. I think we've heard some very important points that they were making there. But, to go back to the Welsh revenue authority, obviously, it's uncertain, really, at the moment, what it will actually do. Have you got any views on how it could be designed in a way that it could be adapted or changed in the future, as needs and policy decisions influence it? Have you got any views on that?

[227] **Mr Rae:** I guess, I mean, it's largely a kind of hypothetical question, isn't it? We have to talk about, you know, the potential shape of a revenue authority in terms of our own experience. Nick has already alluded to that, I think, about the type of flexibility that councils have had to demonstrate over the past 30 years, moving from a domestic ratings system, you know, the introduction of the community charge council tax, all over a very short period of time, in the early 1990s, with the community charge council tax. Well, the revenue authority, potentially, could be in a very similar situation. We're talking about, maybe, £150 million-worth of stamp duty income here and maybe it's about £50 million in landfill tax, you know, potentially, with more devolved taxes in the future—proportion of income tax, air passenger duty. They're the types of things that, you know, a new authority would have to be able to cope with, I think.

[228] **Jocelyn Davies:** So, for example, you fully expect there to be a Bill that creates this. You wouldn't expect, for example, who would be collecting the taxes to be in the Bill, would you? Or, would you? I think that's what we're talking about with flexibility; that, who collects it could change from time to time over a period.

[229] **Mr Rae:** Yes.

[230] **Jocelyn Davies:** I did notice that you gave a very rosy picture about how effective local government is at collecting the tax we have now, but I did notice, you did say, I think, twice, 'in the future'.

[231] **Mr Rae:** Yes, we have very good quality discussions with Welsh Government about tax collection. Gary, on my left here, sits on the Minister's tax forum. Our finance spokesman, Councillor Aaron Shotton sits on the Minister's tax advisory group, and I think, through the discussion there and the discussions that officials have had both with Nick, Gary and others, there's a recognition that, potentially, local government wouldn't be ready to collect these taxes in 2018. But certainly, our understanding is that that position would be reviewed in the future, and that's why I talk about a potential role for local government.

[232] **Jocelyn Davies:** So, you're saying that, you know, you're effective at collecting taxes, but you would hope that there would be flexibility, whatever happens.

[233] **Mr Jones:** Yes, if I could just—

[234] **Jocelyn Davies:** No, no, that's fair enough, because would collecting this tax—I'm going to bring Peter in now—be radically different from taxes you've collected from—? Have a little think about that while Peter comes in with his question.

[235] **Peter Black:** I think that was my point, actually. [*Laughter.*]

[236] **Jocelyn Davies:** Right, okay. Well, actually, because Peter has served on a local authority for quite a long time, he probably knows the answer.

[237] **Peter Black:** Well, it's not so much that; it's my experience in Land Registry. But, I mean, landfill tax, I can see there's a very good match there, because you're already our waste disposal authorities, the sites are in a geographically fixed area, so it's very easy to collect the tax from there and do that. I have issues around stamp duty, though. It is quite a complex tax, but in terms of the collection of it, there are issues where, sometimes, stamp duty relates to a property that straddles local authority boundaries, and issues where, obviously, there are HMRC staff who would have to be prepared to come over to you to do that. How would you envisage tackling those particular complexities, specifically in terms of who people will need to go to? At the moment, they go to one authority, which is the HMRC and the solicitors. How will they know which local authority to go to when you have those different issues

associated with them?

[238] **Mr Jones:** Could I make an initial comment? For me, I don't think we should be designing a system around the potential number of small complexities. For me, the design of any new tax should be around making it as simple as possible to collect and the processes and the underpinning systems that are needed to collect that tax should be as simple as possible and low cost. Yes, there will be complexities that will need to be addressed, and expertise drawn in from other experts in HMRC and other tax collecting organisations. But we've discussed this; whatever we end up calling the replacement for stamp duty, it isn't a tax like council tax. You know, that's the name. That is a property tax that is cyclical. It's annual. We bill every year to the household, whoever is living in that property. This system is slightly different in that somebody may pay stamp duty once in their lifetime. It's a one-off bill.

[239] We also administer what we call 'sundry debts', where we're issuing some periodic, but other one-off, bills for a range of council services, which every council in Wales has to do, and we've already got systems and processes for doing that. In Rhondda Cynon Taf, for example, we sent 60,000 invoices for £70 million-worth of sundry debt, and we've collected probably in the high 90s of that as well.

[240] **Peter Black:** I think that's my point, actually—this idea of introducing complexities. At the moment, it's fairly straightforward: the solicitor carries out the transaction, identifies the stamp duty that's needed, sends it to HMRC, gets it back, sends it to the Land Registry, which checks that the stamp duty is correct, and the transaction goes through. By having whatever number of local authorities that we end up with—call it 12 or whatever you want to call it, really—it adds complexity to the process. Isn't that the difficulty?

[241] **Jocelyn Davies:** Please don't start a discussion about the number. [*Laughter.*] We don't have time.

[242] **Peter Black:** No, we're not doing that; no.

[243] **Mr Jones:** Our view is that, you know, we certainly wouldn't recommend or endorse all 22 of the current local authorities being involved in administering this. There is a parallel in that, you know, there are eight pension fund authorities across Wales, operating pension fund arrangements for the local government employees. This model could operate on a similar basis to that, where you would have, possibly, regionalisation of a smaller number of authorities administering and collecting in this new system.

[244] **Mr Watkins:** If I could just come in there.

[245] **Jocelyn Davies:** Yes, Gary.

[246] **Mr Watkins:** The key interface is the legal profession here. Clearly, if there's a property transaction taking place, most customers would go through a solicitor or a lawyer to do the conveyancing for them to execute that property transaction. I think as long as we make sure that the legal profession are absolutely clear as to where that transaction needs to fit in, there shouldn't be a problem. As Nick said, the key is to make the system as simple as possible and I think the Welsh revenue authority, when the legislation is framed, should be given a commissioning role. I don't think they should be given an executing role. It should be a commissioning role that gives you the flexibility. One of the things I've stressed to the Minister, through the working group that I'm on, is to make sure then that there are no loopholes in that legislation so that people can avoid paying. By joining up the business rates, there's an opportunity to actually maximise the yield on both taxes, so there could actually be extra income to spend in Wales.

[247] **Jocelyn Davies:** Okay. Jon and then, Mike, did you have a supplementary on this? Jon wanted to come in and then I'll come back to you, Peter, for your questions, okay? Jon.

[248] **Mr Rae:** Sorry, yes. Just to frame that discussion in the WLGA response, we certainly weren't saying that every authority—however many, let's just call it 'x'—. You know, we're saying regionally or, potentially, just one. What Gary said was absolutely right about there being synergies with the other taxes, with business rates and with council tax. You know, you have that information on what properties are being bought and sold and then, potentially, that information makes you a bit more effective, or prepares you for changes in circumstances in other taxes for other tax collections.

[249] **Jocelyn Davies:** And, I'm sure you've got examples of when one local authority hosts things for other local authorities, not just within Wales, but across the UK. Mike, did you have a supplementary on this point? Then I want to go back to Peter.

[250] **Mike Hedges:** On the point that Peter raised, he raised landfill tax—surely that would be a very easy tax for councils to collect, not least because a number of local authorities actually run their own landfill sites, and it would actually reduce the number of bits of paper going around, because they would be collecting money off themselves. Most of the waste going into landfill sites is coming out from local authorities anyway. So, they themselves would know whether people were actually giving the right data to them, because local authorities have 80 or 90 per cent of landfill.

[251] **Jocelyn Davies:** That's the answer, yes. There's no need to—. It's one of Mike's questions that require you just to agree to it.

[252] **Peter Black:** I was just going to add, Chair, that I spent 17 years dealing with the legal profession and checking stamp duty when I worked at the Land Registry, and I have difficulty seeing the association with business rates, simply because this is a transaction tax, whereas business rates are a different animal altogether. So, I'm just wondering how you tie those two together.

[253] **Jocelyn Davies:** Gary.

[254] **Mr Watkins:** I think we're talking about changing ownership. With any taxation system, information is key. Quite often, there are changes to ownership, whether it be domestic or business, that as a local authority we don't find out about for several months, and the first time we find out is possibly when a bill's returned, or a reminder, or even a summons, and it says that the person's gone away. If you start then playing catch up, and you're billing late for something, your collection rate invariably suffers, and I think it's that link, really—

[255] **Peter Black:** So what you're saying is that it would help you with your business rates.

[256] **Mr Watkins:** And council tax. Any property transaction. The scale of those taxes—. You know, we're talking about £2 billion a year in Wales for those taxes, which is absolutely massive. Any small improvement in those would help—

[257] **Peter Black:** It gives you more information to collect. That's my understanding.

[258] **Jocelyn Davies:** So, the point being, then, that it would make other services more cost effective by joining these up.

[259] **Mr Watkins:** Yes, we'd be billing far quicker.

[260] **Mr Jones:** I just want to clarify Gary's point—it wouldn't be so much on council tax, but on business rates; with some large properties, the daily or weekly charge is considerable. There could be games at play where new occupiers don't actually declare the correct date they moved into a property to us, to reduce their council tax or business rates liability. If we had the information coming through for when the transaction actually took place, we could make sure those two things join up and they're actually billed from the correct date. As Gary said, that would maximise the tax income across Wales.

[261] **Peter Black:** Especially some short-term leases that are not registerable. Absolutely.

[262] **Jocelyn Davies:** Peter, shall we come to your questions, or are you—

[263] **Peter Black:** I think we've covered most of them. We have covered most of them, actually.

[264] **Jocelyn Davies:** Lovely. Nick, shall we come to yours, then?

[265] **Nick Ramsay:** Good morning. Welsh Government has stated that operational tax arrangements in Wales should replicate those in the UK unless there's a policy reason to deviate. Do you support the approach? Do you have a view on the approach?

[266] **Mr Rae:** I'm not really sure how to answer that, to be honest.

[267] **Nick Ramsay:** That's fair enough.

[268] **Mr Rae:** I don't know if Nick or Gary want to say anything. There's something here for us about, you know, is there a need for tax powers to be different? We're not sure that there is. There's a basic principle that powers should be fit for purpose, I think.

[269] **Nick Ramsay:** Okay. Could you suggest any tax powers that may need to be different in Wales compared to those in the UK?

[270] **Jocelyn Davies:** Have we got differences culturally or operationally that you think would be better if we could have a different approach in Wales?

[271] **Nick Ramsay:** Is there anything at the moment that is glaringly obvious to you that, actually, is not working in the Welsh context, and it would be an opportunity to change it?

[272] **Mr Rae:** I don't think so. I'm just thinking of our own local taxes and the way that we've differed, I suppose, since devolution. There has been—. That presents a very different landscape, where I think, compared with England, there's been, you know, harsher council tax capping, for example. You know, not necessarily capping, but I think the Localism Act brought in a limit beyond which there has to be a referendum. So, you know, when you think about things like that and when you think about the different approach that the Welsh Government has taken on the council tax reduction scheme, then, potentially, there should be different powers. I think, as I said, thinking about our own local taxes and the way they've evolved since devolution, that that shows that there is a clear difference there.

10:30

[273] **Nick Ramsay:** I suppose, up until last year, stamp duty would have been a case in point of where a new structure would have benefited, but then it was changed anyway, wasn't it, in the autumn statement?

[274] **Mr Rae:** Yes.

[275] **Mr Watkins:** If I could just add, I don't think there necessarily need to be different powers, but I think Welsh Government have got the opportunity of how to use those powers, and I think that's the important thing, that, recently, there's been a Welsh flavour, certainly on business rates. There have been different schemes introduced in Wales that are not replicated in England, with the new developments scheme and the open for business scheme. So, there's an opportunity here to do what's right for Wales. So, the powers, I think, can be all-encompassing, but, on how they're actually then brought into legislation, there might be some variation. The obvious one is the Welsh Language Act; everything we do is bilingual, and that goes without saying.

[276] **Nick Ramsay:** Do you think, going back to Peter's questions about stamp duty and thinking back to Gerry Holtham's report, which identified the long, porous border between Wales and England, which Welsh Government talk about a lot, we have to be particularly mindful in Wales about the border and the border issues, given that so many people live near the border and these taxes, if they are markedly different here—for very many people, just a couple of miles down the road, there will be a different system in England? That doesn't happen in Scotland, because you've got the big gap between the border and the urban areas.

[277] **Mr Jones:** I think that's right. We wouldn't want to create something, you know, totally different; the solicitors dealing with land transactions could well be dealing with authorities on both sides of the border, and they would have to have different processes. So, I think, again, simplification, as much commonality possibly as there is, but, where there's an opportunity to put a Welsh flavour on it, then we should look possibly to explore that.

[278] **Nick Ramsay:** One final question from me in terms of business rates: do you think that they are fine as a national pool of business rates—as a pool, the money going into that, or would you want them back? Would local government be better having more control over the money once it's raised? I suppose it's obvious what you are going to say to that. *[Laughter.]* Do you want to keep the money?

[279] **Mr Rae:** I think that there's a variety of views across the current 22 authorities. I think only a handful—

[280] **Jocelyn Davies:** There aren't 22 opinions, are there? *[Laughter.]*

[281] **Nick Ramsay:** I suppose it depends how much money you get from it.

[282] **Mr Rae:** Well, exactly. It's about how many authorities are net contributors to the pool, and I think, from memory, it's only a handful; maybe it's three or four that are net contributors to the pool. But, you know, as the WLGA, we've got a very basic position on business rates. The last time it was expressed, I think, was in our evidence to the Silk commission, where we said that an argument for relocalising—there is an argument for relocalising business rates, and it should be examined. There have been various reviews by Brian Morgan. The most recent one of those reviews says that, again, potentially, there is a case, and we should wait until, maybe, it is a post-merger era when, obviously, you would have larger authorities, and there would be an even stronger case then for the relocalising of business rates. There are leaders in Wales, some of them not far from the border that Nick talks about, who look in envy at what's happening over in England with the business rates retention and some of the developments that are going on in the city regions in Manchester in particular. You know, an authority that takes its strategic role in economic development and developing its own economy very, very seriously would look to pay for infrastructure investment through—. It creates kind of a virtuous circle. If you want to raise the economic level of your area, well, you have to invest in that infrastructure and you need—. You know,

potentially, income from business rates could provide that. Business rates retentions, or partial rates retentions, have been used quite effectively elsewhere, potentially in Scotland. I know this has been—. Some of your other inquiries, Chair, into capital finance certainly talked about tax increment funding, you know, how a revenue stream can be used to—

[283] **Jocelyn Davies:** Peter Black is agreeing with you, I notice—

[284] **Mr Rae:** —borrow additional resources and invest in infrastructure.

[285] **Jocelyn Davies:** And I'm sure that you're expressing the view of those that see this as an advantage. I'm sure there'd be a number of other local authorities that would give the contrary argument of why it's fairer to share it out. Gary.

[286] **Mr Watkins:** If I could just interject, Chair, I think there's a disconnect at the moment in the way the existing business rates system works. Most authorities, as Jon says, actually gain from the pool. Certainly, Cardiff council would support a retention of business rates system—of course we would; we collect 20 per cent of the whole pool. There are 22 Welsh authorities, but Cardiff contributes 20 per cent of the total and we get 10 per cent back. Every year we are a net contributor to the pool and about £100 million of rates paid in Cardiff are redistributed throughout Wales. But the disconnect, as I see it, is that there's no direct correlation between how much you collect and how much you receive. I know it's redistributed on a per capita basis, but if there was an incentive for local authorities to be able to retain a portion—. In England what they've done is they've baselined everybody and they've said, 'Any increase in the baseline, you'll retain 50 per cent locally.' So, obviously, there will be adjustments to the revenue support grant and things like that to make sure that local authorities didn't lose out, but, once you put that incentive in place, local authorities, then, are going to be far more proactive to make sure that the bills that they bill are accurate and that they take robust action against them. I'm not saying that that doesn't happen already, but there's no real incentive for local authorities to bring something in to rate in on the first available day, because where's the benefit?

[287] **Nick Ramsay:** There's no incentive at the moment for a local authority to really push for big economic developments in its area, knowing that it's not going to keep—

[288] **Mr Watkins:** No. Precisely. So, as soon as you join those dots and you make a direct correlation, and say to local authorities, 'If you're successful in growing your businesses and you collect more rates, you can keep a proportion of it'—. I mean, the yield at the moment, I think, is something like £890 million for the whole of Wales. I'm sure that would increase. So, we're looking at the total funding increasing, just by changing the legislation and putting some incentives in place.

[289] **Jocelyn Davies:** Ann, shall we come to your questions?

[290] **Ann Jones:** Thanks. I wanted to just ask what flexibility the Welsh revenue authority should adopt when using its powers. How should the tax collection be pursued, really, for those with financial hardship?

[291] **Mr Rae:** Again, it's a question that we answer in terms of our own experience, and maybe I'll ask Nick and Gary to come in. There is a fine line, I think, between rigorously pursuing a tax liability and, you know, having a regard for the fact that there are some people who just can't pay, who need to be separated from those who won't pay. I suspect both of my colleagues here have experience of potentially going through proceedings. But I think it's something that councils do with—. They take a very balanced view on that. So, you know—

[292] **Jocelyn Davies:** Mr Jones, did you have anything to add about—[Inaudible.] You

mentioned an area of high rates of deprivation in your area.

[293] **Mr Jones:** I was just going to want to say, in terms of the flexibility, there will be a subtle difference between the liability for land tax and council tax. It will be paid at the point of transfer and I would imagine, in most cases, although I haven't got any experience, that, with stamp duty, the transaction is undertaken by the solicitor, and the liability that's due is settled up within the transaction and HMRC is paid. So, there is no production of a bill. It's sort of self-determination of how much you have to pay and then a settlement. I'm not sure how much non-payment there is around, and, having spoken to colleagues in the little working group we've had, that has been difficult to get to understand how much is lost through non-payment.

[294] Clearly, we have to be mindful of individual circumstances. If there is the event of somebody not paying, as Jon said, we have to quickly try to differentiate between a 'can't pay' and a 'won't pay'. The 'won't pay' we have to deal with a little bit more rigorously, but the 'can't pay' is a process of determining whether the liability is correct in the first instance, and has the person has claimed all the entitlements that they are due to claim in terms of discounts, disregards, exemptions, or entitlement to the council tax reduction scheme, so that the bill that you're issuing to that individual is the correct amount. Once we've determined that is the correct amount then we have to sort of negotiate a mutually acceptable payment arrangement to ensure that the council's interests are protected and our income streams are collected as quickly as possible, but also be mindful of the difficulties that that person has in paying. We can set in place special payment arrangements to defer the payment over a longer period, but trying to keep the person—. The tactic that we use is liability plus. You keep the current liability under control—worry about the arrears separately. As long as you can keep the person on track with the next year's payment and keep that coming in, we can slowly reduce the arrears, but what we need to avoid is the instance of the individual falling into difficulties again with the consequences of non-payment, court action, court costs, referral to enforcement agents, which adds to the bill. I think that we do that with compassion and sympathy.

[295] **Jocelyn Davies:** Yes, and that's generally the case across all local authorities having substantial experience of—

[296] **Mr Watkins:** If I could just add, Chair, to that, I think there's already a history of central Government using discretion at times to identify specific areas where stamp duty won't apply either on the value of a proper transaction or for a specific period of time where they're trying to encourage more economic development in that area. I think that the Welsh revenue authority or the Welsh Government should have provisions within the legislation to be able to apply discretions as they see fit, whether it be for a defined period of time or for a specific area particularly affected by social deprivation, to maybe vary or exempt properties from that tax altogether.

[297] **Ann Jones:** So, there is a need, then, to have the ability of flexibility within the powers of the Welsh revenue authority?

[298] **Mr Watkins:** I think that there certainly is. I think they should be used sparingly. As with any tax, as soon as you start giving individuals the opportunity for not paying what's due, you'll be amazed at how many loopholes there are and reasons why they find that they shouldn't. So, I think it needs to be done sort of very calculatingly. You have to have defined policy objectives and make sure that those are brought in in the right way.

[299] **Jocelyn Davies:** The lowest cost properties, there won't be a stamp duty payable on them anyway. You wouldn't expect somebody in financial hardship to be buying properties at the top end of the market.

[300] **Mr Watkins:** Precisely, and you could have a situation—. Say there was a forced sale, so someone's in negative equity, they can't afford to pay their mortgage—you could, if you wanted to, frame legislation to say, if the property's been a forced sale because there's negative equity, that stamp duty doesn't apply. So, you could have circumstances that are quite prescriptive so that the wider public couldn't access them, but you're not adding to a person's hardship.

[301] **Ann Jones:** Okay. Fine. Thanks, Chair.

[302] **Jocelyn Davies:** Okay. Mike, shall we come to your question?

[303] **Mike Hedges:** I have a couple of questions, leading on from what was said earlier.

[304] **Jocelyn Davies:** Okay.

[305] **Mike Hedges:** You talk about stamp duty. Surely, if stamp duty was zero on a property, all that would happen is that the property price would move up because stamp duty plus property price would stay at equilibrium. So, you wouldn't actually be saving the buyer any additional money.

[306] **Mr Watkins:** Yes. I think that you've got a valid point. I think that one of the sensible changes to the recent stamp duty was to have this incremental charging instead. It used to be that, if it was over £250,000, it was 3 per cent tax. So, everything that was priced at £260,000 sold at £249,000, because people didn't want to pay 3 per cent. Now, it is based on the extra amount. So, I think you're absolutely right, but that's why you need to make sure that, if you have a zero charge, it's only for very specific reasons. I think that negative equity for a forced sale might be an area that might warrant some consideration.

[307] **Jocelyn Davies:** It's a good candidate—a justifiable candidate for that. Mike.

[308] **Mike Hedges:** One of the answers that Gary Watkins gave earlier, and I'm sure he didn't mean to give this impression, but I'm sure that Jon will clarify it, was that local authorities are not given the benefit of a new business rate so they're not carrying out economic development. Can you confirm that's not true, that local authorities are carrying out economic development because it's good for the area, and that business rates are just supplementary?

[309] **Mr Rae:** Oh, absolutely.

[310] **Jocelyn Davies:** There you are, Jon: your chance to redeem local government. *[Laughter.]*

[311] **Mr Rae:** No, I mean, just to clarify the point on that, it just further incentivises it, doesn't it? It creates, as I said earlier, a kind of virtuous circle, and it's self-reinforcing.

10:45

[312] **Mike Hedges:** From my experience of local authorities, they've wanted to engage in economic development and promote economic development for the good of their area, and any business rates they get—

[313] **Nick Ramsay:** To be fair to Jon Rae, I think you were paraphrasing my question, actually. I was the person who put the question—*[Inaudible.]*—very extreme.

[314] **Mike Hedges:** But I think the business rates addition is just something that comes in as an addition, rather than being the sole or major reason.

[315] **Mr Rae:** Absolutely.

[316] **Mike Hedges:** Business rates are generally hated by businesses for one very good reason: it's almost impossible to avoid them. With most other taxes, you can do clever things and avoid them, but with business rates, you can't. So, local authorities are very good at collecting business rates. I was concerned that you have difficulty in knowing when a property changes ownership. I would've thought that the previous owner, being continually billed, would want to let you know. Is that not the case?

[317] **Mr Jones:** Not always. You know, there are individuals who vacate and don't advise us. So, we have to use all the tools that are available to us to try to police the system, to ensure that, where there is liability, it's calculated correctly, and if there's a new liability, we can identify that as quickly as possible. So, we use all internal sources. We also have outside officers who travel around the county borough, inspecting empty properties and looking out for possible changes of ownership where there has been a change that we are unaware of. But not all rate-payers—. By and large, I would say that the majority are very good and will tell us when there is a change in liability and their liability ends, but not all end their business under pleasant circumstances. They cease trading and—Gary, I think, will elaborate—there are issues on avoidance that we believe need to be addressed. Gary, do you want to come in at that point?

[318] **Mr Watkins:** Yes, if I could just add to that, local government have got a very good record at collecting business rates, but there are a significant minority of businesses that particularly use loopholes within the Companies Act 2006, where they trade for a period of time with no intention of paying business rates. When the local authority takes the required statutory recovery action against them to seek a liability order in the magistrates' court, the company then cease to trade and put themselves into liquidation. They set up a new company with new directors. They continue, to all intents and purposes. The name on the front—it might be a restaurant or a bar—stays the same. Customers don't realise that that business is not paying rates, and local authorities are not able to collect because of the loopholes in the legislation. In circumstances like that, we don't get to find out about those transactions until it's too late. We're talking millions of pounds.

[319] **Mike Hedges:** On that, surely one of the things is, wouldn't the individuals themselves be liable if the company is not limited? Those small companies are the ones that are least likely to be limited.

[320] **Mr White:** Most companies that exploit this legislation are setting up limited companies. The assets within those properties are leased through a third-party supplier, so they never own the assets. One of the powers we have is to remove goods to sell, to repay the debt. Their personal homes are not in their names. They are very adept and agile at avoiding taxes. One of the frustrations for local authorities, particularly for licensed premises, is that there's nothing in the legislation at the moment that allows the local authority not to grant a licence to sell alcohol to a business, even if they don't pay their rates. When I was talking about joining up legislation earlier, there are all sorts of examples. I think there should be something in legislation that says, if a business doesn't pay its rates, it shouldn't get a licence to sell alcohol. Too many deliberately avoid paying, and it is lost money for the whole of Wales. So, there are simple things that could be done that would increase the yield.

[321] **Peter Black:** But it's not devolved.

[322] **Mr White:** No, I know. We've taken legal advice in Cardiff, and we're told that

we're not allowed to do it because it would be illegal.

[323] **Jocelyn Davies:** But knowing when a property's changed hands would help you?

[324] **Mr White:** Definitely, because you bill quicker. It's all about speed of collection. The sooner you know that there's been a property transaction, you can get a bill out in the right name and you start the recovery process quicker.

[325] **Mike Hedges:** Can I just finish off that point?

[326] **Jocelyn Davies:** Yes.

[327] **Mike Hedges:** So, taking control of business transaction tax would, in itself, not be wonderful, in the sense of actually taking control of it. In terms of getting the tax, it's a relatively small tax and it can be quite cumbersome and you'd add an extra stage. But the advantages of it in terms of building on rates et cetera would make it worth while doing.

[328] **Mr Watkins:** Absolutely, we'd be working smarter. What we'd be doing is we'd have all the information at our disposal.

[329] **Mr Jones:** It's the synergy of joining up those dots, as Gary's mentioned, to forewarn us of a change, so we can act quicker and get our bills out correctly. I just want to clarify the issue around tax avoidance and tax evasion, or what's known as 'phoenix trading', whilst local government—and I get exercised quite rigorously by our cabinet when I take a write-off list forward to write debts off where there's debts on there with companies who are phoenix trading. Members will say, 'This company's still there', but it's a different limited company with different directors. I can't enforce payment. The issue on the policing of this and enforcing and taking action against directors is not for the local authorities. It is for the Department of Trade and Industry, I believe, and insolvency practitioners who are involved in this sort of business, to make sure that those directors are targeted and struck off if they're deemed to be unfit, but it doesn't happen very often.

[330] **Jocelyn Davies:** Can you explain why you would need to be the collector of a tax to know when a property's changed hands? Why can't we just make sure you're told anyway? Do you really need to be the collector in order to have this information?

[331] **Mr Jones:** Not necessarily.

[332] **Jocelyn Davies:** You'd know it for another purpose, which you could use for this, but is there any prevention? I don't understand.

[333] **Mr Watkins:** I think it's economies of scale. As we're already collecting from every single business in our locality and every single domestic dwelling, it's an economy of scale. These new taxes are small in comparison to what we're already collecting. To take those additional responsibilities on, we could do it probably more cost-effectively than setting up something brand new.

[334] **Jocelyn Davies:** Peter just mentioned data protection, but if you were collecting information for one purpose, are you able then to legally use it for another purpose?

[335] **Mr Watkins:** Yes, you can, as long as you comply with legislation, and there are powers within the legislation to enable us to share information. We already give our customer—

[336] **Jocelyn Davies:** Is that what you were going to ask, just for clarification?

[337] **Mr Watkins:** It's called a fair disclosure notice. Certainly, with our council tax bills, we tell our customers that we will share any information that we hold for council tax for the pursuance of other council services. The test with the Data Protection Act 1998 is that you only share the minimum amount of information that you need to. So, schools check on catchment areas—

[338] **Jocelyn Davies:** I was just going to ask you about that.

[339] **Mr Watkins:** So, we would let schools know if a person's living in that area, but we wouldn't tell the school if they owe council tax, because they don't need to know that.

[340] **Jocelyn Davies:** I see.

[341] **Mr Jones:** There is legislation that governs the operation of council tax, which has powers already within it, the Local Government Finance Act 1992, for billing authorities—unitary authorities in Wales—to share information and pass on information about council tax payers. So, if somebody moves from Rhondda Cynon Taff to Cardiff, Cardiff needs some information off us, even outside of data protection, we are able to share that information with neighbouring authorities or other authorities in Wales. If similar powers were replicated, they'd be ideal.

[342] **Mike Hedges:** Last question, very simple: do you want the responsibility for collecting the two taxes that are going to be devolved?

[343] **Mr Rae:** Yes, I think we would, eventually—obviously, recognising what I said before. I don't think it could be done immediately in 2018. There's been the exchange of correspondence between the WLGA and the Minister on that.

[344] **Mike Hedges:** Well, if you can't do it in 2018, and somebody else starts collecting it, you're unlikely to have it passed to you later on.

[345] **Jocelyn Davies:** I suppose your bid to us then is that, if you couldn't do it at the beginning, it would be set up in a way that doesn't mean that it couldn't be passed to you some time in the future—if that became a viable option for you at some point.

[346] **Mr Rae:** Exactly. I don't think it'd be closed. Going back to the point I made at the outset, and the point we've been making to Welsh Government, regardless of who collects it, I think local government should be closely consulted, because, as you've heard today, the expertise is out there in local government.

[347] **Jocelyn Davies:** Mike, did you have one last point before we—

[348] **Mike Hedges:** Why can't you collect it in 2018, and why would you then be able to collect it in 2020-21? What's going to happen in those two or three years that are going to make you more able to do it?

[349] **Mr Watkins:** The timetable that's been adopted, local government had to commit to it by, I think, was it May of this year? That consultation paper only came out a couple of months ago, when each local authority was wrestling with trying to balance its budget. So, I think it's the time frame that the commitment is being asked for. I mean, if Welsh Government were able to give a longer lead-in time and said to local government, 'Could you commit to delivering it by 2018?' I think the answer could be 'Possibly yes', but if you need that answer by next month, then we wouldn't be able to give that commitment in such a short timescale.

[350] **Jocelyn Davies:** Chris, did you want to come in on this point?

[351] **Christine Chapman:** Yes. Obviously, we've talked about efficiencies, and I just wondered, you know about the thought of—it may not happen like this—something new to collect the taxes, and then you coming in a couple of years later. Surely that would be very inefficient.

[352] **Mr Jones:** For me, I think it'd just be a missed opportunity. You know, I think Gary's right. It's the timescales of decision making that are perhaps the obstacle for us. It's not the logistical exercise and the operation of making it work. I think we could make it work within that three-year window, but it's the decision making within the WLGA, Welsh Government and others that perhaps prevents that. But, I think, on the ground, operationally, there's no reason why we couldn't do it.

[353] **Mr Watkins:** That point was made in the WLGA response. It was because it's such a short turnaround for a commitment that the answer is 'Probably no'. If Welsh Government were able to extend the period for Welsh Government to work up an operating model, then I think it's a possible 'yes'. The only sort of problem in the future is, with the local government reorganisation, you'd have to have some certainty about how that landscape was looking, to make sure that you're not putting in place an operating model that would need to change within two years.

[354] **Jocelyn Davies:** That would have to be taken into consideration. Okay, have we got any other questions on this? Okay, well, thank you very much. It's been a very interesting session with you. Obviously, we'll send you a transcript. If you could check it just for the factual accuracy, we'd be very grateful, and then we'll be able to publish it. Thank you.

[355] Our next session starts at—. We could start at 11.15 a.m., so shall we have a break now, and we'll come back then? Okay, then.

*Gohiriwyd y cyfarfod rhwng 10:57 a 11:18.
The meeting adjourned between 10:57 and 11:18.*

Casglu a Rheoli Trethi Datganoledig yng Nghymru: Sesiwn Dystiolaeth 2 Collection and Management of Devolved Taxes in Wales: Evidence Session 2

[356] **Jocelyn Davies:** Welcome back, everybody, to the meeting of the Finance Committee. We're on item 5, the collection and management of devolved taxes in Wales. This is our second evidence session, and we have the Federation of Small Businesses with us. You've already received their consultation response. Thanks for rushing to get here a bit early because we're running ahead of time; we're very grateful for that. Would you like to introduce yourselves for the record, and then if it's okay, I'll just go straight into the first question because we've read your evidence paper?

[357] **Mr Davies:** Iestyn Davies, senior head of external affairs for the FSB across Wales, Scotland and Northern Ireland. I bring apologies for Janet Jones, who has injured her leg and so she's not here, but I introduce our member and colleague, Mark Lang.

[358] **Dr Lang:** Mark Lang; I'm working on an interim basis with the FSB to provide some policy advice.

[359] **Jocelyn Davies:** Okay. Lovely; thank you. I'll just ask you a general question about the Welsh revenue authority, and just what you think that the key role should be for the authority. Iestyn.

[360] **Mr Davies:** Perhaps unsurprisingly, obviously to collect and administer taxes in a way that promotes economic growth and wellbeing—sustainable economic growth and wellbeing in particular—and to do it in such a way as to help business rather than to be seen as a hindrance to business. It's a very standard, I suppose, FSB response.

[361] **Jocelyn Davies:** Yes, there were no surprises with that answer. Okay, Ann, shall we come to your questions?

[362] **Ann Jones:** Thank you, Chair. Do you believe that the Government's White Paper adopts the right balance between promoting compliance and dealing with non-compliance?

[363] **Mr Davies:** Yes, we do. However, we know in these matters that the devil is always in the detail, and, more importantly, in the practice of the agency. Reflecting on other administrative or collection bodies, everything from the collection societies for music all the way through to the particular environmental bodies that our members deal with, what we find is that the stated aim is not always matched by practice. So, what we would hope is that, in the conduct of this policy area, we would see recognition of that and, as best we can, that the form follows the function, which you've just outlined.

[364] **Ann Jones:** Okay. Should the Welsh revenue authority have responsibility for the collection and analysis of other revenues, such as council tax and national non-domestic rates?

[365] **Mr Davies:** We haven't consulted that widely. However, our members in Scotland, and we make a reference to this in the paper, are in a position where they've clearly seen merit in such an approach. There's nothing that would immediately persuade us that that's not a good idea, but getting the balance right between collection and administration so that people see the value of their taxes being collected in such a way as to promote local economic renewal and development is a key feature of what we believe more widely. So, if it were to happen, again, it would have to happen in support of that idea of localisation.

[366] **Ann Jones:** Okay. That's fine. Thanks, Chair.

[367] **Jocelyn Davies:** So, what experience have your members in Scotland had that would lead you to that conclusion?

[368] **Mr Davies:** I think it's largely to do with the fact that they are perhaps ahead of the curve in terms of a jurisdiction. We certainly see the merit in doing it well and doing it well once and getting, if you like, the apparatus in place so that we haven't got to recommence this kind of work at a future date, asking essentially similar questions. I think that that was the general feedback, wasn't it, Mark, that we had from our colleagues in Scotland?

[369] **Dr Lang:** It very much was. It's: futureproof yourself now and don't revisit the issue in a few years' time. This is a process, I guess. If further taxes are devolved to Wales, then make sure you're ready to do them. If Welsh Government in future decides to imbue the authority with greater taxation powers that are already devolved, again, make sure that you are already in place and set up in a way to do it.

[370] **Jocelyn Davies:** Lovely; thank you.

[371] **Mr Davies:** Sorry, I think, Chair, that one of the common complaints I'm sure you're familiar with as constituency Members as well, from all manner of stakeholders, and not necessarily small businesses, is, 'Why do we have to fill in forms to a number of agencies—or returns?' So I think this is an opportunity to provide a much more streamlined approach.

As Mark says, I think we all within civil society accept that there will be further tax creep or devolved tax creep in some way, shape or form over the years as the devolution settlement emerges; it would seem to make sense to us to do it well, and to do it right, now.

[372] **Jocelyn Davies:** Okay. Peter, shall we come to your questions?

[373] **Peter Black:** That answer fits very neatly with the next question, which is: how do you actually design the Welsh revenue authority to be flexible and allow it to be futureproof?

[374] **Mr Davies:** I guess if I knew the substantive answer to that question, I'd be applying for the job as the head of the civil service. [*Laughter.*] I think it starts with the culture and, again, Members will be aware of our principles of better regulation. We don't see ourselves as the voice of no regulation or less regulation, but rather as an organisation trying to ensure that the regulation we have is fit for purpose. That's the starting point. Then, there's making sure that the culture from top to bottom is all about how we can get greater compliance. So, the measures put in place would, for very practical reasons, ease the burden on business but also make sure that the greatest tax revenue is collected. One of our concerns, for instance, about the devolution of business rates is that if we don't collect what is owed, if you like, to the Welsh Government, then there's a hole in our budget for the first time since the devolution of business rates. I think that applies equally, then, to any other form of taxation. Hopefully that's a responsible attitude from us. We recognise that compliance is important.

[375] I think, in terms of practical measures, what we know is that a culture of being willing to, if you like, walk in the shoes of business or being able to have an understanding of what's going on. Whether you're a small starter business right through to something in the region of 250 employees, where we can consider our cut-off as an organisation to exist, you need to understand that the person filling in the forms and making the tax return is also the head of marketing, the financial director, the product development manager and the cleaner, if you like. So, it's understanding that the individual has to have all manner of responsibilities placed on them, particularly on the micro-SME side of things. So I think that's that first cultural understanding. Then, you come to practical examples: having one tax reference and knowing that you are looking for one log-in and one system that allows you to have easy entry. Again, I'm sure we're all aware as individuals that we can have a national insurance number and a unique taxpayer reference—there are a number of things that we have to remember to input. These are small, minor things, but they do crop up time and time again from the membership as practical concerns that they have.

[376] **Dr Lang:** If I could maybe just add to that, and you may well come on to this question, but in a sense, setting it up with the right governance arrangements. You'll see from the paper that we suggested that the authority should be responsible directly to the Assembly and via this committee. I think that's very good practice for the future as well, not just of the taxes that it's immediately going to get control of, but those that it will get control of, potentially, in the future. So, it's ensuring that the governance arrangements are right to begin, and you haven't got to revisit the issue.

[377] **Peter Black:** It's interesting what you're saying about having single references and single portal because there's a number of taxes that businesses pay—business rates, obviously, are the main one, but you'll also pay stamp duty when you sell land or buy land. You'll also pay landfill tax if you own a particular thing as well. Is there a case, then, to have all those collected by a single authority so that you can actually get that unification of the administration and make it easier for you in terms of references as well?

[378] **Mr Davies:** Yes. I think there's an emerging compelling case for that to be the way it is. I wouldn't want to give you the impression, wrongly, that we have been able to canvass to the length that we're able to show you that that is the view of members, or indeed, more

widely, of business. From the point of view of sitting and reflecting, we would see that there does seem to be an emerging, compelling argument for that to be the case. If that's not going to happen, if there's some means of a combined portal or some 'in', then that might achieve similar aims and take care of some of the angst, if you like, of 'Why have I got to pay taxes here, taxes there, reference fees here?' It's dealing with that objection that the Welsh Government or National Assembly will encounter, as we all know, from small businesses, because it's a common complaint across a whole wide range of policy areas.

[379] **Peter Black:** You're making the argument there that when you have—. Say the Welsh Government decides to keep HMRC collecting stamp duty—and business rates have more traditionally been collected by local government—local government would need to adjust their collection rates to fit in with that portal. So, it's not just about fitting in the collection of new taxes, but also adjusting the way existing taxes are collected as well.

[380] **Mr Davies:** Yes, and if I was speaking on behalf of my colleagues in Scotland, I would say categorically that, yes, that is the position of the FSB. In discussions we've had with members and within the staff team, there doesn't seem to be emerging any real reason why that couldn't be the case in Wales. My one area of concern, other than the good governance of not wanting to speak for members on things I've not had a categorical position on, is that we are very much in favour of ensuring that businesses, and indeed individuals, see the link between the taxes they're paying and the services that they receive on the ground. So, I think that is a feature, again, that runs a bit like Tenby rock through our policy work. If there's a connection between what people pay and the services they gain, hopefully they'll complain less to me and complain less to you as a constituency AM.

[381] **Peter Black:** Is that an argument for the localisation of business rates?

[382] **Mr Davies:** It's certainly a position we've taken elsewhere on local retention, as you know. [*Laughter.*] But, again, what we don't want to do in terms of complete localisation and complete retention and collection is to then play into the continued skew in terms of the economy of Wales, that the economies of certain places—. We have all heard those arguments. But, I think, hopefully, across parties and across organisations, we understand the importance of that local connection.

[383] **Peter Black:** And my last question is: what types of data and information will the Welsh revenue authority need to collect to assess the impact of new taxes on stakeholders?

[384] **Mr Davies:** I think general compliance rates, speediness of responses, but also it needs to use an approach that collects much more qualitative data—and I don't mean ticking happy boxes; I mean genuine, good, on the ground level 'What has your experience been?' At the end of the day, this is when the devolution project is really going to hit into people's sensibilities, and if it's not a real sense of wellbeing being created by this, then, clearly, I think we're going to be in trouble.

[385] **Peter Black:** Okay; thanks.

[386] **Jocelyn Davies:** Okay. Chris.

[387] **Christine Chapman:** I just wonder what your views are on whether the Welsh revenue authority should collect taxes itself or delegate to other organisations. Obviously, we've had this quite long discussion with local authorities and they seem quite keen, at some stage, to take that on. I just wonder what your views would be.

[388] **Mr Davies:** I guess, I suppose, we are agnostic at worst, rather than particularly against or for a particular position. But, again, the prevailing view of our members would be

that if it's simpler to collect it nationally, at a Wales level, then that would be the option that they would go for, notwithstanding that they would also want, at the same time, the penny; they'd want to see the local return as well.

[389] **Dr Lang:** I think the important message is consistency. Clearly, the benefits of the authority itself collecting would offer that consistency. But if local authorities can sign up to a consistent approach, then that's the most important thing.

[390] **Christine Chapman:** But what about HMRC retaining the role in collecting devolved taxes? How do you feel about that?

11:30

[391] **Dr Lang:** It doesn't futureproof, you know. I just think, if we're looking at the future of devolution in Wales—and far be it from me to comment on where it should go, but I think we can all draw conclusions as to where it might go—if we set up an authority that's futureproof, then I'm not convinced that retaining those powers within HMRC is necessarily good.

[392] **Christine Chapman:** Okay, so it's obviously consistency and, as you said, being futureproof as well, and streamlined.

[393] **Mr Davies:** We certainly see taxes beyond that which HMRC collects. To many of our members, a permitting fee is a tax. We are all familiar with the argument: is the bedroom tax a tax, is it not a tax, is it a charge, is it a repayment? In the minds of individuals, anything the Government collects is a tax. If you're looking at a unified approach—again, justifying, if you like, that tax burden as an administration, as an executive or a jurisdiction—consistency is key. There does come a point where any advantage of using HMRC systems—say around, for argument's sake, personal taxation or business taxation—needs to be offset against how we demonstrate that this house is overseeing the administration and collection of taxes in an efficient way, more widely than just what we would ordinarily know as tax.

[394] **Christine Chapman:** Okay; thank you.

[395] **Jocelyn Davies:** Julie.

[396] **Julie Morgan:** You've already answered this to some extent, but you recommend that the organisation collecting taxes should be as streamlined as possible. Have you got any other specific suggestions about how this could be achieved?

[397] **Mr Davies:** Not really, no. We do appreciate that there is a principle of good governance that needs to be maintained and not simply, if you like, going to the lowest common denominator in order to make it easy. There has to be a balance. Again, as Mark has alluded, we feel it's important that the agency, the body, reports not just to Welsh Government but to this committee or similar committees, so that elected Members can take a much more rounded view. So, its relationship to the Assembly and to the Government, the executive and legislature, needs to be clear as well. I feel like asking 'Whose authority is it?' Essentially, we would see it as the people of Wales's authority, and you and committees such as this, as the voice of the people of Wales and accountable to the people of Wales, should be the place to scrutinise and, if you like, keep tabs on the collection.

[398] **Julie Morgan:** Thank you.

[399] **Jocelyn Davies:** The Welsh Government has stated that operational tax arrangements in Wales should replicate those in the UK, unless there's a policy reason to act differently. I

guess you would support that approach?

[400] **Mr Davies:** I guess I'd want to unpack it first, Chair. Again, Members will be, perhaps, familiar with our position as an organisation that we are less inclined to believe, as a matter of orthodoxy, this idea or principle of the long and porous border and having things that are different on either side of what is not a particularly long or, as I have said elsewhere, a particularly porous—along its whole extent—border. We would see that, if there's a strong policy imperative, then that should be something we do as a matter of course in Wales. We should be prepared to do things differently. That is what devolution is for; that's what the further powers are proposed for. We should seek to experiment and we should seek to challenge convention, rather than simply to mirror or carbon copy. Hopefully, in business policy and in tax and fiscal policy, the phrase 'For Wales, see England' should be consigned to the past.

[401] **Jocelyn Davies:** Okay. Are you aware of any weaknesses in the UK's tax system that we could improve on, as we're starting on this journey now?

[402] **Dr Lang:** The key one is basically delivery. The record of HMRC in responding to complaints, communication et cetera, is not a good one. The survey evidence collected by the FSB Wales from its members at the end of last year showed that members are completely frustrated by the on-the-ground delivery of HMRC. So, this new authority would represent an opportunity to improve on that, assuming, of course, it can improve on that.

[403] **Jocelyn Davies:** And that wasn't just a dislike of HMRC because it's taking money from them; this is about things that actually happen during the interaction with HMRC.

[404] **Dr Lang:** Members are concerned about the practicalities and how they engage with this body. HMRC does not have a good record.

[405] **Mr Davies:** I am sure that you and your colleagues, Members of Parliament, would have caseloads of this nature. If we accept that none of us likes paying taxes—. I have said in the past that there are three things in Wales that are assured, namely death, taxes and referenda, taking that at least all three of those are marginally less popular than other options we could have. Given that is the case, then let's have an opportunity not only to do this more efficiently and more effectively, but to use it as a means of demonstrating the value that governance and government closer to the people of Wales can actually bring. So, an expedited complaints policy procedure, building a user-centric service rather than a bureaucratic service, these are the things that need to be built into the DNA of the organisation, however it functions—whether it's national, local or whatever—and then to ensure that performance against those measures is accountable via this house and via this committee.

[406] **Jocelyn Davies:** Okay. Mike, shall we come to your questions?

[407] **Mike Hedges:** Can I just say that I think you're right? It's a lazy way of describing Wales as having a 'long and porous border', but I would say it's also true—you might disagree—that Wrexham and Chester are effectively one city, and, if they were both in Wales, they would be, the same way as Cardiff and Newport, and the Bebington-Ellesmere Port-Connah's Quay area is effectively one economic region.

[408] **Jocelyn Davies:** We're thinking about making a bid for Cheshire. [*Laughter.*]

[409] **Mr Davies:** Ironically, Chester is part of my north Wales region with the FSB.

[410] **Nick Ramsay:** You're such an imperialist, Mike.

[411] **Mike Hedges:** We have to get the Marches back first.

[412] **Jocelyn Davies:** This isn't part of our inquiry, I have to say.

[413] **Mike Hedges:** There is that situation, that in parts of north Wales, especially, the population moves quite a lot for work, buying houses either side of the border, for example. Would you agree that's true?

[414] **Mr Davies:** I would agree that's the case, and again, through your colleague AMs, you're probably familiar with the evidence we gave recently in terms of the review of business rates, where this point was worked out quite considerably. I was taken to task, actually, by Rhun ap Iorwerth for giving a very flippant answer, saying it's neither long nor porous. I agree, and evidence would suggest that our areas of greater porosity, if that's a word—is that alright?

[415] **Jocelyn Davies:** We know what you mean.

[416] **Mr Davies:** Where it leaks either side, shall we say. [*Laughter.*] That's also between local authorities as well, so if you're looking at local collection, you're encountering similar problems. I would imagine, thinking more widely about tax and fiscal policy, my concern at the moment is not at this so-called race to the bottom within Wales, but actually that the policy that exists, for argument's sake, in England, might leave us in a situation where you have to play catch up—where changes to the business rate regime one side of the border might affect—. So, I'm not ignorant of it, and neither do I deny it, but what I would say is that we need to be much more careful in where we make those pronouncements, because actually it probably is the case in Wrexham-Chester, but to a degree, because of business stock and business size, perhaps less the case than in south-eastern Cheshire. The real issue is between, for argument's sake, Swansea, Neath Port Talbot and the Vale—what's happening there, in that economic area and the new economic areas of Wales.

[417] **Mike Hedges:** You've almost answered the next question I had. I was going to raise that we'll almost certainly develop new taxes in Wales to replace some of the existing ones. What needs to be considered, apart from what's happening in England, when deciding that?

[418] **Mr Davies:** Well, I think things that support and enable local sustainable economic development, which Mark is well placed to talk about more widely. But for me, it's developing policies that allow us to grow our capital base, which is linked to your first question. What we would want to see is a tax base that allows sticky capital—that's a phrase we've used elsewhere—

[419] **Jocelyn Davies:** What does 'sticky capital' mean?

[420] **Mr Davies:** Do you want to—

[421] **Jocelyn Davies:** Well, perhaps finish your point, and you can think of it before you answer.

[422] **Mr Davies:** Yes, think of sticky capital. It does that, but also, it rewards positive behaviour. The single carrier bag levy, the plastic bag tax, was a good example. Initially, it was confronted by members as 'Oh no, more administration, more costs', but actually, when we unpacked it deliberately with our members, we could see that, actually, there was an interest where, if I'm a small trader, I haven't got to pay for plastic bags, whereas Tesco gets them on an economy of scale, so a) I'm benefitting as a business, but b) yes, I understand that Wales is a great place to live and we don't want it to be filled with landfill of plastic. So, I

think if you look in those terms, and it's done in a deliberate way, not just with business as stakeholders, but more widely, I think you'll find an agenda emerging for a much more, if you like, citizen-owned approach to taxation and fiscal policy, rather than it being handed down directly to communities.

[423] **Jocelyn Davies:** And the ability of your members, then, for the levy that they've collected on the carrier bags, to then decide where to donate it, and then they can make a little—. I mean, very often you go into shops now and there's a little sign that says, 'This levy goes to—'. Do they enjoy that? I'm assuming they enjoy it.

[424] **Mr Davies:** Well, again, it was fairly early on in my tenure in the FSB. It took us a while to be able to get the issue of size recognised in the governance of the scheme. Having done that, we then also found that we hadn't maybe thought about the implications of VAT-registered traders, if you are purchasing a product and taking a donation. So, we know we always need to be aware of the devil in the detail, but the principle is an empowering one. You are collecting it; it's helping you in your perception of what is good value, not just for your business, but for your community and, actually, you get to choose where that levy goes. So, to me, it's a positive outcome. It is only one small—. It is a tax, essentially—it's called the carrier bag tax more widely. So, I think that that approach—and then, sticky capital—

[425] **Jocelyn Davies:** Sticky capital, Mark, what's that?

[426] **Dr Lang:** Well, I could give you an hour-long lecture on—

[427] **Jocelyn Davies:** No, I don't want an hour-long lecture. [*Laughter.*] That's way we wanted to give you a couple of minutes to think about a precise—. Give us a—

[428] **Dr Lang:** In a nutshell: how do we anchor wealth locally?

[429] **Jocelyn Davies:** I see, right, okay.

[430] **Dr Lang:** So, it's the opposite of international capital flows, and, clearly, local taxation or local control or regional control of taxation is a mechanism amongst many that could retain wealth locally.

[431] **Jocelyn Davies:** Lovely, thank you. Where were we? Mike.

[432] **Mike Hedges:** Just one comment before I ask my next question: one of the great things with the plastic bag tax is I spend a lot of time on the weekend watching football matches, and you now don't see plastic bags floating around on football pitches, as you used to up until the plastic bag tax came in.

[433] On the Welsh revenue authority, how should it use its powers in cases of financial hardship? Should it try and collect every penny it possibly can, as HMRC has had, perhaps, a reputation for doing, or should it take into account financial hardship, noting, of course, that in taking account of financial hardship, it reduces the amount of money coming in?

[434] **Dr Lang:** You know, in a nutshell, it's there to execute policy, isn't it? If the policy is different, then it will responsibly respond to that. However, having said that, I think the approach of HMRC to business taxation has been varied, and it really does depend on the case officer a particular business has if they get into difficulty in terms of paying their taxes. It's huge. I think what the authority will need to do is be more consistent in its approach, in its flexibility to businesses that get into difficulty. It needs to understand where businesses are coming from and understand how they contribute to local economies. So, a more flexible approach, yes, but, nevertheless, of course, implementing the policy, whatever that is.

[435] **Mr Davies:** I think, you know, consistency is key, whatever is put in place. I think there's a wider discussion that needs to be, perhaps, held, not just in this context, about the role of reliefs, exemptions and discretionary reliefs. It's an area that we are trying to understand better when it comes to non-domestic rates. We can imagine, you know, similar schemes entering into the policy domain, and I'm not yet 100 per cent convinced that we have an evidence base that says discretionary, applied-for relief is often the best way to go, and whether or not we need to build into the administration and, indeed, fiscal policy in the first place, a form of mandatory relief that impacts all, rather than individuals having to apply for it. So, I think we need to be clear, as a tax authority in Wales, which of those is best suited to our circumstances.

[436] **Mike Hedges:** And do you have a view?

[437] **Mr Davies:** Only based on some of the reliefs that are going through on business rates at the moment. I'm not convinced that, again, small businesses are always best placed to be able to apply for discretionary reliefs, or, indeed, in some cases, and we are doing some FOI queries of all the local authorities across Wales, whether or not they generally go to the lengths they should go to in publicising those reliefs. So, getting the balance right probably precedes the collection of taxes. You need to get that balance right before you proceed.

[438] **Jocelyn Davies:** Nick, shall we finish with yours?

[439] **Nick Ramsay:** Thanks. Given your comments on 'sticky capital', I was going to ask you about villages having their own currencies, but I thought that might open a whole can of worms, so I'll leave that. In terms of tax disputes, how do you think the new Welsh revenue authority should approach resolving tax disputes?

[440] **Mr Davies:** I'd like to think that we could build into the system the presumption that individual small businesses are intent on complying, will comply—there's a presumption of good intent, if you like. But I would say that, as an advocate for small businesses. You know, I'm not naive in believing that everybody wants to and does go out of their way to pay their tax. But I think if you can start on the basis that by making it easier, you will get greater compliance, that has to be the starting point, particularly in the administration of what are currently marginal taxes.

11:45

[441] I think if you've established that, then you're looking at, you know, addressing the offender first then and not covering everybody under the same blanket of presumption that people are trying to avoid paying their taxes. Again, that's the principle of better governance that we referred to elsewhere. So, we would happily draw the committee's attention to that document that we have written and have worked up, if that would help.

[442] **Jocelyn Davies:** Yes.

[443] **Mr Lang:** Just on the subject of sticky capital and international capital, I think there's an important point to make in that HMRC, particularly, has been inconsistent in the way that it applies rules to international capital. So, often, very large multinational companies do get away with paying a lot of tax. Local and small businesses don't have that privilege. I'd like to think that the new authority would be more consistent in the way that it approached that.

[444] **Jocelyn Davies:** Yes, because that's just seen as very, very unfair.

[445] **Mr Lang:** Absolutely unfair. Completely unfair.

[446] **Nick Ramsay:** I'm getting a vibe here that you're quite confident that the new Welsh tax authority will be better at dealing with these types of issues than HMRC.

[447] **Mr Lang:** If it's set up correctly. One of the things that we've said in the submission is that the Welsh Government needs to take advice from the external kind of advisory community—accountants, et cetera—on how it has previously engaged with HMRC to learn some of those lessons.

[448] **Jocelyn Davies:** There's the advisory forum and there's the advisory group. There seem to be a lot of people advising the Welsh Government on this, in fairness. Are you part of that?

[449] **Mr Davies:** Yes. One of our colleagues, actually, is at an event today on that subject—we're kind of hard-pressed today—across a number of fronts from skills, European funding all the way through to two sections on tax collection.

[450] **Jocelyn Davies:** Are you satisfied that the Government is involving a wide enough audience of people in terms of taking advice and listening?

[451] **Mr Davies:** Well, we certainly feel consulted, as an organisation, and we're doing as best we can, with the limited staff that we've got, to engage with our members. Hence, we're actually working with Mark where we have a vacancy in post to make sure we can address this issue.

[452] I guess, for me, it's not so much who do you ask, but the kind of questions that you propose to that group and how ambitious you would want to be in order to generally do something that's qualitatively different in Wales. So, you can consult with everybody, but if you're asking the same basic questions time and time again within the same frame and not challenging, perhaps, you know, the model of the relationship between taxation and entrepreneurial growth and development, or pollution and sustainability and the principle of the polluter pays, if you're not unpacking those and exploring those new ideas, then I think you're going to have a very similar response whomever you ask.

[453] So, our ask to yourselves, as a committee, and to Government is to be ambitious and to think about how this would be futureproofed and how, actually, we can do something that's different in Wales, just as we have done in a minor way in the plastic bag tax, for instance.

[454] **Jocelyn Davies:** Yes, of course, that was developed at a time when the Welsh Government wasn't collecting any taxes. Soon, it'll be collecting taxes. Do you think there might be a change to the plastic bag levy, in terms of—

[455] **Nick Ramsay:** No; it's not a tax.

[456] **Jocelyn Davies:** Well, it's just a thought.

[457] **Mr Davies:** We've called and argued for the raising of the threshold. Ten is the magic number, it's kind of the threshold for microbusinesses. I think we would like to see it raised slightly higher. So, if you're employing a number of maybe casual staff in a number of retail outlets, you know, you're not wandering into the compliance trap, if you like, you know? The gap between small retailers and the large retailer is big, so I think we can afford to raise slightly the ceiling on numbers. Whether the 5p should be indexed, whether it should be reviewed and those kinds of things are open to negotiation. Providing it's done deliberately, engaging with people, then who knows what manner of options the people of Wales will be happy to put forward and accept?

[458] I don't take the assumption that just because it's devolved, it has to be worse. It's a position that—

[459] **Nick Ramsay:** Why are you looking at me? [*Laughter.*]

[460] **Mr Davies:** I'm not accusing Nick, but it's a very easy position to present, isn't it?

[461] **Jocelyn Davies:** We're very pleased that Nick, in fact, is a good supporter of devolution, because he knows that it's better. [*Laughter.*]

[462] **Nick Ramsay:** I don't need to speak on this committee.

[463] **Jocelyn Davies:** My point, I think, was that maybe there won't be the shopkeeper, or whatever, making that available to a local charity. The levy might actually be collected by the Welsh Government, or there could be other taxes to follow. It's just a thought; that it could—

[464] **Mr Davies:** You could also have other levies, Chair, like the trainee levies. This is a whole linear piece of discussion. We tend to concentrate more, obviously, on a very small amount of taxation. We try to widen the debate, looking at business rates and the taxation.

[465] **Dr Lang:** Don't forget that there are voluntary levies as well, such as the business improvement district approach, which works quite effectively in areas.

[466] **Nick Ramsay:** Can I just—

[467] **Jocelyn Davies:** Yes, but I think that Mike wanted to come in. We'll then come back to you, anyway, Nick, because we haven't covered all of your questions.

[468] **Nick Ramsay:** Yes, I've got just one more question.

[469] **Mike Hedges:** I have three questions. The first one is: do you agree that business improvement districts have been very successful, especially in Swansea? The second one is: when you talk about the number of people employed, are you talking about full-time equivalents or absolute numbers? That does quite often make a big difference if you've got three or four people in 10 hours, or one person for 40 hours. You've got the same number of hours being done. The third point is: obviously, at some stage, the plastic bag levy would have to increase; otherwise it will become of such little value that it will stop doing the good that we feel it is doing.

[470] **Mr Davies:** To take them perhaps in reverse order, in terms of the bag levy and reviewing the charge, yes, again, it needs to be done in a way that takes people—. I think that that piece of work was a success four years ago. We went from being at the end of barricades to working together, and it's something that we are trying to explain to our colleagues in England. It doesn't have to be 'yes' or 'no', but there's a way of actually finding the way forward in terms of that particular issue of the bag levy.

[471] I think that the employer full-time equivalent is the number that we use, but it needs to be sufficiently high to allow for seasonal labour in hospitality or in retail, particularly in tourism areas, obviously.

[472] When it comes to BIDs, to us the jury is still out. I think that having one good successful BID in Swansea, for argument's sake, doesn't validate the principle of what is a—. This is what Mark and I disagree on and, as a consultant, he is free to disagree on it. I think that our biggest problem is that if a levy is voluntary, it has to be voluntary. In some

instances, it doesn't look as if that is the case within the BID. I think that there is a wider question of governance there. If you have community councils and you have BIDs, or town centre partnerships, where is the governance line and how do we ensure, particularly when we are reviewing the role and form and function of local government, that we're not duplicating functions that could be best vested elsewhere. On the specific Swansea BID, the evidence is good. So, I think that the danger is that we look at a good one and say, 'Yes, it would work everywhere,' perhaps not considering the wider implications.

[473] **Mike Hedges:** I think that is, perhaps, something that lots of people need to learn from: the fact that something is working very well somewhere doesn't mean that you can pick it up and take it everywhere else.

[474] **Jocelyn Davies:** Yes. Mark, did you want to put the contrary view? [*Laughter.*]

[475] **Dr Lang:** I don't disagree entirely. I think that BIDs, for me, are part of the answer. They are not the answer. Shameless plug coming up: if you look at the work that I did in Tredegar last year with Dave Adamson—the deep place study of Tredegar—what we argued for as a whole-place, total-place solution was systems thinking. BIDs are only a small part of that. They're great because they involve local businesses, which is sometimes often lacking, but in a sense, because they are almost solely businesses, they are not whole-place. So, there needs to be a bit of a BIDs, but also wider—

[476] **Jocelyn Davies:** Do you mind sending us the Tredegar deep place study?

[477] **Dr Lang:** I'd be very, very happy to do so.

[478] **Jocelyn Davies:** Thank you for that. Nick, shall we return to your questions?

[479] **Nick Ramsay:** Yes. Do you believe that alternative dispute resolution could be a cost-effective means of resolving disputes for members?

[480] **Mr Davies:** Yes, we've advocated for it more widely in terms of wider dispute resolution in procurement, for instance, or late payment; and we certainly believe that avoiding lengthy disciplinary, tribunal or court proceedings in any aspect is something that should be done and needs to be built again into the culture of an organisation and for that opportunity to take that route—the expedited route—to be there. In many ways, we are cutting our nose off to spite our faces; one of our key benefits to members is legal protection and support, but the only people who actually make money out of contracted disputes are lawyers and other kinds. Nothing against lawyers, of course.

[481] **Jocelyn Davies:** There you are. But you'd like to see a system where you wouldn't necessarily need a lawyer in order to navigate yourself through it—that people should be able to do that without the use of a specialist legal adviser.

[482] **Mr Davies:** Yes. If I can expand on that, we are also interested in—and exploring with HMRC as FSB UK—the idea of paying in during the good times, and having funds on accrual on account for the bad times to be able to even out the absolute sort of reality of ups and downs and economic performance, particularly for smaller businesses. So, again, it's about saying, 'Look, there's money in the bank, if you like, as we've paid into this scheme. Yes, we understand there's been a problem, but, actually, look, we are paying on account and we're paying regularly'. This is obviously more widely than for one particular transaction tax. But all of these things have to work together in order to have that change of culture we've alluded to.

[483] **Nick Ramsay:** Could I just come back—

[484] **Jocelyn Davies:** Yes, of course.

[485] **Nick Ramsay:** —on the earlier issue about the porous border, before people think I'm flailing around on some sort of political extreme, which hasn't tended to be my stance in the past? It's very easy to overrate the border issues, I understand that, but, at the same time, I think Mike Hedges did make a point, in his own way, about Wrexham, and certainly in south-east Wales, there are those points of porosity you mentioned. Those are quite evident in my area. So, you would accept that those would have to be dealt with, otherwise, leaving aside Port Talbot and the west of Wales, there are areas around the border there where these taxes would have to be got right, otherwise there could be grounds for avoidance and evasion across the border.

[486] **Mr Davies:** Of course. I fully accept that. I think our wider position, which, again, we've expressed, is, rather than using that line almost as a truism, you know, we actually understand where there is capital movement either side of the border, what kind of capital and how can it best be addressed to support particularly those communities that straddle the border. We know about the Deeside situation, and, as you say, there are some communities that are literally both sides of a particular border. What we wouldn't want, be that across the Wales-England border, and indeed across our local authority borders, that there is something that's really to the detriment. We could equally be talking here about north Cardiff, south Caerphilly or south RCT. It would work in that context as well in a different way. So, I do accept it, but what I don't accept is that it's a truism. It's a hypothesis and we believe the Welsh Government, or the tax collection agency, the revenue agency, should look at it scientifically, if you like, in terms of economics and econometrics, rather than simply trotting it out as an excuse not to innovate either side of the border.

[487] **Jocelyn Davies:** Are you happy?

[488] **Nick Ramsay:** Thanks.

[489] **Jocelyn Davies:** Thank you very much. We've enjoyed our session with you today and, as usual, we'll send you a transcript. If you could check that and make sure it's accurate. We look forward to receiving the study from you.

11:57

**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:

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

*Cynigiwyd y cynnig.
Motion moved.*

Motion:

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

[490] **Jocelyn Davies:** I now suggest that we go into private session—and for the first item of next week. Everybody happy? Yes. Thank you.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:57.
The public part of the meeting ended at 11:57.*