

Explanatory Memorandum to the Non-Domestic Rating (Multiplier) (Wales) Regulations 2024

This Explanatory Memorandum has been prepared by the Non-Domestic Rates Policy and Reform Division and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Minister's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Non-Domestic Rating (Multiplier) (Wales) Regulations 2024. I am satisfied that the benefits justify the likely costs.

Rebecca Evans MS
Minister for Finance and Local Government
23 January 2024

PART 1: EXPLANATORY MEMORANDUM

Description

1. The Non-Domestic Rating (Multiplier) (Wales) Regulations 2024 (“the 2024 Regulations”) set the non-domestic rating (“NDR”) multiplier for Wales for the financial year 2024-25. They reflect the decision announced on 19 December 2023 to increase the multiplier by 5%, rather than using growth in the Consumer Prices Index (“CPI”) of 6.7%.

Matters of special interest to the Legislation, Justice and Constitution Committee

2. None.

Legislative background

3. Schedule 7 to the Local Government Finance Act 1988 (“the 1988 Act”) prescribes the default approach to annual increases in the multiplier, taking account of CPI. The multiplier is applied to the rateable value of each non-domestic property to calculate its NDR bill.
4. For financial years in which new rating lists are not compiled (which includes 2024-25), the default position for determining the NDR multiplier for Wales is to apply the formula set out in paragraph 3B of Schedule 7 to the 1988 Act. The formula is:

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

Where:

A is the multiplier for the preceding financial year

B is the CPI for September of the preceding financial year

C is the CPI for September of the financial year two years before

5. Under paragraph 5(13A) of Schedule 7 to the 1988 Act, the Welsh Ministers have the power to amend, repeal or disapply sub-paragraphs (5A), (5AA), (5B), (9A) and (9B) of paragraph 5 within that Schedule. This has the effect of enabling regulations to either use a different index from CPI, or to set alternative figures for B and/or C. As statutory instruments altering the multiplier in previous years have taken the approach of altering the figure for B, this approach is considered to provide the greatest degree of legislative clarity. It is this figure which the Welsh Ministers propose to substitute in making the 2024 Regulations.
6. The 2024 Regulations are subject to the draft affirmative procedure.

Purpose and intended effect of the legislation

7. The 2024 Regulations are required to limit the increase in the NDR multiplier to 5% for 2024-25, rather than increasing it by CPI. This will result in a multiplier of 0.562, compared to 0.535 for 2023-24.
8. In previous years, the approach taken to set a different multiplier was to adjust the figure for B. To provide clarity and consistency, and given the change is only applicable to one financial year, the Welsh Ministers have decided to make the change for 2024-25 by substituting an alternative figure for B, in place of CPI for September 2023. This results in a lower increase in ratepayers NDR bills for 2024-25 than the 6.7% that would otherwise occur.
9. To increase the multiplier by 5%, the value for B must be C multiplied by 1.05. The figure for C is 123.8 (CPI for September 2022). This means that the adjusted figure for B to achieve a 5% increase is 130.0 (instead of 132.0, which is the CPI figure for September 2023).
10. The 2024 Regulations will apply to the 2024-25 financial year only. Similar instruments have been used to limit increases in the multiplier each year since 2018-19.
11. All owners or occupiers of non-domestic properties who pay rates will benefit from the change. Even properties which receive significant amounts of rates relief will benefit, as the residual liability will be calculated using a lower multiplier.
12. All the non-domestic rates collected in Wales are pooled centrally and distributed to local authorities and to police and crime commissioners as part of the annual local government settlements. The total amount to be distributed in this way is known as the Distributable Amount. It is calculated by applying the multiplier to the estimated national total of rateable value, taking account of any surplus or deficit carried forward from previous years.
13. The Distributable Amount is a key component of the annual local government revenue settlements and the 1988 Act requires that it is approved by the Senedd as part of the annual *Local Government Finance Reports*. The multiplier, therefore, needs to be determined before the annual settlements can be finalised.
14. There is a clear purpose to the policy behind the legislation. It is aimed at supporting economic growth and reducing the local tax liability for businesses and other non-domestic ratepayers in Wales.
15. Limiting the increase in the multiplier will reduce the income into the non-domestic rates pool in 2024-25. The reduction will be fully funded by the Welsh Government and will be reflected in the calculations for the local government settlements, so that there is no financial impact on local authorities or police budgets.

Consultation

16. No consultation has been undertaken on the policy behind the 2024 Regulations. The proposals benefit all ratepayers in Wales and there is no impact on the resources available to local authorities and police services.

PART 2: REGULATORY IMPACT ASSESSMENT

Options

This Regulatory Impact Assessment (“RIA”) presents three options in relation to setting the multiplier for 2024-25. The options considered are as follows.

- **Option 1 – Use CPI to increase the multiplier (do nothing).** This option would increase the multiplier by 6.7%, to 0.570. No legislation would be required.
- **Option 2 – Legislate to limit the increase in the multiplier to 5% (make the 2024 Regulations).** This option would result in a multiplier of 0.562.
- **Option 3 – Legislate to freeze the multiplier.** This option would result in no increase in the multiplier, which would remain at 0.535.

Costs and benefits

Option 1 – Use CPI to increase the multiplier (do nothing)

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

For example, if a property has a rateable value (as assessed by the Valuation Office Agency) of £15,000, the rates bill for 2023-24 (before any reliefs) would have been:

$$£15,000 \times 0.535 = £8,025$$

Applying CPI would result in an annual rates bill for 2024-25 of:

$$£15,000 \times 0.570 = £8,550$$

The increase in the annual charge would, therefore, be £525. As this is the default position currently set out in primary legislation, there would be no cost to the Welsh Government in pursuing this option.

Option 2 – Legislate to increase the multiplier by 5% (make the 2024 Regulations)

This option would result in a 5% increase in rates bills for all non-domestic properties not in receipt of full relief. Using the example from Option 1, the rates bill for 2023-24 was:

$$£15,000 \times 0.535 = £8,025$$

An increase of 5% in the multiplier for 2024-25 would result in a bill of:

$$£15,000 \times 0.562 = £8,430$$

The result is an increase in rates for the property of £405, which is £120 lower than if the multiplier is increased by CPI (Option 1).

The total saving to ratepayers across Wales is estimated at around £18m in 2024-25. All individual ratepayers who do not already receive full relief would benefit at a level proportional to their liability. This would be a recurrent saving for ratepayers with an equivalent recurrent cost to the Welsh Government.

Option 3 – Legislate to freeze the multiplier

This option would result in no increase in rates bills for all non-domestic properties. Using the example from Options 1 and 2, the rates bill for 2023-24 was:

$$£15,000 \times 0.535 = £8,025$$

A freeze in the multiplier for 2024-25 would result in a bill of:

$$£15,000 \times 0.535 = £8,025$$

A freeze in the multiplier would see no change in rates liability for the property, with rates £525 lower than if the multiplier increased by CPI (Option 1) and £405 lower than if the multiplier increased by 5% (Option 2).

The total saving to ratepayers across Wales is estimated at around £76m in 2024-25. All individual ratepayers who do not already receive full relief would benefit at a level proportional to their liability. This would be a recurrent saving to ratepayers with an equivalent recurrent cost to the Welsh Government.

Option selection

The cost of setting a lower multiplier (Options 2 and 3) would be borne by the Welsh Government and would be a recurrent cost. There would be no financial impact on local authorities and police services. Option 2 would make the maximum possible use of consequential funding received from the related UK Government announcement for England in the Autumn Statement. It is acknowledged that Option 3 would go further, in preventing increases in bills for ratepayers. This is not, however, affordable in the context of a challenging budget settlement for the Welsh Government for 2024-25.

Option 2 is, therefore, the preferred option. This balances affordability and the Welsh Government's desire to support ratepayers with their bills.

Duties

Well-being of Future Generations (Wales) Act 2015

Limiting increases in the multiplier will assist all ratepayers who do not benefit from full relief and, as such, will help to contribute to the achievement of the wellbeing goals of a prosperous and a more equal Wales.

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

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

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

Voluntary sector. Limiting increases in the multiplier will benefit all ratepayers who do not benefit from full relief, including those operating in the voluntary, charitable and not-for-profit sectors.

Justice. No specific impacts on the justice system have been identified.

Competition Assessment

A competition filter test has been applied to the 2024 Regulations. As the change benefits all ratepayers who do not benefit from full relief, no effect on competition within Wales is indicated.

Post implementation review

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