

# **Financial implications of the Local Government Finance (Wales) Bill**

March 2024

## 1. Introduction

- 1.** The Local Government Finance (Wales) Bill<sup>1</sup> (the Bill) and Explanatory Memorandum<sup>2</sup> (EM), including the Regulatory Impact Assessment (RIA), were introduced by Rebecca Evans MS, the Minister for Finance and Local Government (the Minister) on 20 November 2023.
- 2.** On 21 November 2023, the Minister made an introductory statement on the Bill in Plenary<sup>3</sup>.
- 3.** The Finance Committee (the Committee) took evidence on the financial implications of the Bill on 7 February 2024<sup>4</sup>, from:
  - Rebecca Evans MS, Minister for Finance and Local Government;
  - Ben Crudge, Head of Local Tax Policy, Welsh Government; and
  - Simon Tew, Bill Manager, Welsh Government.
- 4.** Policy scrutiny of the Bill was undertaken by the Local Government and Housing Committee.<sup>5</sup>
- 5.** The Legislation, Justice and Constitution Committee also considered the Bill in accordance with matters which fall within its remit.<sup>6</sup>

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<sup>1</sup> [Welsh Government, Local Government Finance \(Wales\) Bill](#)

<sup>2</sup> [Welsh Government, Explanatory Memorandum](#)

<sup>3</sup> [Plenary, Record of Proceedings \(RoP\), 21 November 2023](#)

<sup>4</sup> [Finance Committee, RoP, 7 February 2024](#)

<sup>5</sup> [Local Government and Housing Committee](#)

<sup>6</sup> [Legislation, Justice and Constitution Committee](#)

## 2. Purpose and need for the Bill

**6.** The Explanatory Memorandum (EM) states the Bill’s overall purpose is to:

*“...make a significant contribution towards reforming non-domestic rates and council tax in Wales, addressing many of the limitations of the current arrangements.”<sup>7</sup>*

**7.** The EM notes the changes proposed by the Bill will make the framework for local taxes more:

- closely aligned with changes in market conditions;
- responsive to the evolving context for taxpayers, and the subsequent impacts for communities; and
- tailored to Wales’s needs by being established and maintained within devolved powers and structures.<sup>8</sup>

**8.** The EM explains that the powers proposed in the Bill to make subordinate legislation in a number of areas will reduce the Welsh Government’s reliance on UK Government Bills to deliver changes for Wales, and allow changes to be made in a timely manner. The EM states the “proposed powers will reduce the need for emergency non-legislative measures”.<sup>9</sup>

**9.** The Bill comprises three parts and one schedule:

- Part 1 of the Bill makes provision in relation to Non-Domestic Rates (NDR), it makes amendments to the Local Government Finance Act 1988 (“the 1988 Act”).
- Part 2 of the Bill makes provision in relation to council tax and amends the Local Government Finance Act 1992 (“the 1992 Act”).
- Part 3 of the Bill makes general provisions.<sup>10</sup>

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<sup>7</sup> [Welsh Government, Explanatory Memorandum, page 9](#)

<sup>8</sup> [Welsh Government, Explanatory Memorandum, page 10](#)

<sup>9</sup> [Welsh Government, Explanatory Memorandum, page 10](#)

<sup>10</sup> [Welsh Government, Local Government Finance \(Wales\) Bill](#)

**10.** The Schedule to the Bill makes consequential amendments relating to Part 1 of the Bill.<sup>11</sup>

**11.** The Minister said that the current system for local government finance is “very old”. She said this Bill provides an “opportunity to bring things into the modern day and create a system that is flexible also to respond to changes in the future”.<sup>12</sup>

**12.** However, this Bill only “contributes to that wider programme of reform. It's not the entire reform on its own”.<sup>13</sup> The Minister added:

*“...the provisions in the Bill itself are really about bringing in specific improvements to better enable Welsh Ministers and local authorities to respond to changing circumstances and, potentially, to changing priorities in the future. They've been carefully constructed to try and create the fairest possible situation, and fairness, as you know, is part of our overarching approach to the council tax reform, but it absolutely holds true to non-domestic rates as well.”<sup>14</sup>*

**13.** The Minister highlighted a key aspect of the Bill is to introduce more frequent revaluations for council tax and non-domestic rates (NDR), “bringing things up to date and still having a stable system, but also one that reflects the true value of properties and the shape of the tax base”.<sup>15</sup> She added:

*“...another really key part of the Bill is enabling Ministers to alter the reliefs, exemptions, discounts and premiums in the future as well, and I think that's a really core part of the Bill.”<sup>16</sup>*

**14.** The overall costs of the Bill are £58.8 million over the ten-year appraisal period 2024-25 to 2033-34. The RIA also identifies £14.9 million of benefits over that period. However, there are areas within the Bill which have not been costed as the activity will be taken forward via secondary legislation.<sup>17</sup>

**15.** The Committee asked the Minister if she was able to provide further information on the potential financial implications of the changes within

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<sup>11</sup> [Senedd Research: Local Government Finance \(Wales\) Bill: Bill Summary](#)

<sup>12</sup> Finance Committee, RoP, 7 February 2024, paragraph 114

<sup>13</sup> Finance Committee, RoP, 7 February 2024, paragraph 112

<sup>14</sup> Finance Committee, RoP, 7 February 2024, paragraph 112

<sup>15</sup> Finance Committee, RoP, 7 February 2024, paragraph 113

<sup>16</sup> Finance Committee, RoP, 7 February 2024, paragraph 116

<sup>17</sup> [Welsh Government. Explanatory Memorandum, page 47](#)

secondary legislation and whether there are any areas that could result in significant costs, beyond what is set out in the RIA. She responded:

*“We're not able to provide that detail at the moment, because the proposals for how the secondary legislation would be used, and the kind of reliefs, for example, which would be potentially introduced in future haven't been set out. But that said, of course, those regulations would be subject to their own RIAs and their own work in terms of developing and identifying the costings and so on, and communicating that, and consultation where necessary as well. I suppose that's the next step for reform, whereas this immediate step is about creating the structures to enable those final changes to take place in the future, subject to consultation, where appropriate, and also the RIAs and so on.”<sup>18</sup>*

**16.** When asked if any areas subject to secondary legislation would have significant costs, the Minister said it was “difficult at the moment” to identify. She provided an example relating to NDR multipliers, stating:

*“The Bill will, in future, allow a Government to make different choices on multipliers. At the moment, we only have the one multiplier that we are able to vary in Wales, but, in future, there could be regulations brought in or subordinate legislation brought in whereby you could change on the basis of location, on classification of the property, for example, but you can't do that at the moment. So, depending on what choices are made in that space, it will obviously have an impact in terms of any costs.”<sup>19</sup>*

**17.** The Minister's official confirmed that the Welsh Government has:

*“...committed to a review of reliefs and exemptions following this Bill, and that will allow us to look at all the reliefs and exemptions that are currently in place on the non-domestic rates side. We're doing similar work on the council tax side. Following that piece of work, we'll have more clarity and recommendations, potentially, on what the next steps would be with the powers. And, as the Minister says, that would fully*

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<sup>18</sup> Finance Committee, RoP, 7 February 2024, paragraph 118

<sup>19</sup> Finance Committee, RoP, 7 February 2024, paragraph 120

*consider the financial impact of any changes that we're proposing in that space.”<sup>20</sup>*

**18.** The Minister confirmed the Bill does not prevent any consideration of a land value tax taking place and “in fact it's something that we're actively exploring at the moment.” She added:

*“I did say previously that I would be able to set out some kind of road map for consideration and so on before the end of this Senedd term, and we're currently working on that as well at the moment. So, this doesn't stop any of that work happening, but land value tax, if it is demonstrably better than non-domestic rates, for example, or even council tax, would take an awfully long time to implement. So, we're just exploring that whilst concentrating on these immediate changes.”<sup>21</sup>*

**19.** The majority of the estimated administrative costs, £35.0 million, are associated with the Valuation Office Agency (VOA) in respect of work relating to both NDR and council tax provisions over the ten-year appraisal period.<sup>22</sup>

**20.** Other administration costs include £3.3 million of non-cash opportunity costs for local authorities' staff time associated with revaluation processes. There is a small amount of transitional administrative capital cost, £224,000 for the Valuation Tribunal for Wales (VTW) and local authorities to update their ICT systems in relation to more regular council tax revaluations.<sup>23</sup>

**21.** The RIA sets out non-cash compliance costs related to the new duty to supply up-to-date information to the VOA, which are allocated to NDR ratepayers and are associated with the additional time to complete the appropriate online processes. These are valued at £14.9 million.<sup>24</sup>

**22.** The RIA outlines other estimated costs, which includes the additional contribution to NDR relief (which is also outlined as a “direct benefit to ratepayers”), split between Welsh Government (£1.9 million) and local authorities (£3.0 million).<sup>25</sup>

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<sup>20</sup> Finance Committee, RoP, 7 February 2024, paragraph 121

<sup>21</sup> Finance Committee, RoP, 7 February 2024, paragraph 127

<sup>22</sup> [Welsh Government, Explanatory Memorandum, page 48](#)

<sup>23</sup> [Welsh Government, Explanatory Memorandum, page 48](#)

<sup>24</sup> [Welsh Government, Explanatory Memorandum, page 48](#)

<sup>25</sup> [Welsh Government, Explanatory Memorandum, page 49](#)

**23.** The Minister said she was satisfied with the engagement undertaken with relevant bodies on costs, even though only six local authorities responded to the call for information.<sup>26</sup> She continued:

*"I know that the VOA gave evidence to the Local Government and Housing Committee very recently, and in their evidence they were also satisfied with our assessments of the costs in the RIA as well. Engagement has gone far beyond the response of those six local authorities. Officials are engaging all the time with the VOA, the VTW, local authorities and so on."*<sup>27</sup>

**24.** The Minister's official added that:

*"...we also had regular engagement with local authorities through revenue and benefits, the Society of Welsh Treasurers, and various other engagement sessions, where these numbers have been socialised, and they haven't come to us with any objections to them at this stage."*<sup>28</sup>

## Committee view

**25.** The Committee notes the current system for local government finance was established prior to devolution, and we support the need for reform to create a fairer and flexible system that can respond to change in the future. However, as this Bill is only part of that reform, while the RIA covers a ten-year appraisal period, it is apparent that this Bill is a part of a wider programme of reform, the direction of which and any associated costs are currently unknown. While we consider the Bill and RIA as they are presented, it is important that we acknowledge that the full picture of associated costs remains uncertain given that the Minister's broad policy aims will be delivered through a combination of secondary legislation made under this Bill, as well as through other legislative and policy initiatives.

**26.** The Committee notes a key aim of the Bill is to introduce more frequent revaluations for council tax and NDR, to improve fairness and responsiveness to economic change, among other things. In addition the Bill aims to improve the system around reliefs, exemptions and discounts and the Welsh Government's ability to deliver policy priorities in the future.

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<sup>26</sup> Finance Committee, RoP, 7 February 2024, paragraph 134

<sup>27</sup> Finance Committee, RoP, 7 February 2024, paragraph 134

<sup>28</sup> Finance Committee, RoP, 7 February 2024, paragraph 135

**27.** Whilst we are broadly supportive of the aims of the Bill, many of these provisions will be brought forward via secondary legislation. We have, on numerous occasions this Senedd, expressed our disappointment that a high reliance on secondary legislation makes it difficult to assess the total cost of a Bill and to understand the implications of the changes being proposed. We are concerned that there may be significant financial implications from changes made through secondary legislation as a result of this Bill. This has made it particularly difficult for the Committee to understand the financial impact of the legislation. Furthermore, whilst we note assurances made by the Minister that any future subordinate legislation made under this Bill will be fully costed, this is no substitute for providing detailed costs at the outset, by including them within the RIA accompanying this Bill.

**28.** As highlighted in our report on the Health Service Procurement (Wales) Bill<sup>29</sup>, we expect RIAs to include a best estimate of the costs and benefits associated with secondary legislation alongside the relevant primary legislation, to enable us to fully scrutinise the overall financial implications of a Bill. The Welsh Government's own Legislation Handbook states that

*"... even where the precise detail of subordinate legislation has not been finalised, a best estimate of the likely costs and benefits is required".<sup>30</sup>*

**29.** The Committee is pleased to hear that this Bill does not prevent any further work taking place on a proposed land value tax. We note that the Minister will be setting out a 'road map' for this tax before the end of the summer term and we would welcome further information on its associated costs. Nonetheless, it is important to explore all avenues for change to ensure the correct decision is reached about the most appropriate system of local taxation. We therefore encourage the Welsh Government to be extensive in its exploration of options for further reform.

**30.** The majority of the estimated administrative costs are associated with the VOA in respect of work relating to both NDR and council tax provisions over the ten-year appraisal period. Whilst it is disappointing that only six local authorities responded to the Minister's call for information, we note that there has been on-

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<sup>29</sup> Finance Committee Report: Financial Implications of the Health Service Procurement (Wales) Bill

<sup>30</sup> Welsh Government: Legislation Handbook on Assembly Bills, May 2019, page 51



going engagement with local authorities, the VOA and the VTW and that the VOA are satisfied with the costs set out in the RIA.

**Conclusion 1.** The Committee is broadly content with the financial implications of the Bill as set out in the Regulatory Impact Assessment, subject to the comments and recommendations in this report.

**Recommendation 1.** The Committee recommends that the Minister commits to providing as much transparency as possible in relation to the costs of the Bill by publishing full and robust Regulatory Impact Assessments to accompany subordinate legislation made under this Bill.

**Recommendation 2.** The Committee recommends that the Minister explains how the Welsh Government is complying with its own Legislation Handbook in relation to costing subordinate legislation to Bills.

**Recommendation 3.** In relation to alternative systems of local taxation, the Committee recommends that the Minister:

- continues to explore all avenues for change to ensure the correct decision is reached about the most appropriate system of local taxation; and
- provides a copy of the road map for a land value tax, with an outline of any associated costs, to the Committee as soon as possible.

### 3. Non-Domestic Rates (NDR)

**31.** The RIA estimates total costs associated with NDR provisions of £41.140 million and total benefits of £14.950 million.<sup>31</sup>

#### Three-year revaluation

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**32.** The Bill will increase the frequency of NDR revaluations from every five years to every three years.<sup>32</sup> The RIA outlines that similar changes are being taken forward across the UK<sup>33</sup>, including for England through the Non-Domestic Rating Act 2023.<sup>34</sup>

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<sup>31</sup> [Welsh Government, Explanatory Memorandum, pages 100 & 103](#)

<sup>32</sup> [Welsh Government, Explanatory Memorandum, page 54](#)

<sup>33</sup> [Welsh Government, Explanatory Memorandum, pages 13 & 55](#)

<sup>34</sup> [Non-Domestic Rating Act 2023](#)

**33.** The total cost of the change, over ten-years, is an increase of £6.311 million, from £9.622 million for a five year cycle to £15.933 million for a three year cycle.<sup>35</sup> The Welsh Government considered and discounted other alternative cycles, including the option of two-yearly revaluations.<sup>36</sup>

**34.** In terms of moving to the more regular revaluations, the Minister said:

*“The VOA will be delivering the revaluations for both England and Wales, and that's part of a joint programme, so that will allow us to benefit from those economies of scale and the administrative effectiveness that the VOA provides, in terms of the services across both England and Wales. We think the costs are justifiable in light of the balance that three-year revaluations provide to ratepayers, in giving them a degree of certainty whilst also, then, having a system that reflects the more up-to-date economic environment.”<sup>37</sup>*

**35.** The Minister highlighted that if the Bill isn't implemented, “there'll be no non-domestic rates revaluation for Wales in 2026 and the next would take place in 2028, so that would be out of sync a bit with England”.<sup>38</sup> She said:

*“Then, we'd have to look again at the cost profiles, bearing in mind, then, that we wouldn't benefit from that kind of economy of scale... so we'd have to, I suppose, explore with the VOA a revised cost profile.”<sup>39</sup>*

**36.** The Minister felt that the three-yearly revaluations “provide that balance that ratepayers tell us that they want as well, in terms of the certainty and the up-to-date reflection of the circumstances”.<sup>40</sup> She did not anticipate the more frequent revaluations having a “burdensome effect on businesses”.<sup>41</sup>

**37.** The Minister added:

*“The change in itself won't create any additional costs for ratepayers overall; they would only occur if the revaluation of the tax base meant that the individual property attracted a*

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<sup>35</sup> Welsh Government, Explanatory Memorandum, page 59

<sup>36</sup> Welsh Government, Explanatory Memorandum, page 55

<sup>37</sup> Finance Committee, RoP, 7 February 2024, paragraph 144

<sup>38</sup> Finance Committee, RoP, 7 February 2024, paragraph 145

<sup>39</sup> Finance Committee, RoP, 7 February 2024, paragraph 145

<sup>40</sup> Finance Committee, RoP, 7 February 2024, paragraph 147

<sup>41</sup> Finance Committee, RoP, 7 February 2024, paragraph 148

*higher rateable value. We haven't quantified those costs, because we won't know what they are until the revaluation has taken place, but, importantly, the exercise would be revenue neutral across the tax base, so I think, again, that's something that's important to reflect on.*<sup>42</sup>

**38.** The RIA contains administration costs that mainly fall to local authorities and are associated with implementing the new revaluation and updating billing systems. This is in relation to IT systems, as well as a small amount of engagement with ratepayers. Opportunity costs of £933,000<sup>43</sup> are identified across the ten-years, compared to the current system this is an additional cost of £311,000, and covers one additional cycle compared to current arrangements.<sup>44</sup>

**39.** The RIA states:

*"It has been assumed that no additional permanent staffing capacity will be recruited to local authorities to cover the small increases in administration activity. Staff resource will be allocated within the existing non-domestic rates administration teams as priorities dictate and are therefore considered an opportunity cost."*<sup>45</sup>

**40.** In relation to the opportunity costs, the Minister said:

*"Revaluations will result in those altered liabilities for ratepayers, with local authorities being required to update their billing systems to implement a new ratings list. But local authorities are already required to undertake the billing activity on an annual basis anyway, so, in that sense, we wouldn't expect there to be significant additional costs. Local authorities, in the discussions that we've had with them, also suggest that any changes, really, would be related to the information technology systems and, also, a small amount of additional engagement that they might have to undertake with ratepayers. So, we think that a small amount of additional*

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<sup>42</sup> Finance Committee, RoP, 7 February 2024, paragraph 147

<sup>43</sup> The values for this activity in the RIA differ in table 8.1 (£331k) and 8.2 (£311k).

<sup>44</sup> [Welsh Government, Explanatory Memorandum, page 58](#)

<sup>45</sup> [Welsh Government, Explanatory Memorandum, page 58](#)

*activity could be incorporated within the existing administration costs.”<sup>46</sup>*

**41.** The Bill imposes duties on ratepayers, including to supply the VOA with information that could affect the rateable value of a property or the identity of a liable person, “as changes affecting their property occur”. An annual confirmation will also need to be completed to confirm that the information held by the VOA is correct and up to date. A compliance and appeals regime for the new duties will be introduced. The RIA says the UK Government is pursuing similar goals in relation to England.<sup>47</sup>

**42.** The total cost of the compliance burden on ratepayers is estimated to be £2.975 million in 2026-27 during the first year of the new system and £1.7 million in subsequent years. The total additional cost for ratepayers is therefore £14.875 million.<sup>48</sup>

**43.** The current estimated cost to the Welsh Government of funding the VAO to establish and maintain the online service is £15 million across the ten-year period. The cost profile is front loaded, reflecting the development and launch of the service over the first few years.<sup>49</sup>

**44.** The Welsh Government estimate the additional cost for individual ratepayers will be £35 in the first year and £20 per year thereafter.

**45.** The RIA notes:

*“This cost takes into account both the duty to notify as changes occur as well as the annual confirmation, which will use the same IT system. The lower costs in the second year take into account the efficiency savings of ratepayers’ familiarity with the process and systems.”<sup>50</sup>*

**46.** The Minister said this was “only slightly higher than the £15 that we currently estimate the annual cost to be”. The Minister considered these costs to be “very modest” and “proportionate”.<sup>51</sup>

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<sup>46</sup> Finance Committee, RoP, 7 February 2024, paragraph 150

<sup>47</sup> [Welsh Government, Explanatory Memorandum, pages 75 & 76](#)

<sup>48</sup> [Welsh Government, Explanatory Memorandum, pages 78 & 79](#)

<sup>49</sup> [Welsh Government, Explanatory Memorandum, pages 78](#)

<sup>50</sup> [Welsh Government, Explanatory Memorandum, pages 78](#)

<sup>51</sup> Finance Committee, RoP, 7 February 2024, paragraphs 152 & 153

**47.** The Minister's official added:

*"I think it's useful just to note that revaluations already happen in the NDR space; there was one in 2017 and there was one in 2023. Ratepayers were engaged with that and had to supply information for that process in the traditional, current way. What this is doing is not changing the fact that ratepayers will be engaging with the Valuation Office Agency at revaluation stages; the VOA are looking at changing the process to make it easier to engage on a more frequent basis to be able to deliver three-yearly revaluations."<sup>52</sup>*

**48.** The Minister said the "VOA will be keen to find the right way to make a system that is easy to use"<sup>53</sup> and that:

*"...we won't require businesses to use that system until we're absolutely confident that it will be up and running... which we wouldn't expect to be, actually, for the 2026 revaluation, it would be the one following that, and that was always our intention as well."<sup>54</sup>*

## **Avoidance**

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**49.** The RIA notes estimates from 2017 suggest local authorities lose between £10 million and £20 million a year from NDR avoidance.<sup>55</sup> The Bill introduces a form of general anti-avoidance rule (GAAR), with the detailed changes to be set out in secondary legislation.

**50.** The EM states, while avoidance is not illegal, "it is behaviour that creates artificial arrangements to gain tax advantages".<sup>56</sup>

**51.** On this issue, the Minister said:

*"...we've been doing lots of work recently to tackle avoidance in a number of ways, but this Bill will help us do more of that in future and look to those avoidance schemes that are creative—they pop up all of the time in different ways—to enable us to respond to that in a more agile way. It specifically includes*

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<sup>52</sup> Finance Committee, RoP, 7 February 2024, paragraph 156

<sup>53</sup> Finance Committee, RoP, 7 February 2024, paragraph 157

<sup>54</sup> Finance Committee, RoP, 7 February 2024, paragraph 157

<sup>55</sup> [Welsh Government, Explanatory Memorandum, page 63](#)

<sup>56</sup> [Welsh Government, Explanatory Memorandum, page 19](#)

*some work in relation to charitable rate relief. We know that there are avoidance schemes in that space, so we're able to take some action on that in this Bill.”<sup>57</sup>*

**52.** The Minister said she wanted “to reduce those opportunities for avoidance, because, obviously, it has an impact on the overall funding available for public services”.<sup>58</sup> She continued:

*“When we make regulations to identify those specific behaviours, the impact on revenues, of course, will depend entirely on what the behaviours are, and the extent of the behaviours. So, it's hard to say at the moment, but what this does is give us a chance to address those things quickly in future.”<sup>59</sup>*

## Committee view

**53.** The RIA identifies additional costs to local authorities of more regular revaluations, which are noted as opportunity costs. However, there appears to be some differences between figures included in different places in the RIA. For example, table 8.1 of the RIA includes a figure of £331,000 for this activity, but table 8.2 outlines a figure of £311,000. There is a similar issue for compliance activity with inconsistencies in costs in table 8.3 and paragraph 8.128. There also appears to be a difference in the stated proportions in paragraph 8.91 and the suggested percentage split. The Committee requests clarification on these issues.

**54.** The Bill will increase the frequency of NDR revaluations in Wales from every five years to every three years. We note that similar changes are being taken forward across the UK, and that alignment with the approach being delivered in England will provide economies of scale and administrative efficiencies for the delivery of the VOA’s services in Wales. However, if the Bill is not implemented the Committee notes that the next NDR revaluation in Wales will take place in 2028, which will be out of sync with arrangements in England. We are not clear about the risks and cost implications if there is divergence between Wales and England and request further cost estimates to cover this scenario.

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<sup>57</sup> Finance Committee, RoP, 7 February 2024, paragraph 173

<sup>58</sup> Finance Committee, RoP, 7 February 2024, paragraph 187

<sup>59</sup> Finance Committee, RoP, 7 February 2024, paragraph 189

**55.** The VOA will implement and maintain a new online system at a cost of £15 million over the ten-year appraisal period. Ratepayers will be required to provide information relevant to their identity and property to the VOA as changes affecting their property occur. There will also be a duty on ratepayers to complete an annual confirmation that the information held by the VOA is accurate. The RIA says that the estimated additional cost for individual ratepayers under the new system will be £35 in the first year and £20 per year thereafter. This seems to conflict with the Minister's suggestion that costs will be "only slightly higher" than the £15 it's estimated to currently cost ratepayers, in fact the RIA suggests they would be more than doubled. Whilst we welcome the commitment from the Minister that the new system will not go live until she is "absolutely confident", we would like clarity on the potential risks to costs for ratepayers should there be any delays in the timescale for delivering the new system.

**56.** We welcome the introduction of a form of the GAAR within the Bill to enable the Welsh Government to respond to and counteract avoidance behaviours. However, as previously highlighted at the start of this report, the GAAR will be introduced via secondary legislation, and as a result, the costs are currently not known.

**57.** Another area that could lead to significant costs relates to the power to prescribe differential multipliers by regulations. This will enable Welsh Ministers to prescribe different multipliers, in respect of different descriptions of hereditaments, and make consequential and restatement provisions. The Minister said it was "difficult at the moment" to identify whether this provision could result in significant costs depending on what choices are made by the Welsh Government in future. The Committee regrets the lack of cost details in relation to these provisions in the Bill, especially as they could be significant (see recommendation 1).

**Recommendation 4.** The Committee recommends that the Minister reviews the points raised around inconsistencies in the Regulatory Impact Assessment noted in this section, with a view to clarifying the information identified in a revised Regulatory Impact Assessment.

**Recommendation 5.** The Committee recommends that the Minister provides information on the risks and cost implications for Wales in diverging from England in terms of the timing of its non-domestic rates revaluations, and for this information to be included in a revised Regulatory Impact Assessment.

**Recommendation 6.** The Committee request further information on the total cost to ratepayers of the new duty to supply up-to-date information to the Valuation Office Agency, in particular, whether the £35 and £20 cost per ratepayer is in addition to the costs currently estimated for relevant activity, and for this information to be included in a revised Regulatory Impact Assessment.

**Recommendation 7.** The Committee recommends that the Minister provides further information on the potential costs and risks associated with the Valuation Office Agency's new online system. This should include when it will be implemented and the risks of any potential delays in implementation to ratepayers complying with the new requirements to provide information, and for this information to be included in a revised Regulatory Impact Assessment.

## 4. Council Tax

**58.** The RIA estimates total costs associated with council tax provisions of £18.024 million and cost savings of £390,000.<sup>60</sup>

**59.** The EM says there are over 1.4 million chargeable dwellings liable for council tax, which is usually payable by anyone over the age of 18 who owns or rents a home. House prices in Wales are based on values in 1 April 2003, with the changes from the last time the council tax base was updated and revalued taking effect on 1 April 2005.<sup>61</sup>

**60.** The RIA sets out costs to the VOA of £14 million over the ten-years in relation to more regular council tax revaluations. It also notes the VOA outlined a "series of assumptions and caveats" around these figures. It says the estimated costs for the VOA to deliver a future revaluation exercise depends on the extent to which the Welsh Government may choose to reform the council tax system. The estimates provided are therefore on the basis of previous revaluation experience.<sup>62</sup>

**61.** The RIA says there is an area of uncertainty relating to a business systems transformation programme currently taking place at the VOA. It says the planned transformation programme will change the way in which the VOA undertakes its responsibilities and could provide efficiency benefits for Wales,

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<sup>60</sup> [Welsh Government, Explanatory Memorandum, pages 100 & 103](#)

<sup>61</sup> [Welsh Government, Explanatory Memorandum, page 20](#)

<sup>62</sup> [Welsh Government, Explanatory Memorandum, page 83](#)



making accurate costs for both NDR and council tax revaluations difficult to outline. The RIA goes on to note “planned organisational change” at the VTW.<sup>63</sup>

**62.** The Minister said she was “confident in the figures” and that the VOA’s evidence to the Local Government and Housing Committee “also displayed that high level of confidence in those figures and in the delivery of the work as well, so we don’t have any particular concerns at this point”.<sup>64</sup>

**63.** The Committee also asked about transitional arrangements relating to a revaluation. The Minister acknowledged that within “focus groups and our other engagement with the public... there is still a level of scepticism” and that some people think the “exercise is about raising council tax—it’s not, it’s about raising the same amount, but doing it more fairly”.<sup>65</sup>

**64.** The Minister confirmed “we’ve said upfront we’ll look at transitional arrangements”<sup>66</sup> “not just for households, but also for local authorities”.<sup>67</sup> She noted:

*“One of the learnings from the last revaluation for council tax was that transitional arrangements, I think, were considered probably too late in the process, but we want to give people that confidence that we are thinking about it upfront. To what extent transitional arrangements are needed and what those might look like will obviously depend on the system that is chosen for the future as well.”<sup>68</sup>*

**65.** The Committee asked the Minister what assessment she had made of the impact of a revaluation of council tax on taxpayers. In her response, the Minister noted the Welsh Government’s phase 2 consultation for council tax reform<sup>69</sup>, “set out three potential examples... that we could follow in future”.<sup>70</sup>

**66.** The Minister said that alongside the consultation document, she published the Institute for Fiscal Studies report, which “illustrated what each of those three models might look like in reality, both in terms of the way it affects individual

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<sup>63</sup> [Welsh Government, Explanatory Memorandum, page 49](#)

<sup>64</sup> Finance Committee, RoP, 7 February 2024, paragraph 212

<sup>65</sup> Finance Committee, RoP, 7 February 2024, paragraph 227

<sup>66</sup> Finance Committee, RoP, 7 February 2024, paragraph 227

<sup>67</sup> Finance Committee, RoP, 7 February 2024, paragraph 229

<sup>68</sup> Finance Committee, RoP, 7 February 2024, paragraph 227

<sup>69</sup> [Welsh Government: A Fairer Council Tax, phase 2](#)

<sup>70</sup> Finance Committee, RoP, 7 February 2024, paragraphs 215

households and then also the geographical impact as well”.<sup>71</sup> The Minister noted that whilst she hasn’t yet decided on a system, it could be designed “in infinite ways”.<sup>72</sup>

**67.** The Bill includes provisions which give the Welsh Ministers extended regulation-making powers in relation to discounts and the categories of people who are disregarded. They will also have the power to allow councils to vary discounts in their area in certain circumstances.<sup>73</sup> The RIA does not identify any costs saying, “Adopting this option would not incur initial additional expenditure for the Welsh Government or any other sector/organisation until such time as the powers are used”.<sup>74</sup>

**68.** In relation to council tax discounts and disregards, the Minister said:

*“... we've got a working group looking at the 53 different exemptions, and so on, that we have at the moment. So, they'll be making recommendations as to whether any of those are changed or removed, or if there are new ones that we could add. So, again, responding to that kind of detailed work will be a next step down the road as well.”<sup>75</sup>*

**69.** Whether there may be additional costs incurred in the future with regard to increasing flexibility around discounts and disregards, the Minister explained:

*“...I think, [there] might be some changes that come out of that for us to consider. But there are some already proposed in the phase 2 council tax reform consultation.”<sup>76</sup>*

## Committee view

**70.** We note the provision in the Bill to allow for regular revaluations of domestic properties, given that revaluations in Wales are currently initiated at the discretion of Welsh Ministers and only one revaluation (the 2005 revaluation) has taken place since the council tax system was introduced in 1993.

**71.** The Minister acknowledged there was a level of scepticism during public engagement on this proposal with many considering this Bill as a vehicle to raise

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<sup>71</sup> Finance Committee, RoP, 7 February 2024, paragraphs 216

<sup>72</sup> Finance Committee, RoP, 7 February 2024, paragraphs 216

<sup>73</sup> [Welsh Government, Explanatory Memorandum, page 90](#)

<sup>74</sup> [Welsh Government, Explanatory Memorandum, page 92](#)

<sup>75</sup> Finance Committee, RoP, 7 February 2024, paragraph 122

<sup>76</sup> Finance Committee, RoP, 7 February 2024, paragraph 231

council tax. We are pleased to hear that the intention is to raise the same amount of revenue, but through a fairer system. This Committee has previously raised concerns about the regressive nature of council tax and supports any aims to make it fairer without affecting the tax base.

**72.** However, we are mindful of the impact of revaluations on taxpayers. We note that the Welsh Government's consultation on a fairer council tax: phase 2<sup>77</sup>, which sets out three potential approaches to council tax reform, has recently closed. The Committee notes that the Minister will be considering the responses before making a decision on the scale and the pace of reform, and we look forward to receiving further information in due course.

**73.** We are pleased to note that transitional arrangements will be considered to limit the impact of revaluations on certain households and local authorities. Transitional arrangements need to be considered for both any new system implemented in the future and any revaluation associated with this Bill. As arrangements will not be known until decisions are made regarding the new system, we call on the Minister to keep the Committee informed of these arrangements.

**74.** In relation to council tax discounts and disregards, again these are yet to be determined and will be brought forward via secondary legislation. The Minister confirmed that they will be subject to consideration of the consultation results and the recommendations from the working group responsible for considering the exemptions that are currently available. Whilst we welcome the flexibility to create and set discounts and disregards, we are concerned that these could have significant costs associated with them (see recommendation 1).

**Recommendation 8.** The Committee recommends that the Minister provides an update once a decision has been taken on the approach to council tax reform. This should include a cost analysis of any potential options that might be considered following the Fairer Council Tax: Phase 2 consultation and any implications for the Local Government Finance (Wales) Bill.

**Recommendation 9.** The Committee recommends that the Minister provides further information on the working group responsible for considering the current council tax exemptions and any work being undertaken to simplify discounts and disregards.

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<sup>77</sup> [Welsh Government: A Fairer Council Tax: phase 2](#)

**Recommendation 10.** The Committee recommends that the Minister provides information on the transitional arrangements that will be put in place to limit the impact of council tax revaluations on households and local authorities.

## 5. Post-implementation review

**75.** The EM includes a post-implementation review, which states:

*“Detailed policy implementation will be developed with practitioners and working groups to ensure they are fit for purpose, drawing on practical experience and local knowledge”.*<sup>78</sup>

**76.** The EM goes on to say the Welsh Government will continue to work with stakeholders and local authorities to monitor and evaluate the impact of local government finance reform:

*“For all of the provisions within the Bill, the Welsh Government will ensure continuous assessments of how the legislation has taken effect and influenced the policy intent. Welsh Government officials will hold bilateral meetings with the relevant Ministers to discuss and monitor progress.”*<sup>79</sup>

**77.** The Minister said the “success of the Bill in many ways will be about the impact that those more frequent revaluations have on the fairness of the system, keeping it up to date and the taxpayers' experience in terms of paying and being billed for the right level of tax”.<sup>80</sup>

**78.** However, she went on to add:

*“... I think that lots of the provisions in the Bill will require further work, so work around the disregards, exemptions, discounts and premiums and so on, and that will obviously require assessment of the impact of those particular choices that are made in the future. We'd assess the impact of the Bill on multipliers. So, did a future choice on multipliers have the impact that it was intended to have at the time? In that sense, lots of the impact of the Bill comes from decisions that will be*

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<sup>78</sup> Welsh Government, Explanatory Memorandum, page 114

<sup>79</sup> Welsh Government, Explanatory Memorandum, page 114

<sup>80</sup> Finance Committee, RoP, 7 February 2024, paragraph 234

*taken later, but, overall, this Bill is about modernising the system, bringing it up to date and having a system made here in Wales for local tax as well, rather than having to look to London to make changes for us. So, it's about having a modern system, really, which is fit for purpose and agile.”<sup>81</sup>*

## Committee view

**79.** The Committee reiterates its view that the inclusion of a robust post-implementation review is good practice and helps to ensure the objectives of legislation are being delivered in line with expectations, and that value for money has been achieved. Given that a number of the provisions in the Bill will be implemented by secondary legislation, such as the disregards, exemptions, and multipliers among others, these will require assessment of the impact of those particular choices.

**80.** A key theme of our report is that a number of costs relating to the delivery of this Bill are unknown and will be provided alongside secondary legislation at a future date. We therefore welcome the inclusion of the post-implementation review provisions which we believe will be particularly worthwhile, and call for any review to include an assessment of secondary legislation made under powers delegated by this Bill.

**Recommendation 11.** The Committee recommends that any post-implementation review assesses the overall costs and benefits of the Bill, including any subordinate legislation made and whether these meet the expectations set out in the Regulatory Impact Assessment.

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<sup>81</sup> Finance Committee, RoP, 7 February 2024, paragraph 234