Response to the Independent Commission on Local Government Finance Wales call for evidence

The Bevan Foundation develops ideas to make Wales fair, prosperous and sustainable. We use evidence to produce innovative solutions, and share knowledge and experience to shape public policy and practice. We are a registered charity and social enterprise.

We welcome the opportunity to submit our views to the Independent Commission on Local Government Finance Wales. Our response relates to the questions under the financial overview and council tax, business rates and other forms of income headings.

1. **The potential role of new taxes in financing local government in Wales**
   1.1. In addition to devolving powers over stamp duty land tax, landfill tax and a variable income tax referendum, the Wales Act 2014 amends the Government of Wales Act 2006 by inserting clause 116c to allow the National Assembly for Wales to introduce new devolved taxes. The same clause also allows the UK Government to devolve any new UK taxes to the Welsh Assembly.
   1.2. The Wales Act 2014 command paper states that further taxes could be designated as devolved taxes through secondary legislation. This opens up the possibility for either:
      - The Welsh Government to introduce specific new taxes in Wales, with the agreement of each House of Parliament and the Assembly; or
      - The UK Government to devolve further existing or new UK taxes, again with the agreement of each House of Parliament and the Assembly.[1]
   1.3. The Bevan Foundation has received funding from the Joseph Rowntree Charitable Trust to explore the potential of new devolved taxes. New taxes proposed for Wales by others, and to be considered by the project, include a tourist tax in the form of a capped nightly rate on hotel rooms, a tax on sugary drinks and foods, and a natural resources tax. The project is in the early stages; draft proposals are expected in late December 2015 and the final report will be published in March 2016.
   1.4. We understand that it would be feasible for the Welsh Assembly to legislate for new devolved taxes and rates could either be set by the Welsh Assembly or by local authorities. It is also possible that a new devolved tax could be set at a zero rate by local authorities if this were permitted by legislation, which

[1] HM Government (March 2014), Wales Bill: Financial Empowerment and Accountability, p.22

would mean that taxes and levies could be operating in one part of Wales but not another. The collection and management of these new devolved taxes could also be the responsibility of local authorities.

1.5. However, it is important to note that the Wales Act 2014 does not give the Welsh Assembly fiscal responsibility – any new taxes would be subject to the approval of the Assembly and of both Houses of Parliament through an Order in Council.[2]

1.6. There is also a set of criteria which proposals for new devolved taxes will be assessed against, which includes its compliance with EU legislation, its affect on UK macro-economic or fiscal policy and/or the single market, and its alignment with devolved responsibilities.[3]

2. Financial impact of new taxes

2.1. According to the 'no detriment principle', new devolved taxes will only result in a reduction to Wales' block grant if it caused a reduction in the Exchequer's revenues.[4]

3. Potential for new taxes to secure the delivery of better public services and outcomes

3.1. Our work is looking at the potential for taxes to change the behaviour of individuals and organisations by reducing social, environmental and economic 'harms'. In turn, this could reduce demand for local authority services or help them to achieve targets.

3.2. The revenue stream from any new devolved taxes could be used to fund local government services, either generally by increasing the overall budget or they could be hypothecated to fund specific services. For example, the revenue stream from a takeaway packaging tax could be ring-fenced to be spent on combating litter, or a childcare tax on employers could fund local authority crèche services.

3.3. The potential for new taxes to change the behaviour of individuals could help to reduce the demand or need for some services, such as a tax on non-recyclable plastics could reduce local authorities' landfill usage if it led to a reduction in consumption and/or waste.

3.4. New taxes could also change the behaviour of organisations and businesses in ways which could alleviate the burden they place on local authorities, or support local authorities' activities. For example, a 'training tax' on employers could be hypothecated for further education, or tax credits for research and development could boost non-domestic rates revenues.

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[2] Wales Act 2014, Part 4a, Chapter 1, Section 116c

[3] HM Government (March 2014), Wales Bill: Financial Empowerment and Accountability, p.22

[4] Ibid.

4. New taxes to encourage greater economic growth in Wales

4.1. There is potential for new taxes (or tax credits) to be used to increase revenues, but they can also boost growth and help build the sort of local economies councils are seeking to develop.

4.2. The new tax powers should be viewed as a policy lever which can also encourage positive economic, environmental and social behaviour, as well as trying to alleviate ‘harms’. They are a mechanism which local government can use to support the provision of services and secure funding.

4.3. Examples of how new devolved taxes and tax credits could boost economic growth include credits for green energy initiatives, a training tax or a ‘start-up’ levy where large local employers contribute to the support available to new businesses.

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