Llywodraeth Cymru
Welsh Government

GUIDANCE, DOCUMENT

Freeports: non-domestic rates retention

The non-domestic rates retention policy for freeports.

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Introduction

The non-domestic rates retention policy for Freeports set out in the **Freeport Programme in Wales: bidding prospectus**, provides that "the local authority, or local authorities, in which the Freeport tax sites are located will retain the non-domestic rates growth for that area above an agreed baseline. This will be guaranteed for 25 years, giving local authorities the certainty they need to borrow to invest in regeneration and infrastructure that will support further growth."

This guidance is intended to support local authorities in administering non-domestic rates retention within Freeports. It does not replace any existing non-domestic rates legislation.

Enquiries about this guidance should be sent to: **LocalTaxationPolicy@gov.wales**.

Retained income

Income from retained non-domestic rates growth should, as detailed in the **Freeport Programme in Wales: set-up phase guidance**, primarily be used to fund:

- Freeport operating costs;
- physical and/or digital infrastructure that will facilitate investment in the Freeport area;
- land assembly and/or site remediation works that will facilitate investment in the Freeport area;
- skills and workforce development – based on the principles of fair work and sustainability;

- innovation initiatives;
- regeneration and/or the development of 'live work play' assets within the Freeport Travel to Work Area;
- the mitigation of any displacement and/or negative externalities associated with the Freeport;
- activity in support of the Freeport's Net Zero and decarbonisation ambitions;
- the delivery of Freeport-specific planning measures.

The policy provides for up to 100% non-domestic rates income retention within the designated tax sites. The initial baseline income, for the delineated area within which the retention is to take place, will be set through an initial baseline income return. The properties included in the initial baseline will be those on the rating list in the Freeport tax site as at the day prior to tax site designation, with corresponding rateable values as at the same day.

The income to be retained by the local authority in the Freeport will be determined by the amount that the non-domestic rates income exceeds the baseline income, subject to the application of the displacement factor(s) prescribed by the Welsh Government. This retained income will be derived from non-domestic rates paid on new buildings, extensions and improvements of existing buildings, and rebuilds of existing buildings resulting in higher rateable values and higher income. It will include the value of any income which would otherwise have been realised before Freeports rates relief is applied, but will not include the value of any statutory relief(s), local reliefs or locally-funded elements of discretionary reliefs (as this income would not have been received in any case).

The baseline income, as well as the amount of income to be retained, will be calculated annually using a new annual return designed to underpin this process, which local authorities will be required to complete and provide by the 30 June after the end of each financial year. Local authorities with a Freeport will continue to report all non-domestic rates income, including that which will be retained, as part of the standard non-domestic rates returns (annual NDR1 and

NDR3 forms).

Local authorities will receive their retained income through the Local Government Settlement in the April after the rates retention returns are received. This is because the additional income will be recorded in the return which will be completed following the end of the relevant financial year and that information will need to be verified. The next available opportunity to reflect the necessary adjustment to a Local Government Settlement will then be the financial year after that. For example, income to be retained in respect of the 2025 to 2026 financial year will be included in the Local Government Settlement for 2027 to 2028.

The scope test

As set out in the bidding prospectus, Freeports are based upon three main objectives, to:

- promote regeneration and high-quality job creation;
- establish the Freeport as a national hub for global trade and investment across the country; and
- foster an innovative environment.

Freeports income retention will not include projects within the delineated area that would have been undertaken in any case, without Freeport incentives.

In order for new projects to contribute to additional Freeport income, they must meet the scope test. Local authorities must be capable of showing on request that:

- without the Freeport, the necessary infrastructure investment would not have taken place; and

- the project meets one or more of the stated objectives set out above.

The Welsh Government may query or review Freeport properties to determine if they have met this test. Where the Welsh Government is not satisfied that they have, it may request amended returns with backdated effect. The set-up phase guidance states that Freeports must set out a suitably robust strategy for managing their tax sites, including providing confidence that investment in new economic activity is created, rather than displaced from elsewhere. It is expected that the adoption of this strategy will allow local authorities to ensure in a straightforward manner that non-domestic rates income identified for retention in the returns can be evidenced to be the result of growth which meets the scope test, should any such queries arise.

Projects undertaken within a delineated area that do not meet the scope test will instead contribute to baseline income, rather than retained Freeport income.

Changes to the tax-base

Local authorities will complete an annual return (Freeport non-domestic rates retention form) which will record the updated baseline income, additional income (adjusted for the prescribed displacement factor) and total income for the relevant year. The return is used to record the changes to non-domestic rates income in respect of the relevant year only, compared to the previous year. Separate notes to support local authorities completing this return will be provided with the return form.

Changes to the tax-base, such as new builds, extensions, demolitions and re-builds, are likely to happen throughout the year. The first 12-month period following the effective date of a change is, therefore, likely to span across two financial years (two returns).

In the year in which the change takes place, it will only be relevant to the extent to which it affects income in that year (i.e. from the effective date of a change until the end of the financial year). This will then be carried into the following years as part of the total income in the previous year.

In the year following the change, the remaining adjustment to the total income (i.e. from the start of the year until 12 months after the effective date of the change in the previous year) will be relevant. The entire impact of the changes on total income will then be carried forward into subsequent years.

Further details on the treatment of new builds, extensions, demolitions and re-builds are provided below.

New builds and extensions

Where a newly built property is added to the rating list in the Freeport area, or an existing property is extended or improved (resulting in an increased rateable value), this will be included in the total income. In most cases, it is expected that these changes will also be reflected as additional income, but they may instead be included in the baseline in some circumstances (i.e. where the scope test is not met).

For extensions and improvements to a property which formed part of the baseline income, the additional income will be proportional to the change in rateable value. If, for example, a property's rateable value is increased from £75,000 to £100,000 after extension or improvement, 25% of the income (after any statutory or other non-Freeport reliefs are applied) from the extended property will be retained.

Demolitions

In the year in which a property is demolished, it should continue to be reflected in the total income for the part of the year for which rates were payable (before the demolition). For the part of the year for which rates are not payable (following the demolition), the reduction in total income should be reflected.

In the year following demolition, the remaining reduction in total income should be reflected, in relation to the period from the beginning of the year until 12 months following the date on which rates ceased to be payable (when the demolition took place). Retained income from a demolition will then not arise until a property is re-built in place of the demolition.

Re-built properties

In some cases, properties will be demolished (and fully removed from the Freeport income) and then re-built. When the re-build occurs, the pre-demolition income of the demolished property will be added back either to the baseline (if the demolished property was previously included in it) or the additional income (if the property was a new Freeport property before it was demolished). The difference between the re-build and pre-demolition income is treated as additional income, provided the rateable value of the re-built property exceeds that of the pre-demolition property.

Where there is a revaluation of the whole tax-base, causing the rateable value of a re-built property to change, the difference between baselined and additional income should be the same proportionate split as there was pre-revaluation, but applied to the new rateable value. In the rare circumstance that a revaluation takes place after a demolition, but before a re-build, there will be no reference rateable value to determine a split of baseline or additional income for that new revaluation cycle. In these cases, the pre-revaluation (pre-demolition) rateable value should be adjusted (increase/decreased) by the average change in rateable value which took place within the Freeport area. This adjusted rateable value will be treated as the pre-demolition rateable value for the purpose determining the split.