



Federation of Small Businesses in Wales
Response to the Welsh Assembly Government
Consultation Paper
Business Rate Relief in Wales: A Sustainable Future

Introduction:

1. With over 190,000 members, and more than 8,500 of that number located in Wales, the Federation of Small Businesses (FSB) is the Principality and the UK's largest non-party political lobbying group for small businesses and exists to promote the interests of all who own and/or manage their own business.
2. This document is drawn from and informed by the comments received by FSB members in Wales in response to the WAG's consultation process.
3. We very much welcome the fact that the Welsh Assembly Government have decided to investigate the feasibility of instituting a system of small business rate relief in Wales as provided by the Local Government Act 2003.
4. In considering the broader question of small business rate relief (SBRR) we need to consider whether it is most appropriately viewed as a tool for social policy, or a tool for economic and small business policy. However we realise that this stance seems to be at odds with the WAG's own consideration.
5. The FSB believes that it is most appropriately used to promote the sustainability of businesses within Wales at a time when such businesses have in the majority of cases, seen significant rises in their business rates bills following the 2005 revaluation process undertaken in England & Wales following which, SBRR was instituted in England but not in Wales.
6. Our members have been very concerned about this disparity and lack of a level playing field with counterparts across the border. We believe that it is important that balance be restored and that a situation in Wales does not exist, which might lead businesses to migrate.

7. In addition, we believe that all businesses are invaluable to our communities not just those concerned with providing important services such as local shops, garages or post offices.
8. A broad base of businesses serves the creation of wealth in regions, aids and promotes social regeneration and provides employment opportunities. We therefore believe that measures need to be adopted, which would assist ALL businesses.

Problems With the Current System

1. The most widely applied rate relief currently is Rural Rate Relief (RRR) and this was extended following the foot and mouth outbreak of 2001 and this application is to be welcomed.
2. As the major rate relief available to businesses in Wales, RRR has been more widely applied in Wales than in England.
3. However, the FSB remains very concerned at the gaps apparent in the current application of RRR. There are a number of areas within Wales where a settlement is defined as rural and yet the population exceeds the 3,000 threshold for the application of RRR.
4. We are pleased that the WAG has acknowledged this as an issue of concern and has recognised that this might be acting as an incentive/disincentive for business relocation/location. If we are to aid the regeneration of rural communities, this problem must be remedied by changes made possible by the WAG's review of business rate relief in Wales.
5. The consultation document acknowledges that there are inconsistencies between the application of relief across Wales. The FSB believes that it is of significant importance that the WAG forces a consistent line upon local authorities and that whatever the outcome of its review of rate relief, local authorities are forced to apply the same criteria throughout Wales to ensure a level playing field for businesses.
6. We recognise that the WAG has undertaken much needed and welcome research into the current system of rate relief and has concluded that the role of rate reliefs in wider economic development policy is limited and that small business rate relief is a 'blunt tool' for such policy.
7. However, the FSB is concerned that such a different conclusion has been drawn to that, which led the Office of the Deputy Prime Minister (ODPM) to institute SBRR in England. We would like to know the reasons for this disparity, which we feel, has the potential to disadvantage businesses in Wales.

8. The document identified that there are inconsistencies in the granting of discretionary reliefs between local authorities. Some authorities grant no discretionary relief at all whilst others are more proactive in promoting and take up and application.
9. The FSB strongly feels that these consistencies needs to be eradicated and that small businesses across Wales should be able to expect a level playing field in the criteria applied for the granting of discretionary relief and that such application should not amount to what is essentially a 'postcode lottery'.
10. The FSB believes that there needs to be consistency in application of guidance in the drawing up of rural settlements. The WAG document cites the case that the Post Office definition of 'rural' is not consistent with that applied by the WAG and local authorities and this is of some concern.
11. Problems arising from the differing application of RRR include the potential for it to act as an incentive or disincentive for business location or relocation. Although the FSB has not gathered evidence of members relocating to areas where they can receive RRR, a number have stated it as a concern for other businesses within their community.
12. An issue of significant concern regarding RRR is that although revaluation has pushed rateable values up significantly, the rateable threshold for RRR has not risen at a commensurate rate. This means that in many cases, those businesses, which have previously been eligible for RRR are no longer eligible and many members have contacted us to say that they are suffering as a consequence.
13. Becoming ineligible as a result of revaluation was not something that businesses budgeted during 2005 and so the extra rate burden has, in some cases, caused members to consider lay off staff or slim down operations. Obviously this is of significant concern.
14. We believe that if RRR is to remain, the threshold needs to be reassessed in light of revaluation in 2005 and to give it the ability to meet the demands of the current situation.
15. The WAG consultation document suggests that more flexible payment options for business rates could contribute to the support and sustainability of SMEs in Wales and that local authorities need to work to ensure that businesses are aware of the ability to obtain a revaluation where there is a change in circumstance. The FSB agrees with these points.

16. We feel that the WAG needs to move away from suggesting that support is only most relevant to those businesses it considers to be 'vital'. In the FSB's view, all businesses are 'vital' to a local community for job creation, tackling economic inactivity and ensuring that community's wider contribution to the Welsh economy. Communities cannot exist solely on general stores and post offices!
17. In short it is important that the WAG does all it can to maintain and improve the diversity and mix of businesses within all areas of Wales as it is this, which ensures wealth and job creation.

Suggested Options for Change:

1. The WAG states clearly that it does not see the role of rate relief as supporting the development of new businesses or the creation of jobs although recognises that this can be an unintended benefit. It states that there are other support mechanisms available to support businesses, which can be more effectively targeted.
2. However, in light of revaluation, the FSB believes that it is not inappropriate to look to rate relief as a business support tool and if not, challenges the WAG to outline those measures it feels could be better targeted.

OPTION 1 – Status Quo

1. This would continue with the present arrangements and would not provide for a specific small business rate relief scheme (such as that available in England). However, this means that relief is targeted exclusively at rural communities and does not assist those businesses struggling in non-rural areas. There is also the continuing problem of rural designation criteria and the lack of any change in RRR threshold.
2. Although, as the WAG document acknowledges, this does help stabilise the economic base of rural Wales, this does little to promote parity with other areas of Wales and ensures that businesses in Wales are placed at a wholly unfair disadvantage with businesses in England, a number of which may be competitors. **As such the FSB does not support Option 1.**

Option 2 – Discontinue RRR in Wales and do not introduce a SBRRS

1. This would mean that other than mandatory and discretionary reliefs, no other relief would be available to businesses in Wales. Although this would remove the inequitable situation in the application of RRR, it would mean substantial inequity with businesses in other areas of the UK and would do nothing to ensure the sustainability of the small business base of Wales on which all our communities depend. **As such the FSB does not support this option.**

OPTION 3 – Retain and reform RRR to be complemented with a SBRRS

2. This would mean the reformation of RRR to ensure that it fulfils its primary role and would be complemented by a SBRRS. Although RRR in Wales is currently more widely applied than in England, this option would reflect the English rate relief system and therefore ensure parity with English businesses.
3. **Of the three options stated for eligibility, the FSB supports an all-Wales entitlement based SBRRS. We agree with the consultation paper’s assessment that this option has the potential to promote inclusion and social justice for all in targeting small businesses across Wales.**

OPTION 4 – Abolish RRR to be replaced by a SBRRS

4. Although we have concern that abolishing RRR might be detrimental in those areas where it is operating effectively and for the benefit of businesses, we feel that in the event of Option 3 being ruled out this option should be explored further.
5. We would support an all-Wales entitlement-based scheme of SBRR. Targeting relief does not create parity among businesses and the criteria for judging which businesses are considered to be of ‘importance’ to local communities is likely to prove controversial and may harbour resentment or discontent among some businesses.
6. An entitlement scheme would treat all businesses equally but again, problems may arise in defining important businesses and this would need to be given proper consideration in conjunction with business interests. Options 3 and 4 promote consistency in all-Wales application and therefore represent the most equitable options in our opinion.

Other issues:

1. It seems clear from WAG statements and the research under taken by the WAG that it does not support a system of SBRR and certainly not a scheme such as that operated in England.
2. We are concerned that this seems to be the position of the WAG as it suggests to businesses that the Government in Wales is not as willing as the UK Government to support small businesses.
3. Businesses are, on the whole sceptical about devolution and many feel that the WAG has yet to prove itself to be wholly supportive of businesses in the same way as their counterparts in England.
4. We feel that the WAG needs to clarify whether or not it feels it should adopt a different stance to the UK and Scottish Governments and

account for that decision. We do not feel that businesses should be penalised as a result of devolution.

5. The Minister has previously stated that she feels that the English scheme is unfair in that larger businesses effectively subsidise smaller businesses. We are concerned that this view be adopted in Wales and not England. The fact remains that as a proportion of spend, business rates represent the 2nd or 3rd most significant cost for small businesses where as they represent a tiny proportion of spend for larger businesses.
6. Wales is already a year behind England and is likely to fall further behind by at least another year. Evidence from FSB membership suggests that there is much resentment among small businesses at this delay and the apparent unwillingness of the WAG to tackle this issue with any sense of urgency.
7. Given the importance of SMEs to the Welsh economy, we urge the Assembly to show itself as pro-small business by instituting small business rate relief as soon as possible.
8. In addition, we feel that the WAG should look to ways of supporting those businesses, who have been hit by disproportionate rises in business rates caused by revaluation at a time when relief has been unavailable and this despite a number of those businesses having been previously eligible for rural rate relief, for example.
9. The need for this support is likely to be further highlighted by yet another year of delay.

**FSB Wales Policy Office
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