

# **Local Government and Public Services Committee**

**LGPS(2)-06-06(p.4)**

**Date: Thursday 30th March 2006**

**Venue: Committee Room 3, Senedd, National Assembly for Wales**

**Title: Business Rate Relief Scheme – Outcome Of Consultation**

## **Purpose**

1. To inform the Committee of the outcome of the consultation on the future of business rates relief in Wales.

## **Summary / Recommendations**

2. The consultation took place between 8<sup>th</sup> December 2005 and 3<sup>rd</sup> March 2006. In addition to the consultation paper, local authorities, local businesses and representatives of the business community were invited to a series of regional workshops to discuss the issues. The workshops were held in Cwmbran, Builth Wells, Llandudno and Llanelli.

3. The consultation was designed to elicit views on the most suitable way of focusing rate relief that would ensure businesses remain sustainable in those communities that need them most. I am pleased the response to the consultation shows that the general consensus is that reform of the business rate relief is needed. However, from the responses we have had no clear option has emerged as favourite.

4. A summary of the consultation responses is enclosed at Annex 1 and a copy of the consultation paper is enclosed at Annex 2.

5. I would therefore now welcome the views of this Committee to enable me to take them into account when formulating proposals for future rate relief policy in Wales. I will then bring forward the Assembly Government's proposals for change at a future meeting.

## **Background**

6. Full background details are set out in the consultation paper a copy of which is at Annex 2. The main points are -

- The Rural Rate Relief Scheme was introduced in 1998. It was available to the sole post office or general store in a qualifying rural settlement with a Rateable Value of £5,000 or less, who automatically qualify for 50% mandatory relief. Local authorities could then top up the mandatory relief with a further 50% discretionary relief. Whilst not eligible for mandatory relief, discretionary relief was also available to businesses with a rateable value up to £10,000. To qualify for relief the shop or post office has to be the sole shop, this is set in primary legislation.
- In April 2002 the Assembly extended the scope of the Rural Rate Relief scheme. The Non Domestic Rating (Rural Rate Relief) (Wales) Order 2002 came into force on 1 April 2002. It increased the rateable value thresholds for 50% mandatory relief for sole post offices or general stores from £5,000 to £6,000, so that many more rural businesses would qualify for mandatory rate relief. Councils have discretion to top-up the mandatory relief up to 100%. They also have discretion to grant relief to any other rural business with a rateable value of less than £10,000 provided it provides a vital service to the local community. Businesses receiving this pay no rates.
- Extended the scheme to rural pubs and petrol stations with a RV of £9,000 or less. They now qualify for an automatic 50% mandatory relief,
- Increased RV thresholds for discretionary relief to businesses that supply a vital role to the community to £12,000 at a level up to 100%.
- The Assembly meets 100% of mandatory relief and 90% of discretionary relief from the non-domestic rating pool.
- 10% of the cost of granting discretionary relief is met by local councils which they raise locally from the council tax.

## Costs

7. The costs of the present relief scheme have risen from £0.48 million in 2001 - 2002, to £17.5 million in 2004 – 2005, as illustrated in the table below, which provides an all Wales annual breakdown of the total costs of the mandatory and discretionary relief. There is a large increase between the 2001-02 and 2002-03 financial year. In Wales, the relief granted was increased as a response to the Foot and Mouth outbreak in 2001. There is no longer a need for a policy response to the epidemic and the scheme has not been reviewed or reverted to pre-Foot and Mouth status.

Financial Year	2000-01	2001-02	2002-03	2003-04	2004-05
Discretionary reliefs – (£000)	234	391	2,926	6,610	6,527
Mandatory reliefs (£000)	250	284	9,591	10,460	10,905
Total (£000)	484	675	12,517	17,070	17,432

## Consideration

8. The key themes emerging from the consultation are as follows:

There is strong support for some form of rate relief scheme. There is general support for introducing a relief scheme to include all small businesses, but differing suggestions as to how this could be done. The 3 main options are:

- a) Extend the current scheme to cover all Wales;
- b) Introduce a separate scheme to run alongside the current scheme;
- c) Establish a new all Wales scheme;
- i) Small businesses in areas not defined as rural do not benefit from the scheme even though they may be located in a less prosperous urban area bordering a rural area;
- ii) The current levels of discretionary and mandatory relief need further consideration;
- iii) There are concerns among recipients of rural rate relief that they will lose that relief and it may have a detrimental effect on their business;
- iv) It is perceived as unfair that England receives Small Business Rate Relief and Wales doesn't;
- v) Local authorities are responsible for drawing up boundaries defining rural communities, and they interpret the guidance in different ways. This is widely perceived as being unjust;
- vi) Relief based on boundaries is arbitrary and can be discriminatory, having an adverse effect on businesses that fall outside of the boundaries. The population figure of less than 3000 to define rural settlements is arbitrary;
- vii) The current scheme, based on rateable value, does not take into account the ability of individual businesses to pay;
- viii) Considerable support for tapering levels of relief so that it is phased out gradually on a sliding scale, rather than being cut off in one go once a business exceeds a defined rateable value;
- ix) The tourist industry has lobbied for rate relief for seasonal businesses;
- x) Other suggestions included a relief scheme to help new businesses in their early trading years, and a relief scheme to support capital investment in businesses such as hotels; and

xi) Better education to ratepayers is needed and the relief available needs to be more widely advertised.

## **Financial Implications**

9. The costs of drawing up more detailed proposals will be met from within existing budgets, and any proposed new scheme will be fully costed.

## **Action for Subject Committee**

10. The committee is invited to note the contents of this paper and to set out its views on the options for change in the light of the responses to the consultation.

Sue Essex

Minister for Finance, Local Government and Public Services

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## **Summary of Written Responses**

In total, 43 written responses were received. A list of respondents is shown at the end of the document. For the purposes of this summary, some responses are combined under one heading.

There were a number of common concerns with the current relief schemes, which are shown below.

### **General**

- although acknowledging it is not perfect, many respondents believe the relief should be based on a sliding scale of rateable value (i.e. not set cut off points) as it would be simple to administer.
- most respondents believe there should be some element of discretionary relief retained by local authorities in order to address local needs and priorities.
- There should be better advertisement of reliefs to ratepayers than there is at present.
- There were concerns about defining a business 'vital' to a community and that it could cause contention.

### **Rural Rate Relief**

- inconsistencies between local authorities surrounding the interpretation of rural settlement guidance
- concerns among recipients and local authorities that if rural rate relief was taken away it would be detrimental to rural business. Many said that they would only accept Small Business Rate

Relief if it ensured they were eligible.

## **Small Business Rate Relief**

- that England has a Small Business Rate Relief and Wales doesn't was perceived as unfair
- There were two main schools of thought regarding Small Business Rate Relief. Some respondents felt the relief should simply be given to the business that would have the most financial benefit as a result.
- Other respondents felt it would be best served for social rather than economic policies. Many felt that if it is to be targeted or entitlement based, this should be targeted at the businesses that are of importance to a community or at deprived or disadvantaged areas.

## **Options for Change**

Overall, respondents want any new scheme to be simple and equitable. The consensus is that it this should be introduced as soon as is practicable, allowing time to notify ratepayers, sufficient time for the legislative process and sufficient time for software providers to make any necessary changes.

A short summary of each response is listed below -

### **Pembrokeshire County Council**

Rural Rate Relief should be extended to urban areas with extra Assembly funding, as distribution of existing resources is not enough. Should be Rateable Value based, index linked to 2005 revaluation.

### **Wrexham County Borough Council**

Rural Rate Relief easy to administer with low costs. Population limits need to be amended and increased, the definition of 'settlements' needs stronger guidance from the Assembly. Prefer Option 3 – rural rate with greater population criteria and a small business rate relief targeted at deprived urban areas. This is supported by their constituents. Targeting business vital to a community will be difficult to administer and hard to define. Decisions should be with local authorities as they know their area best.

New scheme should come in April 2008 to allow for consultation, legislative changes and software issues. Increased funding needed from Assembly to cover the costs.

Want a review of hardship relief.

### **National Farmers Union Cymru**

Settlement thresholds should be increased to over 3,000 in order to include towns in rural areas.

An application based scheme may be more of an administrative burden but the benefits would outweigh the additional work by introducing more fairness and consistency.

This option would also encourage more businesses to start up in rural areas.

Changes should be introduced as soon as possible, with minimal disruption to rural businesses.

## **Carmarthenshire Chamber of Commerce**

Need to reform the system as it is unfair England gets Small Business Rate Relief and Wales doesn't.

The current system is inequitable across the rural/urban divide.

Prefer Option 3 topped up with a SBRR scheme capped by level of turnover (£250k ceiling). Qualifying business in deprived wards should receive 75% of relief.

Eligible business should be the same across Wales as whole and reforms should be introduced as soon as possible.

## **Gwynedd County Council**

Prefer Option 3(a), retain and reform Rural Rate Relief and complement with an area based, targeted small business rate relief. Rural rate relief is vital to the area and should be retained, and should revert to original purpose of protecting sole general stores and post offices.

Small Business Rate Relief should promote business in underprivileged/deprived areas and target business that provide a service that is of value to the community. Overall, relief should be used for regeneration of the economy. . Defined areas should be decided at a local level to match local needs and priorities.

Any new scheme should be simple to administer. Any new scheme should give sufficient time for regulatory changes, software issues and allow sufficient notice (a year) to be given to ratepayers.

## **Powys County Council**

Rural rate relief is vital to Powys as many businesses rely upon it due to continuing pressure on rural economies. However, it is felt the settlement limits are too small and many towns in rural areas do not qualify. The 3,000 population criteria needs to be reviewed and clearer guidance is needed.

Rateable Value limits need to be reviewed following the 2005 Revaluation.

Prefer Option 3 with an all Wales SBRR, not targeted at specific areas such as Objective One or Communities First as they already receive financial assistance. Would consider Option 4 if it was guaranteed that all rural business would qualify for the relief they currently receive.

### **Isle of Anglesey County Council**

Are extremely unhappy with the current situation in regards to the guidance on rural settlement thresholds and rural rate relief.

Prefer Option 3 as economic pressures remain in rural communities. See no need to change the legislative basis as the matter could be resolved through improved guidance and removing local interpretation.

There needs to be a reduction the current discretionary levels to ensure more local discretion and local accountability.

Relief should not be targeted at geographical areas as the rural rate relief has shown the dangers that can arise from this approach.

Should be rateable value based.

Changes should be immediate as software changes would be minimal.

### **City and County of Swansea**

Need to reform system as is inconsistent and excludes businesses outside rural settlements.

Prefer Option 3 as would mean that relief would continue for existing rural businesses, in addition an area based, targeted small business rate relief scheme could be used to assist other small businesses worthy of assistance. To avoid inconsistencies, the type of business should be applicable to Wales as a whole.

Changes should not be introduced before 1 April 2007.

### **Society of Welsh Treasurers**

Believe rate relief best targeted at social policies as it would be ineffective in economic development policies.

Any new scheme should be simple to administer.

Any additional cost to the NDR pool as a result of a new policy should be met by the Assembly Government. The rate of subsidy from the national pool (currently 90% for discretionary relief) is an area that needs to be looked at further by the Assembly and local authority practitioners in order to achieve the right balance.

Rural settlement guidance needs to be reviewed and changed as soon as possible due to the current inconsistencies across authorities. The ONS classification of rural areas could be used as a framework.

Prefer Option 3, but review rural settlement guidance to remove inconsistencies. Need Small Business Rate Relief also as it is unfair that some businesses who deserve relief aren't eligible. Mandatory SBRR should be entitlement based and simple to administer, so needs to be based on Rateable Value (tapered). Needs to be limited to businesses that have a community benefit. Discretionary element should be used to target local social policy objectives. The Mandatory element must tie to national policies discretionary element used to take account of local priorities.

Existing software can be easily changed/extended if relief was based on Rateable Value and type of business.

## **Federation of Small Businesses**

Support small business rate relief to promote sustainability.

Small businesses are resentful that England qualifies for rate relief but Wales doesn't.

Want to see reform of the rural rate relief settlement limits and want to see a more consistent approach across all authorities.

There should be more consistency when granting discretionary rate relief so it does not result in 'postcode lottery'.

Number of rural business no longer qualify for Rural Rate Relief following revaluation, so rateable value threshold needs to be reassessed.

Would like to see more flexible payment options.

Do not support Options 1 and 2. Prefer option 3 with an all Wales entitlement based Small Business Rate Relief, not targeted at 'vital' business as all business is vital. Would consider Option 4 also but again, all Wales as deeming certain business as vital would cause too much controversy.

Reforms should be introduced as soon as possible as there is a perception the Assembly Government isn't small business friendly.



## **Farmers Union Wales**

New scheme needed to address the inconsistencies in the current scheme and to assist small business who do not qualify for relief.

As long as wages remain lower in rural areas than elsewhere, there remains a need for rural rate relief. Abolishing that could affect the vitality and sustainability of rural communities.

Prefer Option 3(b), retain rural rate relief and complement it with an all Wales entitlement based SBRR to make it more equitable and address the inconsistencies. A broader criterion for relief could be considered such as wages, turnover, number of employees, rather than rateable value.

If a new scheme is to be introduced, further, more detailed consultation is needed.

## **WLGA**

Relief should match objectives set out in WAVE and the Spatial Plan.

There is a need for reform, especially post Foot and Mouth.

New scheme needs to take account of local regeneration and community strategies.

The definition of rural settlements needs to be refined to address anomalies in the current system.

Prefer Option 3 with an entitlement based Small Business Rate Relief. Mandatory relief should address national priorities and there should be a discretionary element that addresses local needs and priorities based on local knowledge. These will vary between communities. The scheme should be targeted in rural and urban contexts at the business that provide a valued service to a community. The entitlement criteria needs to be clear and easily determined.

Any increased administrative burden on local authorities needs to be reflected in the Revenue Settlement.

The timing of a new scheme should allow sufficient time to inform ratepayers but should be introduced as soon as practicable.

The economic benefits need ongoing review.

## **Neath Port Talbot County Borough Council**

Any new scheme should be targeted at the business that need it the most, irrespective of size, and that

have a community benefit. Relief should be targeted at Community First areas or areas with a high index of multiple deprivation, social enterprises and should be used for business start up. There needs to be discretionary relief as different business sectors are important in different areas.

Option 3 or 4 are preferred, but not necessarily targeted at small business.

Any new scheme should consider overall policy objectives and whether it meets them, therefore application basis is preferable.

Relief should be tapered. Any new scheme should simple with as little bureaucracy as possible and be introduced as soon as possible.

### **Ceredigion County Council**

Need to reform current system as excludes small business in urban areas.

Current rural rate relief should be extended to all general stores, and there is a need for stronger guidance on defining the boundaries of rural settlements.

Prefer Option 4, all Wales Small Business Rate Relief based on Rateable Value with cut off points. This would be easy to administer, equitable, remove confusion regarding definitions of business and settlement areas.

All small businesses are vital to local communities so should be on a Rateable Value basis only and apply to all small business. Business in Objective One areas could have a different (higher) RV threshold. Discretionary and mandatory relief would apply and differ for Rateable Value thresholds between non-Objective One and Objective One areas.

Would like April 2007 start date but would accept April 2008 if impractical.

### **Cardiff County Council**

Reform needed. Want a fair, equitable scheme. Simple to understand and administer.

Prefer Option 4, entitlement based, all Wales. Percentage to be targeted at Communities First Areas. Mandatory, no discretionary element.

Scheme should start April 2007.

### **Torfaen County Borough Council**

Reform needed. Want a fair, equitable scheme.

Currently, defining rural settlements is problematic.

Prefer all Wales SBRR with discretionary top up for business with a community benefit that could vary between areas.

Scheme should start April 2008 for legislative changes and software issues.

### **Conwy County Borough Council**

Reform needed, new scheme should target the business that really need relief and exclude those who don't.

Option 4 (a) (area based targeted SBRR) preferable, simple administration with exemptions to include offices and holiday units. Should apply across Wales to set businesses.

Should be based on a sliding scale of Rateable Values.

### **Community Pharmacy Wales**

Prefer Option 4, all Wales entitlement based SBRR, would avoid the inconsistencies that may occur with applying relief at a local level or through application and would remove inconsistencies between rural and urban areas.

Believe mandatory relief should be extended to include community pharmacies. Believe that loss of pharmacies in a local community results in a significant reduction in health and social care services to that community. Relief could be targeted at rural and disadvantaged communities, such as Community First wards.

### **British Holiday and Home Parks Association**

Holiday homes contribute significantly to the Welsh economy.

Feel it is unfair that England gets Small Business Rate Relief but Wales doesn't.

Do not support options 1,2 and 3 as they feel it doesn't address the current inconsistencies in the system.

Option 4 (all Wales entitlement based) is more equitable and provides an opportunity to introduce a simple system, with some local discretion available.

There should be a sliding scale of reliefs, and it should be centrally funded to show the Assembly Government is committed to supporting small business.

### **National Pharmacy Association**

Community pharmacies are vital to local communities for reasons such as self care, economic wellbeing and job provision.

The Association supports Option 4 (a), all Wales Small Business Rate Relief, and believe mandatory relief should be extended to cover community pharmacies as they provide a vital service to the community.

### **British Retail Consortium**

Rates are a heavy burden on small business.

Rateable Value is not an appropriate basis for relief, should be based on occupier turnover, VAT receipts or the statutory definition of an SME. If rateable value is to be used, the thresholds need to be reviewed as they are currently too low.

Do not support Options 1,2 and 3 as it doesn't address current inconsistencies and would be too much of an administrative burden in the case of Option 3.

Option 4 is preferred and should be targeted at the business that bring social and economic benefits to a community. Could also be targeted at deprived areas or at special or niche business, but are wary that relief is a very blunt instrument for doing so.

Other considerations are whether multiple properties should be eligible, for example if they have a low combined rateable value. Also, the scheme should not be funded by a dual multiplier or supplementary levy.

### **Cllr Michael Williams, Pembrokeshire**

Rate relief should be replaced with a tax on profits. However, current rate relief is unfair due to the settlement population limits. They are arbitrary and areas such as Tenby do not qualify, despite the short trading season.

The current system does not reward capital investments.

### **Alun Edwards, Porthcawl Chamber of Trade and Commerce**

Rate relief should be granted on a temporary basis for start up of new businesses.

### **Caerphilly Independent Retail Partnership**

Believe there should be better system of getting information about relief to ratepayers, i.e. put it on the back of the rate relief bill.

Also feel that the application process for relief should not demoralise the business and make them feel lie they are getting a handout.

Feel that small businesses are paying the highest rates.

### **Waverly Hotel, Llandudno**

Current system needs to be reformed, the rateable value limits are too defined and there is no sliding scale as dropping off the scale so suddenly leaves business feeling vulnerable.

Relief should be linked to annual turnover.

Supports Option 3, complemented with an all Wales Small Business Rate Relief as Rateable Value is unfair (does not reflect the profitability of a business). The scheme should be applicable across Wales as a whole.

Local authorities should inform the business whether or not it is eligible for relief, not leave it to business to find out for themselves (better education needed).

### **Tenby House Hotel, Tenby**

Revaluation has hit business hard.

Reform is needed as towns do not qualify for rate relief.

Relief for business strongly affected by seasonal trade could also be introduced.

### **Tenby Bookshop, Tenby**

Towns do not qualify for rate relief, so reform is needed as this is resulting in business closure and staff lay offs, especially since the revaluation.

### **British Hospitality Association**

Transitional relief should be introduced to businesses most affected by revaluation. Welcome further consultation on the matter.

### **St Davids Hotel and Spa, Cardiff**

More support is needed for businesses that bring tourism into an area.

### **Welsh Automotive Forum**

Revaluation has affected the automotive industry. The industry would benefit from rate relief.

Peter Vaivars, Pub Landlord, Treorchy

Revaluation significantly affected business and a smoking ban will add additional pressure to businesses such as community pubs.

Feel it is unfair that there is Small Business Rate Relief in England, but none in Wales.

### **Huckaback Ltd, Monmouth**

The same business would qualify for rate relief if it was located in England.

Rates are a large burden, businesses will close and jobs will be lost in the community.

### **Lyn Ozcan**

Rateable value thresholds for rural rate relief need to be reviewed following revaluation.

### **Tez –Small Business/Office owner**

It is unfair that England gets Small Business Rate Relief but Wales doesn't.

Has converted house into an office and pays high rates, but does not receive the same services as a council tax payer.

The majority of business in Wales is small, and it needs support in order to retain staff, as the company has had to lay off staff. Relocation to England is looking more attractive.

### **Carlee Environmental Cleaning Services, Holyhead**

Holyhead is classed as urban so doesn't qualify for rate relief.

The present system doesn't distinguish between areas where trade is buoyant and areas like Holyhead where it isn't; a new system is urgently needed.

### **Crumbs Cream Café and C Hughes, Tenby**

Revaluation has increased the burden on business.

Towns such as Tenby do not qualify for relief, but their neighbours do.

Consideration needs to be given for relief for business strongly affected by seasonal trade.

### **Wales Tourist Board**

There is a need for a clear, transparent and consistent system across Wales.

### **Bargoed Chamber of Trade**

Feel it is unfair that England and Scotland get small business rate relief and Wales doesn't, so reform is needed.

Prefer all Wales Small Business Rate Relief, targeted at less affluent areas. These should be determined by the Assembly, apply to Wales as a whole and be based on rateable values.

Would like to see changes as soon as possible.

### **List of respondents**

(1) Officials from Cardiff City Council

(2) Torfaen County Borough Council (Head of Revenues and Benefits)

(3) Pembrokeshire County Council (The Cabinet)

(4) Conwy County Borough Council

(5) Wrexham County Borough Council

(6) Ceredigion County Council (Finance Director)

(7) Neath Port Talbot County Borough Council (Director of Finance & Corporate Services)

- (8) Gwynedd County Council (Head of Finance)
- (9) Powys County Council
- (10) Isle of Anglesey County Council
- (11) Society Of Welsh Treasurers
- (12) Councillor Michael Williams, Pembrokeshire
- (13) Porthcawl Chamber of Trade & Commerce
- (14) Federation Of Small Businesses in Wales
- (15) Carmarthenshire Chamber of Commerce
- (16) Community Pharmacy Wales
- (17) -Caerphilly Independent Retail Partnership.
- (18) Waverly Hotel, Llandudno
- (19) Tenby House Hotel, Tenby
- (20) Five Arches Tavern & Restaurant, Tenby
- (21) Clarice Toys
- (22) D, Fecci & Sons
- (23) Tenby Bookshop
- (24) British Hospitality Association
- (25) Deputy Chief Executive, British Hospitality Association
- (26) St David's Hotel & Spa, Cardiff
- (27) Welsh Automotive Forum



- (28) British Holiday & Home Parks Association
- (29) NFU Cymru
- (30) Peter Vaivars, Treorchy
- (31) Huckaback Ltd. Monmouth.
- (32) Tez@f2s.com
- (33) Lyn Ozcan
- (34) Carlee Environmental Cleaning Services, Holyhead
- (35) Farmers Union Wales
- (36) National Pharmacy Association
- (37) British Retail Consortium
- (38) Crumbs Cream Café, Tenby
- (39) C Hughes, Tenby
- (40) Welsh Local Government Association
- (41) Wales Tourist Board
- (42) City and County of Swansea
- (43) Bargoed Chamber of Trade