



Arbenigwyr mewn Busnes
Experts in Business

FSB response to Economy, Innovation and Skills Committee Inquiry on Business Rates

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FSB Wales welcomes the opportunity to present its views to Economy, Innovation and Skills Committee. FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well as a biennial membership survey on a wide range of issues and concerns facing small business.

Non Domestic Rates have long been a key concern of FSB members, and we have worked closely with some of Wales' leading academics to examine many of the issues raised in this call for evidence. Of particular interest are seminar papers produced for FSB Wales' seminar series by Professor Calvin Jones (on the future role of Local Government)¹ and Professor Gerald Holtham (on Non Domestic Rates)². These papers have informed FSB Wales' thinking, but do not constitute our policy view, which is contained within this submission.

We must also note, that revaluation is currently in progress, with the draft lists due to be published during the course of this inquiry. Key questions regarding the accuracy of revaluation, any particular geographical or regional issues in rating, and the need for transitional relief from April 2017 cannot be answered in absence of the revalued list.

Key Points

FSB Wales has called for a number of changes to the system of business rates in Wales in our manifesto for the incoming 2016 Welsh Government³. Most significantly for the proceedings of this committee we have called for the Welsh Government to do the following:

- Agree a position on the local retention of Business Rates within 100 days.
- Undertake more regular revaluations, to ensure that rates bills are more reflective of economic circumstance and rents. The Welsh Government should look to do this within its first three years.
- Instruct the Valuation Office Agency to value land and property separately. This will allow a more meaningful evaluation of the impact of moving towards a system of Land Value Taxation. This should also be undertaken within the first three years.

¹ Jones, Calvin (2015) [Public Services and Economic Development in Wales](#), FSB Wales Seminar Series

² Holtham, Gerald (2015) [Non-Domestic Rates in Wales](#), FSB Wales Seminar Series

³ Available at: [http://www.fsb.org.uk/policy/rpu/wales/images/the_fsb_wales_business_manifesto_for_the_2016-21_welsh_government%20\(1\).pdf%20final.pdf](http://www.fsb.org.uk/policy/rpu/wales/images/the_fsb_wales_business_manifesto_for_the_2016-21_welsh_government%20(1).pdf%20final.pdf)



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- Take forward the recommendations in 'The Devolution of Business Rates to Wales' Report (February 2015)⁴ and undertake a full assessment of alternative options for business rates.
- Split the uniform business rate multiplier in line with the split between small and large multipliers operating in England

FSB Wales has general concerns about the levels of data available for modelling the impacts of business rates in Wales. It has therefore been difficult for us to fully assess the impact of business rates policy changes on our members and the wider economy. Welsh Government and local Government should do more to ensure that good quality data relating to business rates is available to policymakers. In this light, we find it difficult to comment as fully as we would like on potential reforms to Business Rates in Wales. It is our view that the costs and benefits of business rates policy are not fully explored.

It will be essential that any changes to business rates are clearly communicated to Welsh businesses, and that any changes to the system of Business Rates in Wales are phased in clearly and with adequate warning. Whilst some changes, such as local retention could be made relatively quickly (i.e. those which are not 'customer facing'), others may take more time and preparation. Such changes should be consulted on fully, and subject to a full and proper impact assessment, as FSB Wales has outlined in our report "Better Regulation for Wales"⁵.

Non-Domestic Rates are a source of c£1bn a year in revenue for the Welsh Government (and subsequently Local Authorities) and FSB Wales recognises the need to protect this revenue stream, and to grow it in line with economic growth. Indeed business rates' relatively "static" pot, whilst not reflecting business conditions, is a virtue from the point of view of the Government as it provides a predictable and secure stream of revenue.

However, it is our view that the tax currently falls disproportionately on those small businesses with premises, something implicitly recognised by the now year-on-year retention of the Small Business Rates Relief scheme, which should be extended and made permanent.

It is also clear that some Local Authorities substantially benefit from the current "shared pot" whilst other, normally more prosperous Local Authorities effectively lose out. There

⁴ Available at: <http://gov.wales/docs/det/publications/150202-devolution-of-business-rates-en.pdf>

⁵ Available at: <http://www.fsb.org.uk/policy/rpu/wales/images/better%20regulation%20wales.pdf>



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is however, a clear need for some element of redistribution to be preserved in order that Welsh Local Authorities are able to deliver their statutory (and non-statutory) services.

Wales is facing a rapidly ageing population, with high levels of deprivation and poor health, this means the pressures on the social care sector in particular will be high – especially in rural areas. Local Authorities will have to find innovative ways to cope with these pressures in times of tightening budgets, or look to grow their revenue streams. It is particularly important that the role of economic development in delivering healthy and prosperous communities is not forgotten – evidence conclusively shows that more prosperous and economically resilient communities face lower levels of ill health and are better equipped to care for the elderly and infirm.

FSB Wales believes that any local retention of business rates should therefore be accompanied by devolution of some responsibility for economic development. Currently, the lack of a meaningful link between Non-Domestic Rates receipts and the Local Government grant means Local Authorities have little incentive to pursue policies which support local business growth.

FSB Wales called in its manifesto for the 2016 Elections in Wales for Local Authorities to be given a statutory responsibility for Economic Development in Wales, and crucially that funding and staffing for these functions should be devolved from Welsh Government to Local Authorities. We believe this will have a transformational effect in regional regeneration and economic development, and give Local Authorities a greater stake in the economic success of their communities.

On 5th October 2015 the UK Chancellor, George Osborne MP, announced that Local Authorities in England will retain 100% of their business rates, alongside the abolition of the Uniform Multiplier. These announcements will have significant impacts in England and are likely to have cross border implications for the business environment in England and Wales and those businesses which operate on both sides of the border. We await further detail with interest, but it is now even more pressing for Welsh Government to agree a position on the retention (or not) of Business Rates in Wales, and to move ahead with examination of alternative models of taxation.

It appears that Wales and England are on divergent paths with regards to Business Rates, and comments relating to a “long and porous border” are less relevant than they may have been in the past. However, it has historically been true that Wales and England have divergent rates regimes, with England splitting a large and small business rates multiplier where Wales has not.



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The multiplier has also been set at differing levels on either side of the border – in part to reflect differing levels of prosperity. In general, despite a “long and porous border”, Wales and England have rarely, if ever, since 1999 had aligned Business Rates regimes. In this light, over the medium term, the Government should look to examine best practice elsewhere in the UK and globally in order to devise a system of business taxation that works for Wales and its political and social aspirations.

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