

**Carl Sargeant AC/AM**

**Y Gweinidog dros Gyfiawnder Cymdeithasol a Llywodraeth**

**Leol**

**Minister for Social Justice and Local Government**



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

Eich cyf/Your ref P-03-286  
Ein cyf/Our ref CS/00618/10

30 APR 2010

Christine Chapman AM  
Bank Chambers  
28a Oxford Street  
Mountain Ash  
CF45 3EU

April 2010

*Dear Christine,*

Thank you for your letter dated 20 April regarding the Petitions Committee consideration of the request for an impact assessment of the non domestic rating revaluation in Ceredigion.

I do not think that an assessment of this nature is required at the moment as the revaluation only came in to effect on the first of April and it is very difficult to assess revaluation in terms of jobs and business closures, as there are many other business variables that also have a significant impact.

I have recently commissioned the University Of Cumbria (headed by Professor Frank Peck who is leading the research team) as external researchers to carry out a study of the effects of rate relief on businesses in Wales, as we are keen to improve our understanding of the impact and effects of rate relief on small businesses. To achieve this, the research team will conduct a survey of businesses that receive rate relief and we are seeking the assistance of all local authorities in Wales to provide a list of around 200 businesses that broadly reflect the range of business types that receive rate relief in their area. The survey is one part of a methodology to gather evidence that includes interviews with stakeholders and businesses as well as a focus group to distil the findings.

Revaluations, which are required by primary legislation, take place every five years, and at each revaluation the demand for some areas and types of property will increase while others will decline. Changes in rental value reflect these changes in demand and supply and rateable values follow these changes. Rental prices for each class of property in a given area will take into account local conditions including any seasonality of trade. This also applies to rateable values as they are based on rental values. Where there have been increases in rateable values, this reflects increases in rental prices since the last revaluation.

Revaluation is not a tax raising measure - it simply redistributes the rates payable between properties based on their relative values at the time of the revaluation. Over 60% of ratepayers will benefit from the revaluation and will see a reduction in their bills because the multiplier for 2010-2011 will be reduced from 0.489 to 0.409. I am aware that in certain local hotspots clusters of valuations have increased by significantly more than average, but this reflects local rental values, which form the basis of non domestic rating valuations.

I have recently agreed that the measure for small business relief announced in respect of England by the Chancellor of the Exchequer in his budget speech will apply in Wales. Around half of small businesses in Wales will pay no business rates for the year from 1 October 2010 and roughly 20% more will see their business rates significantly reduced. The Non-Domestic Rating (Small Business Relief) (Wales) Order 2008 will be amended to increase the rateable value threshold at which properties qualify for 100% relief to £6,000 and a taper band of relief from 100% to 0% up to a threshold of £12,000 from 1 October 2010 for one year.

Additionally, the Local Government Finance Act 1988 gives local authorities the power to grant relief to businesses on real grounds of hardship if they are satisfied that the ratepayer would sustain hardship if the relief is not granted, and that it is in the interest of council tax payers for it to do so. The Assembly Government funds 75 per cent of all hardship relief granted by local authorities.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carl', written in a cursive style.

**Carl Sargeant AM/AC**

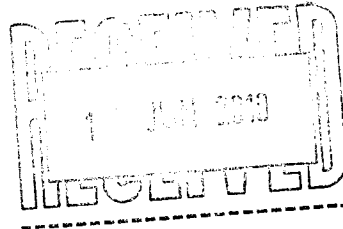
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Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

Eich cyf/Your ref P-03-271/286  
Ein cyf/Our ref CS/00852/10

Christine Chapman AM  
Chair  
Petitions Committee  
National Assembly for Wales  
Cardiff Bay  
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June 2010

*Dear Christine*

Thank you for your letter dated 28 May on behalf of the Petitions Committee regarding business rates.

The business rates multiplier is prevented by primary legislation from being increased in any financial year by more than the preceding September Retail Price Index. It is likely that on 1 April 2011 it will increase in line with the September 2010 Retail Price Index. The multiplier for next year can only be set after the Local Government Finance Report has been approved by the National Assembly, or on or after 1 March 2011.

There is no evidence that rural areas have been increased by more than the average, although there will inevitably be local hotspots where valuations have increased by significantly more than average, but this reflects local rental values, which form the basis of non domestic rating valuations.

The previous UK Government agreed to fund a temporary enhancement of rates relief for small businesses in England and Wales from 1 October 2010 until 30 September 2011. The details are currently being developed, and will be subject to confirmation from the Chancellor that funding will remain available – the budget will be on 22 June. As the relief will be funded by the UK Government, its duration and value must therefore be similar to that applied in England.

The study by the University of Cumbria on the effectiveness of small business rates relief will be completed by the autumn, and the results will be published.

Yours sincerely

*Carl Sargeant*

**Carl Sargeant AM/AC**

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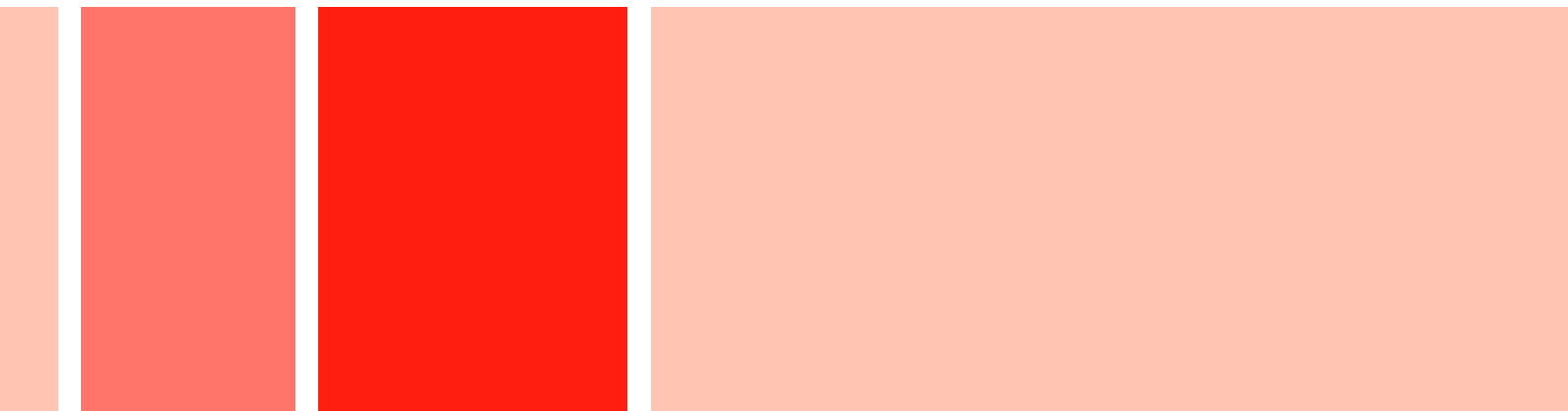
Number: 07/2010



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

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# An evaluation of the Small Business Rates Relief Scheme in Wales



# **Evaluation of the Small Business Rates Relief Scheme in Wales**

## **Report for the Welsh Assembly Government**

**2010**

**By the Centre for Regional Economic Development,  
University of Cumbria**

**Prof Frank Peck  
Dr Gail Mulvey  
Keith Jackson  
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Views expressed in this report are those of the researcher and not necessarily those of the Welsh Assembly Government

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Welsh Assembly Government Social Research, 2010

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## **Executive Summary**

1. This document reports on the primary research undertaken by the Centre for Regional Economic Development (CRED) to evaluate the Small Business Rates Relief Scheme (SBRRS) in Wales.
2. Specifically it will document the views of SME businesses supported by the SBRRS on the impact of the scheme on their business and on the business sector in general.
3. The report draws final conclusions and recommendations for the consideration of the Welsh Assembly Government.

### **Small Business Rates Relief Scheme**

4. The SBRRS was applied by the twenty two local authorities across Wales and is aimed at reducing the financial pressure on Welsh SMEs.

### **Data sources and methods**

5. The research commenced with a literature review on the impact and effect of tax relief on small businesses. This was supported by telephone interviews with national public and private sector stakeholders involved with the various UK Non-Domestic Rates Relief (NDRR) schemes across the UK. The initial interviews were supplemented by telephone interviews with private sector stakeholders supporting SMEs in Wales. In cooperation with WAG and the Welsh LAs a postal survey for Welsh SMEs was designed and delivered to over 3,000 businesses; the responses from 403 were then analyzed. To get a deeper picture of the impact of SBRRS, 15 of the respondents to the postal survey were interviewed by telephone. To confirm that the research was a true reflection of current business perspectives the results of the research were then presented to a focus group drawn from the private sector stakeholders initially interviewed.



## **Analysis of the background documents and reports**

6. The review of documents and reports indicated that relatively little research has been undertaken into the impact of Rates Relief Schemes. Most studies suggest that all tax-based interventions must be considered within the broader context of business support. The key points are:

7. Tax interventions are more permissive rather than directive in terms of policy outcomes.

8. The introduction of thresholds can have unintended consequences.

9. The current economic downturn may increase the significance of rates relief for the survivability of a large number of businesses.

10. For the rates relief scheme to work there are hidden costs to the authorities in terms of data collection and maintenance.

11. The literature would suggest that all business support schemes, including rates relief have to be equitable, practical and accessible. Accurate data collection and targeting of relief are therefore important aspects to consider.

12. Previous research conducted in London would suggest that the relatively small financial amounts involved in the NDRR schemes would have little effect on the behaviour of SMEs; this is contradicted by research conducted on a small sample of Scottish SMEs that suggests the support offered has benefits that are not proportional to the level of financial aid offered.

13. The parallel SBRR Schemes operating in the UK vary in their characteristics in terms of a) the rateable value band widths at which the various reliefs apply; b) the need for businesses to 'register' for rates relief; and c) whether rate relief is available for multiple properties within one business.

### **Analysis of the national public/private sector stakeholders interviews**

14. The various national rates relief schemes have all been designed to offer the maximum benefit possible to the SME community at large but they all have slightly different mechanisms because they were set up at different times to meet different business conditions.

### **Analysis of Welsh private sector stakeholders interviews**

15. There is general support for the current Welsh scheme. The current economic down turn is making rates relief more significant to business.

16. Rates relief can be interpreted as a mechanism of support for marginal business or for business in marginal areas.

17. The delivery of rates relief can generate unintended consequences as it is based primarily on property type rather than business characteristics.

18. More needs to be done to make recipients aware of the benefits they are receiving through rates relief.

### **Analysis of postal survey**

19. Thirty per cent of the respondents are unsure of the mechanism and amount of their rates relief. The level of awareness is higher for the smallest categories of businesses (employing five or less people). The level of awareness also varies across sectors with post offices, retail and accommodation being most aware.

20. Business rates have the largest financial effect on the smallest businesses and so rates relief is most appreciated by the smallest businesses.

21. Over half the businesses felt that rates relief had some effect on their business decisions, with over one fifth of the respondents stating that rates relief was a significant factor in them staying in business.

22. The types of business activities financed by rates relief include staffing costs; building and equipment maintenance; investment in IT and marketing and supporting new business.

23. The respondents agreed that the SBRRS had supported their sector but there were differences of opinion whether the amount of money received was significant for the financial sustainability of SMEs. This suggests that for some small businesses in the present circumstances, rates relief is making a vital difference financially. For others, rates relief may be a welcome financial contribution but it is also regarded as an indicator of the level of commitment from the Welsh Assembly Government to support the SME sector.

24. Only a very small proportion (8 per cent) of the respondents felt that the SBRRS was a waste of public money.

25. The majority of SMEs (66 per cent) with rented property do not believe that their landlords charge extra rent because of the SBRRS; however 12 per cent believed that landlords took most or all of the SBRR in extra rental charges.

### **Analysis of business interviews**

26. The interviews confirmed that current trading is difficult with most businesses either making no profit or currently operating at a loss in the short term. Some have considered closing at the end of the year.

27. The interviewees continue to employ staff where they can and argue that staying open is their biggest contribution to the community (some are now working 70-90 hours per week). Responses indicate that many business-owners regard the needs of the community as integral to their own business objectives.

28. It was their view that the Welsh Assembly Government does and should support SMEs and a cut in relief would not be seen as fair.

### **Results of focus group**

29. The group accepted that rates relief is seen by SMEs as a valuable part of the Welsh Assembly Government's commitment to this sector.

30. This commitment was important as the attendees felt that the effect of the economic recession has added to existing commercial pressures generated by the encroachment of various multiples into Wales across many sectors (retailing, tourist accommodation). Rates relief is seen therefore as a mechanism for defending locally-owned businesses.

31. The difficulty for individual SMEs identifying the benefits of SBRRS was attributed to the way in which business owners regard receipt of relief (either as a monthly reduction in costs or an annual grant to increase investment for the following year).

32. The low awareness of the amount received as SBRRS and the mechanism driving it were issues that need to be corrected. Trade and professional bodies appear to be keen to work with the WAG to get this message across to the SME sector; this would be beneficial to the image of these bodies and may help WAG explain how and why the SBRRS system might change in the future.

33. The group acknowledge that post offices are probably a special case and that the current Welsh SBRRS scheme also supports other SME sectors in most need.

34. The group also acknowledged that the current system equitably supports Welsh SMEs of various sizes using the most practical and accessible method currently available. The current bands for rates relief were probably about right pre revaluation.

35. Overall the group voiced gratitude from the SME business community for the continued support from the Welsh Assembly Government and a desire from the business support groups to work alongside WAG in the future delivery and communication of this support.

## **Conclusions**

36. There is overall consensus that the present Welsh scheme is appropriate in terms of the balance between complexity, fairness and practicality.

37. Various parts of the Welsh SBRRS are being mimicked by other nations within the UK and this would indicate that at the present time the Welsh system has found the most acceptable balance between equity, practicality and accessibility. Evidence suggests that there is no major pressure for radical change to the mechanisms of the Welsh SBRRS at present. However, this should not rule out changes in the medium term should there be a change in the Welsh Economy.

38. As recipients of benefits, SMEs are obviously supportive of the SBRRS but they also see it as part of the Welsh Assembly Government's commitment to the SME sector in general which is considered vital to the indigenously-owned Welsh Economy.

39. Many SMEs appear to be unaware of the precise mechanism of SBRRS and some seemed uninformed of the exact benefits they are receiving. However, the recent revaluation has heightened awareness of rates issues in general.

40. It is difficult for SMEs to identify exactly how the financial benefit of SBRRS is used to support their business. This in part is because some SMEs see it as a small monthly reduction of costs whilst others see it as a larger annual grant to be invested in the business.

41 The current economic downturn and the encroachment of multiples into Wales has made trade for Welsh SMEs difficult over the last year and the effect of any reduction in support via rates relief would be significantly magnified compared to previous years.

42. The 'automatic' solution for SBRRS used by the WAG appears to be acceptable to the SME community.

43. It was felt that an increase in the equity of the scheme through introducing a tiered threshold would add to the complexity and cost of administration. This could reduce the overall benefit to the SME community and thus possibly lose majority support of this sector.

44. All business sectors want less tax and more support and their trade bodies will inevitably argue for their individual cases. However, there appears to be a general consensus (but not a 100 per cent agreement) that post offices are, at the moment, an identifiable special case.

### **Recommendations**

45. Accept that the financial assistance gained by the SMEs from SBRRS is supporting their economic sustainability in the current Welsh economic environment. This justifies the continued support of SMEs through the SBRRS.

46. Increase the awareness of the mechanisms and benefits of SBRRS possibly through collaboration with the relevant trade bodies /associations.

47. Maintain the 'automatic' mechanism of the current Welsh SBRRS scheme.

48. The Welsh Assembly Government keeps the sector informed and involved in the decision process of any new SBRRS.

49. Any alterations to the current scheme should be carefully checked by the Assembly to ensure that they do not create unforeseen circumstances or unintended consequences that are detrimental to third party businesses.

**Carl Sargeant AC/AM**  
Y Gweinidog dros Gyfiawnder Cymdeithasol a Llywodraeth  
Leol  
Minister for Social Justice and Local Government



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

Eich cyf/Your ref P-03-271  
Ein cyf/Our ref CS/00357/11

Christine Chapman AM  
Chair - Petitions Committee

committee.business@Wales.gsi.gov.uk

14 March 2011

Thank you for your letter dated 3 March regarding the evaluation of rates relief for small businesses.

The evaluation provides full details of the methodology used to evaluate the effectiveness of Assembly Government funded rates relief for small businesses, including the numbers, areas and locations of stakeholders that were represented. Paragraph 5 provides a statistical breakdown of businesses contacted, and paragraph 5.11 concludes "the geographical distribution of the sample appears broadly to reflect the overall distribution of businesses receiving rates relief. The number of responses from the major urban centres (Cardiff, Swansea, Neath Port Talbot) are fairly close to expectation. There is perhaps a slight over-representation from businesses in some rural areas (Carmarthenshire, Powys) and under-representation in parts of South Wales (the Vale of Glamorgan, Rhondda Cynon Taf, Blaenau Gwent) but these differences are small (single figures in all cases) and Unlikely to invalidate any generalisations drawn from the data." Additionally, a wide range of organisations representing small business across the whole of Wales were represented - details of these are provided in paragraphs 2.2.4.1 and 7.12 of the report.

This independent evaluation included evidence from a representative cross sample of small businesses in Wales, including those located in rural areas and provides us with firm evidence of how businesses and local authorities value the rates relief for small businesses funded by the Assembly Government.

The evaluation can be viewed on the Assembly Government website via this link:

<http://wales.gov.uk/docs/dsjlg/research/101207smallbusratesenv2.pdf>

Yours sincerely

**Carl Sargeant AM/AC**

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*Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)*

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# Cyngor Sir CEREDIGION

Miss Bronwen Morgan, LL.B.  
Prif Weithredwr  
Chief Executive



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14<sup>th</sup> March, 2011

Dyddiad  
Date

Fy nghyf  
My ref

Eich cyf  
Your ref

BM/SAT

P-03-286

Christine Chapman,  
Chair, Petitions Committee,  
National Assembly for Wales,  
Cardiff Bay,  
CARDIFF,  
CF99 1NA.

Dear Christine Chapman,

## **P-03-271 Business Rates in Narberth / P-03-286 Ceredigion Business Rates**

I refer to your letter of 3<sup>rd</sup> March, 2011 regarding the petitions submitted by Narberth Chamber of Trade and Luke Evetts representing business rates payers in Ceredigion. Both petitions are identical and ask for the Welsh Assembly Government to conduct an impact assessment on how the changes in rateable values have affected businesses in the areas.

While the Council would like to assist you in your request I regret that we will be unable to do so for the following reasons:

- Most impact assessments take into account various factors that will be affected by change with the assessment being used to inform the final product or decision. The rateable values for businesses were changed in 2010 and therefore any impact assessment undertaken now would not necessarily take into account factors that would have been prevalent before the rateable value change was introduced.
- The Council is the 'billing authority' for business rates. In effect this means that we bill and collect Non-Domestic Rates based on the rateable value of a property (the rateable value being set by the Valuation Office Agency) and the 'rate in the pound' (set by the Welsh Assembly Government). Billing authorities have no influence over either of these important factors and I would therefore suggest that the basis of both the rateable value and the rate in the pound be sought from the appropriate organisations. The Valuation Office Agency may have undertaken an impact assessment before the 2010 revaluation Non-Domestic Rates exercise.
- If we were to conduct an assessment of the effects of the rateable value changes of last year on current businesses, it would need to be consistent with the methodology applied by Pembrokeshire for businesses in the Narberth area. I would suggest that such an assessment would be best conducted by independent means to ensure consistency and impartiality.

- The Council does not have sufficient wealth of data to provide a detailed analysis of the impact of the rateable value changes. For example, we will not know how many businesses have closed because they have been unable to meet the new charge; we will not know how many people will have lost their jobs because a business has closed or because employers have had to reduce staffing costs to meet the increased charge.

You asked for the Council's views on the impact of the Small Business Rates Relief scheme in our area.

- There is no doubt that small businesses appreciate the scheme but there is very clear evidence that some are confused by one scheme being superseded by the enhanced scheme only for the original to return 12 months later.
- The enhanced scheme, introduced for the period October 2010 to September 2011 falls within 2 fiscal years. This has added to the confusion and will result in each business receiving 4 demands covering the 2 years in question.
- Without conducting a survey of all businesses falling within the schemes, we are unable to assess whether the schemes, old and temporary, have any effect on the continuation of businesses or on the employment figures in the area.

I trust that the above is of assistance.

Yours sincerely,



Miss Bronwen Morgan  
**Prif Weithredwr**  
Chief Executive

Date - Dyddiad

11<sup>th</sup> March 2011

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## Response from Pembrokeshire CC

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Leader

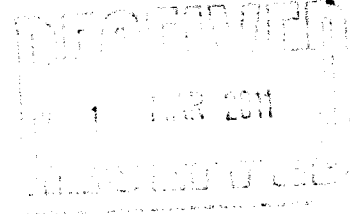
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Christine Chapman AM  
Chair of the Petitions Committee  
National Assembly for Wales  
Cardiff Bay  
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CF99 1NA

Dear Christine

**Re: P-03-271 Business rates in Narberth / P-03-286 Ceredigion business rates**

I write in response to your letter to the Chief Executive concerning the above, dated 3<sup>rd</sup> March 2011.

Regarding the proposed impact assessment on the changes of rateable values on businesses in Pembrokeshire, and Narberth in particular, in principle we would support such an assessment being undertaken.

Regarding our views on the impact of the Small Business Rate Relief Scheme in Pembrokeshire, there is no doubt that the current scheme has been of benefit to the local economy. However, there is evidence that it has not been as beneficial as the Rural Rate Relief Scheme which it replaced. In general terms, we have seen a shift of rate relief away from counties like Pembrokeshire towards South East Wales.

This has been particularly apparent in Narberth. Narberth has enjoyed a spectacular resurgence during the late 1990s. A key driver for its success was the fact that businesses within the town qualified for rural rate relief. The combined impact of the recent revaluation and the change to the rate relief scheme has had a detrimental impact on businesses in Narberth.

Many properties in Narberth were subject to rateable value increases of between 100% and 200%. Furthermore, many of these businesses, all of which would have been receiving rural rate relief, do not qualify for small business rate relief.

As I have previously indicated in representations made to the then Social Justice and Local Government Minister, Brian Gibbons, whilst we acknowledge the rating hypothesis and reality of rental evidence relating to Narberth, the reality is that businesses in the town have closed down or relocated and others are struggling.



I have previously urged the Assembly Government to reconsider the application of an antecedent valuation date of 1<sup>st</sup> April 2008 (the state of the local, national and international economies changed dramatically after this date). I also proposed the postponement of the revaluation until the recession had abated; the reintroduction of the Rural Rate Relief Scheme with enhanced thresholds to reflect the revaluation; enhancing the thresholds within the Small Business Rate Relief Scheme and continuing the extension for the enhanced Empty Property Rate Relief Scheme.

The local economy in Pembrokeshire is still fragile. The revaluation has had a visible impact on Narberth and other towns like it. To date the Assembly Government has failed to provide a solution to ameliorate.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Davies', written in a cursive style.

**Cllr John Davies**  
**Leader**  
**Pembrokeshire County Council**