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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**

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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.

1 Introduction

1.1 This document is the Final Report relating to the research study “An Evaluation of the Small Business Rates Relief Scheme in Wales” which the Centre for Regional Economic Development at the University of Cumbria has been commissioned to conduct on behalf of the Welsh Assembly Government (WAG).

1.2 The principal objectives of this research are to:

- Assess what impact the relief has had on small businesses, in terms of their ability to survive, and encouraging new businesses to start up.
- Make recommendations on the future delivery of the scheme.

1.3 The four areas on which the WAG wants evidence are:

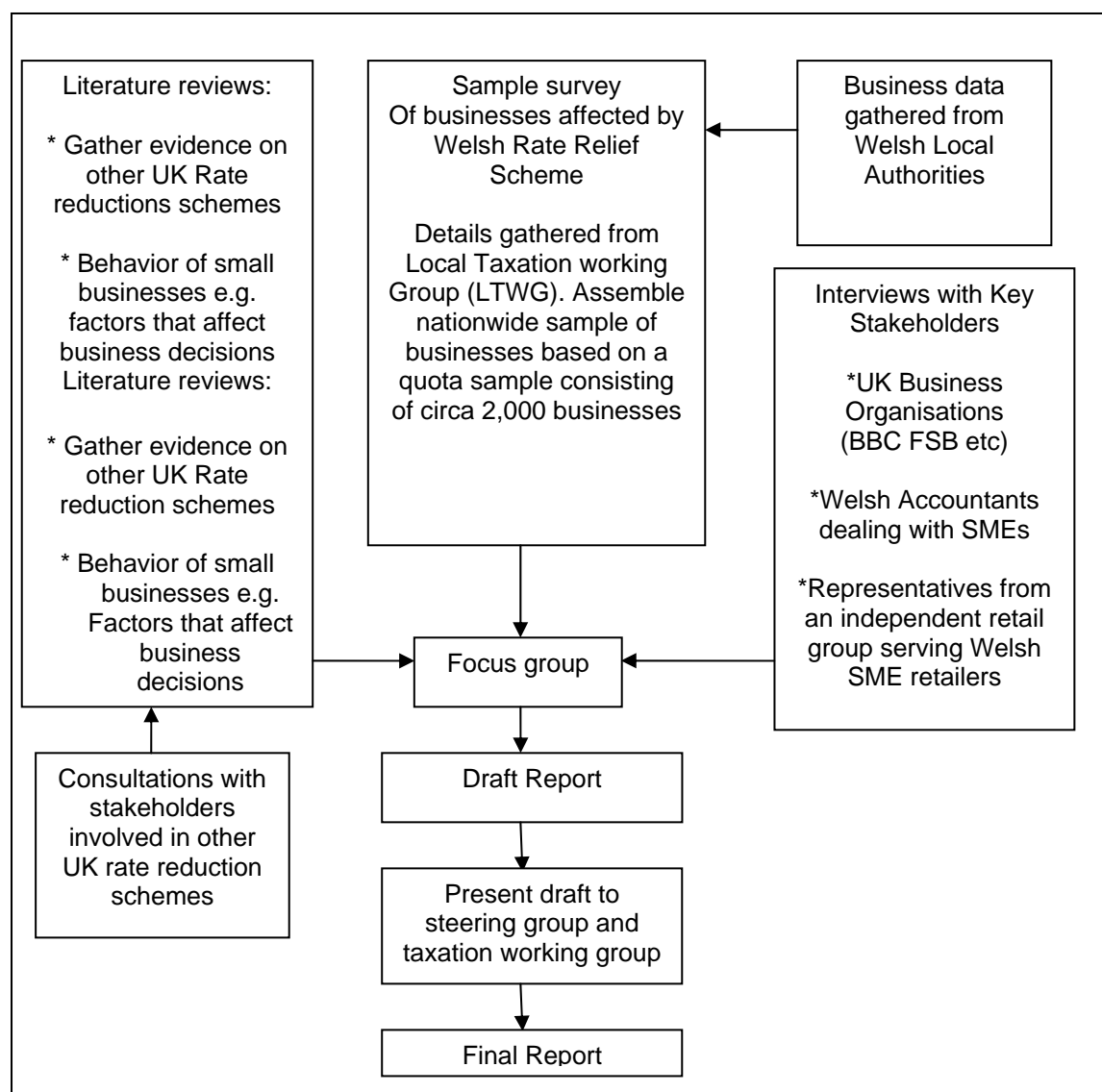
- The impact of business rates relief on business.
- The wider impact of this relief on the local economy.
- Literature on similar relief schemes around the UK.
- The behaviour of small businesses in relation to business decisions and the composition of costs.

2 Methodology

2.1 Following discussions with WAG social researchers and policy leads, the methodology is based on evidence gathered from multiple sources, including surveys, interviews, consultations and a focus group with relevant policymakers and small business support organisations. These have generated both qualitative and quantitative data (see Figure 1) and will give WAG a clear picture of the impact of the rates relief scheme on businesses.

2.2 These data-gathering mechanisms, questionnaire design in particular, seek to address aspects of *additionality* in the current scheme and the *counterfactual* situations that might exist under other policy *scenarios* (LGFDR,2005). We have targeted a selection of businesses from lists provided by the 22 Local Authorities in Wales. This has been done in close collaboration with the Local Authorities following an initial meeting of the Local Taxation Working Group on 16th April 2010 in Newtown. The approach also included interviews with various stakeholders and business representatives.

Figure 1: Analysis Framework



2.1 Stage 1 Review of Literature and National Comparators

2.1.1 Review of Current Literature

2.1.1.2 We have reviewed current literature on the impact and effect of tax relief on small businesses. From an initial literature search of various databases of academic journals around 25 key articles were identified covering a range of relevant themes including small business and tax issues, growth and profitability and property-related issues for small businesses in Wales. Available literature also included comment from the trade press, business publications and popular press.

2.1.1.3 The literature review demonstrates some of the complexities in the system of rates relief and various uncertainties regarding the impact of different scenarios on survival rates for small businesses and business start-up levels in Wales. On the one hand, the current economic climate highlights the importance of minimizing business costs wherever possible. However, the implication of a general business rates rise being used to subsidize rates reduction for smaller businesses is now becoming a topic for public debate (Walesonline, 2009a). Anecdotal sources also imply that the current economic climate is encouraging the proposed reduction in the multiplier used to calculate rateable value in Wales later this year (Walesonline, 2009 b).

2.1.1.4 The points raised above concern “value for money” and the “effectiveness” and efficacy of the rates relief scheme as a whole and its impact on private businesses in general. At another level, however, the specific project objectives as stated in the brief, focus on the impacts of the current rates relief scheme on *individual small businesses* and their ability to survive. The project methodology takes into account the relationship between the effectiveness of the scheme as a whole and its benefits for individual small businesses in particular. In these terms, evidence and arguments need to be harnessed to justify any rates relief scheme as “*delivering a better, stronger economy and a better quality of life.*” (LGFDR, 2005b)

2.1.2 Interviews with national stakeholders

2.1.2.1 The literature review is supported by **interviews with national stakeholders** from the public and private sectors. The contact details for stakeholders from the public sector were provided by the WAG and are with key personnel responsible for the delivery of the rates relief scheme in Scotland, Northern Ireland and England. We also approached stakeholders from the private sector including various trade bodies whose members have received rates relief in Scotland, Northern Ireland and England (the Scottish Grocers Federation (SGF), the Northern Ireland Retail Trade Association (NIRTA) and the Association of Convenience Stores (ACS). These interviews were used to gather opinion on the principle of rates relief for small businesses and the operation of schemes in the different national contexts (see Appendix 1 for schedule). To gain some perspective from those responsible for the rating system an interview was also conducted with a representative from the Institute of Revenues Rating and Valuation (IRRV).

2.2 Stage 2-Assessing the impact of the scheme-the primary research

2.2.1. The target population of businesses – quota sample

2.2.1.2 The approach to selecting businesses for the survey was based on a quota sample - a random sample was selected to ensure that the characteristics generally mirrored the population of small businesses in Wales in receipt of rates relief as a whole in terms of sector, size and geographical distribution. It was determined that a sample return of around 400 questionnaires would generate sufficient accuracy for the purpose of the evaluation (see paragraphs 5.9 and 5.10).

2.2.1.3 To construct an appropriate sample of business addresses, we gained the support of the Local Authority representatives at the Local Taxation Working Group on 16th April 2010. Each Local Authority agreed to supply a list of all business names and addresses in receipt of rates relief in their own local authority area. We conducted an initial mail out of 2,400 questionnaires week commencing 17th May followed by a mail out of 770 week commencing 24th

May 2010. A third mail out to a selected sample of 398 businesses that did not respond to the first two questionnaires was conducted week commencing the 1st June 2010.

2.2.2 The Questionnaire

2.2.2.1 Working closely with personnel from the Welsh Assembly Government, the CRED research team produced a questionnaire designed to gather evidence on the impact of rates relief on various aspects of business and the attitudes of business owners towards receipt of such relief (for English version see Appendix 2).

2.2.2.2 In addition, the questionnaire asked if businesses would be prepared to take part in a follow-up telephone survey and a significant percentage of the respondents agreed to this.

2.2.3 Analysis of the survey data

2.2.3.1 Subject to the constraints of the questionnaire survey, we anticipated that it would be possible to make comparisons between small businesses in different sectors, those in different locations and those of different size by employee number. Responses of 400 businesses should be sufficient to make such comparisons statistically viable. (see paragraphs 5.9 and 5.10).

2.2.4 Qualitative data gathering from interviews

2.2.4.1 To explore the benefits and costs of the Welsh and similar rates relief schemes, the research team also conducted semi-structured telephone interviews with key stakeholders (see Appendix 3 for interview schedule). Individuals that agreed to be interviewed included representatives from:

- a) Association of British Credit Unions Ltd (ABCU)
- b) Association of Chartered Certified Accountants (ACCA)
- c) Association of Convenience Stores (ACS)
- d) British Beer and Pub Association (BBPA)
- e) British Chamber of Commerce

- f) British Hospitality Association (BHA)
- g) British Institute of Innkeeping (BII)
- h) CBI
- i) Forum of Private Business (FPB)
- j) Federation of Small Businesses (FSB)
- k) Institute of Directors (IOD)
- l) National Association of Master Bakers (NAMB)
- m) National Federation of Fish Friers (NFFF)
- n) National Federation of Retail News (NFRN)
- o) National Federation of Sub Postmasters (NFSP)
- p) Rural Shop Alliance (RSA)
- q) Welsh Tourism Alliance (WTA).

2.2.4.2 To gain an initial insight on the impact of SBRRS in Wales we have also conducted a series of interviews with three local Welsh accountants and had conversations with representatives from a selection of small Welsh retail groups.

2.3 Stage 3 - Follow-up telephone survey of business owners

2.3.1 To gain a deeper understanding of the impact of SBRRS on individual businesses we have also conducted a series of 15 follow up telephone interviews with SME owners who responded to the postal questionnaire.

2.4 Stage 4 - Evaluating the Scheme's implementation

2.4.1 The interim findings formed the basis of a presentation to the focus group held in the Welsh Assembly Government buildings in Cardiff on the 21st July. The group comprised of representatives from key national stakeholders identified in Stage 2. Here, we presented the preliminary findings of our research and used this material to invite responses from informed participants. The event was used to confirm and adjust our interpretation of the evidence and also generated further questions and ideas that needed to be considered in the final report. The focus group was also used to test out

stakeholder reactions to possible changes to or improvements in the existing rates relief scheme.

2.4.2 Based on the feedback to the progress report by the Welsh Assembly Government and the discussions at the focus group, we revisited the primary and secondary data collected and prepared the final report that assesses what impact the relief has had on small businesses and have made recommendations on the future delivery of the scheme.

3 Literature Review

3.1 This literature review seeks to put small business rates relief within the broader context of financial support for small businesses. The review identifies the key issues and themes that are important in an evaluation of tax relief on small businesses. It examines the available evidence on the complexities in the system and the various uncertainties regarding the impact of different forms of support upon small businesses and the broader business community.

3.2 The review is divided into two main sections. The first section looks at rates relief schemes within the broader context of public sector support for Small to Medium Enterprises (SMEs); it asks what lessons can be learned from other forms of financial support. Section 2 looks specifically at the non domestic rates relief scheme in more detail. The Welsh scheme is compared with other schemes across the UK and previous research on the extent and areas of impact that the scheme is having on businesses are examined.

3.1 Rates relief within context

3.1.1 The Need for Public Sector Support for the SME sector

3.1.1.1 Few would question that engagement with the business sector is an important part of government policy (HM Government, 2010). This engagement takes the form of active support through policy development and intervention, and through consultation and involvement of businesses and business organisations in the policy setting agenda. This review and evaluation of the small business rates relief scheme in Wales illustrates this process as the Welsh Assembly Government seeks the views of businesses on one particular form of intervention.

3.1.1.2 Support specifically for the SME sector derives from the widely recognised numerical significance of small businesses in the economy across the whole of the UK. Latest figures suggest, for instance, that 99.9 per cent of

all UK enterprises are classified as SMEs (BERR, 2008). Several sources of economic statistics were examined during the course of this study and although there are some minor variations due to differences in timing or focus of study there is general agreement that SMEs provide around two thirds of national employment, that the UK has around 3.7 million SMEs that collectively account for approximately 40 per cent of UK GDP and have an annual turnover of £1 trillion. (c.f. SBS 2001). Not only are SMEs of economic importance in terms of employment and contribution to GDP, they also play a vital role in the economy in terms of providing new ideas, products and services (Parry, 2006).

3.1.1.3 It is this economic and social significance of small businesses that creates an imperative for public sector support. Historically this has involved a number of intervention measures ranging from alleviation of financial reporting requirements (for example the FRSSE), VAT thresholds and audit requirements, and fiscal measures such as RandD tax credits, through to financial and technical support. All such intervention can be understood in terms of a desire to achieve some sort of change in the small business, usually one of increased investment, development and increased employment (Parry, 2007). In times of economic difficulty such intervention can also be a matter of survival for the small business.

3.1.1.4 Although the need to support the SME sector is widely recognised, there is still a great deal of uncertainty as to how this is best achieved. Unfortunately it is an area of policy making that is still under researched. The dilemma for the public sector is in ensuring that any support it makes is equitable, practical and accessible. The challenge for policymakers is to design interventions that have the desired effects in supporting target businesses while avoiding unintended negative consequences. Understanding the ways in which schemes have impacts upon different types of businesses and localities therefore becomes important. For example, a recent evaluation of the Small Firms Loan Guarantee scheme conducted by BIS (2010) suggested that the impact of this scheme differed according to the age and location of the client businesses. There is likely to be similar

variability in the impact of small business rates relief schemes which is discussed in more detail below.

3.1.2 Tax relief for small businesses

3.1.2.1 Tax-based mechanisms are widely seen by governments as an effective means of supporting businesses. Research conducted at an international level appears to show that, other things being equal; those countries that keep rules and regulations to a minimum and offer tax and other financial incentives tend to have better performance in terms of new business development. These studies also show that excessive taxation can be an obstacle to entrepreneurship (Fogel, 2001).

3.1.2.2 The literature tends to support the view that financial support mechanisms of various kinds are perhaps necessary but not sufficient for effective business support. Financial intervention, particularly tax-based mechanisms, must be viewed within the broader context of business support. Small business survival and growth is not just a matter of financial success. There is a need for complementary structures of support if such fiscal incentives are to be exploited to the full (McGreal, Berry, Lloyd and McCarthy, 2002). Issues such as managerial problems and skills deficits also need to be addressed through effective policies and support (Doern, 2009).

3.1.2.3 However, from the point of view of small business owners, tax is clearly a priority and an emotive issue. For instance, a survey of 3,530 small business owners conducted in the USA in 2008 found that tax issues including property tax were among the most commonly reported problems worrying small business owners (National Federation of Independent Businesses, 2008).

3.1.2.4 The business literature also draws attention to the fact that different types of financial support can produce different effects on businesses. So, while reducing the tax burden might be viewed as desirable in itself, opportunities to exercise beneficial influences on the ways businesses

operate can be missed if there is lack of clarity as to what the intervention is aiming to achieve. This might include, for instance, stimulating investment, increasing employment, increasing the level of entrepreneurial activity or simply improving survival rates. Research suggests that different approaches to reducing the tax burden can have different impacts (c.f. Laramie and Mair, 1993; Potter and Moore, 2000; Rodrigo and Felipe, 2010).

3.1.2.5 The ways in which different forms of financial intervention can affect outcomes can be illustrated with reference to recent research on financial incentives designed to stimulate research and development and levels of new firm formation. A recent study based on businesses in Quebec found that tax credits are preferable to a level based tax incentive in stimulating business expenditure on research and development (Baghana and Mohnen, 2009). The impact of tax incentives on levels of entrepreneurial activity has also been examined. In a study conducted in the US in 2006, it was shown that various tax incentives (the study covered income tax, capital gains tax, corporate tax and state taxes) appeared to have a significant effect on self employment but were ineffective in generating meaningful changes in levels of entrepreneurial activity (Donald and Mohsin, 2006).

3.1.2.6 Applying this logic to rates relief, the rationale for such schemes is arguably to benefit small businesses by easing cash flow. If we accept this as the intended purpose, then a simple rate reduction that cannot vary through time may not be the most effective mechanism. Governments have also attempted to relieve the cash flow burden of small businesses by extending the period over which they are allowed to pay business rates. In 2009 for instance, the UK government introduced legislation to allow companies to pay their business rates over three years; the Chancellor of the Exchequer commented that "the government recognises that businesses need now to ease their cash flow at a time when money is very tight. This measure will help businesses to smooth their rates payments over the next three years" (Cunningham, 2009).

3.1.2.7 The literature also provides evidence that threshold levels in financial interventions can often create unintended negative consequences. This is likely to be an issue for small business rates relief schemes which are threshold based. This can be seen in recent studies of the effects of VAT thresholds which suggest that firms are proactive in managing their activities to stay below threshold levels. Strategies identified to achieve this include the practice of separately incorporating business segments (where larger firms arguably masquerade as a number of small firms (Onji, 2009). There is also a case identified where business owners purposefully restrict the growth of the business in order to remain below threshold levels (Parry, 2010). It might be expected that similar behaviour would be found in relation to threshold based rates relief schemes. Understanding such manipulation strategies is important to further policy development.

3.2 Non domestic rates relief schemes

3.2.1 The application of non domestic rates relief schemes across the UK

3.2.1.1 Small business rates relief schemes are currently in place across all four countries of the UK. These schemes are generally justified in terms of providing some financial support for small businesses, particularly in the recent period of economic hardship. The focus of these schemes has also varied over time and attempts have been made in different periods to target the highest relief on particular types of business (e.g. post offices) and specific localities (such as rural areas, deprived communities). The onset of economic hardship in the recent recession however, has led to the extension of schemes to cover a wide range of small businesses regardless of location. This has culminated in an announcement by the former Labour Chancellor in his last budget statement in March 2010 that businesses with a RV of less than £6,000 would pay no rates in England (HM Treasury, 2010) and this relief will be adopted in Wales by the Welsh Assembly Government for one year.

3.2.1.2 While there are broad similarities between the Rates Relief Schemes in the four countries, there are some significant variations also that reflect the different ways in which these policies have evolved, variations in policy priorities and differences between countries in relation to business types and commercial property markets.

3.2.1.3 As shown in Table 1, there are significant differences in a number of characteristics of these Schemes:

- there are differences in the definitions of Rateable Value thresholds, RV bands, levels of reductions and the use of sliding scales
- the NI and Wales schemes are applied automatically while businesses in England and Scotland are required to register in order to receive relief
- there are differences in the way relief is applied to businesses that operate from more than one property
- the Welsh Scheme also differs from others in seeking to target particular types of business for social reasons (Credit Unions, Childcare).

3.2.1.4 The Scottish Government from April 1st 2009 introduced a 100 per cent rates relief scheme for all businesses with a Rateable Value (RV) of less than £8,000. This move was celebrated by the Federation of Small Businesses (Federation of Small Businesses, 2009). In Scotland, businesses have to apply for the relief, which can be 10 percent or more of rates cost. Relief is available for a cumulative total of all business properties up to a rateable value of £25,000. In England, businesses must also apply for the relief. To qualify, businesses are usually only allowed one property with a rateable value up to £11,999. However, they are allowed one additional property with a rateable value up to £2,600.

Table 1: Comparison of the four Small Business Rates Relief Schemes

	Scotland 2009-10	England (pre budget 2010)	N. Ireland (2010)	Wales (pre budget 2010)
Lowest RV band and reduction	£8,000 100% reduction (2010-11 £10,000)	Below £6,000 50% reduction	NAV *of £2,000 or less 50% reduction	Below £2,400 50% reduction
Middle RV Band and reduction	£8,000-10,000 50% reduction (2010-11 £10,000-£12,000)	£6,000-£11,999 Sliding scale	NAV £2,000-£5,000 25% reduction	£2,401-£7,800 25% reduction
Top RV Band and reduction	£10,000-£15,000 25% reduction (2010-11 £12,000-£18,000)	£12,000-£17,999 (£12,000-£25,499 in London) Use small business multiplier	P.O. ** NAV £9,000 or less 100% reduction P.O. NAV £9,000-£12,000 50% reduction	P.O. RV £9,000 or less 100% reduction P.O. RV £9,001-£12,000 50% reduction And until March 2012: £7,801-£11,000 Retail Premises 25% reduction. Credit Unions up to £9,000 50% reduction. Child Care up to £12,000 50% reduction.
Business need to register for rates relief?	Yes	Yes with local council	No 'applied automatically'	No applied automatically (once initial statement is signed by the business)
Apply to more than one business property?	YES from 1.04.10 properties in small chains whose cumulative value is £25,000 or less eligible for 25% for each property with RV less than £18,000.	To qualify businesses usually only allowed one property with RV up to £11,999 ,they are allowed another property with RV up to £2,600	YES	YES Relief is for property not the business. BUT NOT for retail premises where the 25% reduction only applies to one premise.

*NAV-Net Annual Value

** - P.O –Post Office

3.2.1.5 Northern Ireland has just introduced a scheme in 2010. This scheme is based upon that in Wales but in a simplified form where the sector specific rates relief is mainly targeted at Post Offices. Relief is available up to a net annual value of £5,000 for most businesses, but up to £12,000 for post offices. The relief is applied automatically. The scheme in Wales, which is the main focus of this study, is based upon rateable value and property type. The relief is applied automatically. The scheme is examined in more detail in the next section.

3.2.2 The rates relief scheme in Wales

3.2.2.1 The Welsh Assembly Government introduced the Small Business Rates Relief Scheme as a result of its commitment in the One Wales agreement to ‘enhance the business rates relief scheme, within the context of more effective support for businesses.’

3.2.2.2 Initially the scheme funded 37,000 businesses with the Rates Relief Scheme and reports would suggest that it has expanded to cover over 45,000 businesses (Labour Matters, 2009). A further expansion of this scheme is recognized by the Local Government Minister Carl Sargeant (Morning Advertiser, 2009) as important to the Welsh SME sector.

‘I have listened to the concerns of the Federation of Small Businesses (FSB) and the Wales Tourism Alliance. They have told me that they would welcome an increase in the upper thresholds for small business rates relief.’

3.2.2.3 The current scheme covers all types of small business, but makes specific reference to particular types of activity that have an important role in supporting local communities including post offices, child care, credit unions, small retail outlets, petrol stations and public houses.

3.2.2.4 Matching England's move, the Local Government Minister Carl Sargeant stated that the new Welsh NDRR scheme would mean that

'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.' (BBC, 2010)

3.2.2.5 The Welsh Assembly Government has also moved to help owners of empty business property

'In response to the current economic difficulties the Minister for Social Justice and Local Government announced that from 1 April 2010, for one year, the threshold at which empty properties would become liable to pay business rates would be increased from £2,200 to £18,000.' (Wales Gov, 2010)

3.3 The impact of rates relief

3.3.1 We now turn attention to the main purpose of this study which seeks to assess the impact of rates relief on businesses. While there are many recent studies in the academic literature on taxation issues for small businesses, there is much less research on the impacts of non-domestic property tax. There are summaries and updates on property valuation (Hudson, 2005) and articles that refer to the role of rates relief as part of a mix of measures to support businesses within UK Enterprise Zones (Potter and Moore, 2000) and more recently in Business Improvement Districts (Cook, 2008).

3.3.2 There is also general comment on the significance of business rates as a fixed cost over which small businesses have no control (Laramie and Mair, 1993). This has significant implications for the impact that rates relief may have on small businesses. As a fixed cost, rates can be a particular burden in economically difficult times when shrinking revenues can squeeze profitability. Rates relief can therefore be viewed as an intervention that is particularly relevant in situations where businesses experience very tight profit margins.

3.3.3 However, very little research has been undertaken to evaluate the impact of rates relief schemes, and that which is available predates the existing schemes under examination. The findings from these studies may perhaps hold useful lessons. Damania (1986) noted that the impact of non-domestic property taxes upon geographical variations in business activities is fairly unclear and evidence is contradictory. Various statistical analyses of the relationship between business rates and regional employment performance, for instance, produce conflicting results which have generated a debate as to how these impacts can best be measured and assessed.

3.3.4 While less satisfactory as an approach, it is possible to infer the potential impacts of rates relief by examining studies of other specific tax interventions. As an example, a recent study based in Chile attempted to assess the impact of corporate tax rates (a direct cost) upon the demand for capital and labour. The study found that cutting tax rates had little impact on labour demand in small businesses. Rather, it tended simply to reduce the demand for capital (Rodrigo and Felipe, 2010). The British Chambers of Commerce (2009) recognises this impact on capital but argues that SBRRS should be used as part of a system that actually encourages enterprise by assisting with businesses' cash flow.

3.3.5 Logically, we can also argue that if firms treat business rates as an overhead cost, reductions in business rates are unlikely to translate, for example, into increased employment (i.e. increases in wage costs). The ODPM (1995) suggested that rates represented no more than 2 per cent of turnover and were not a significant overhead cost. Even if rates were seen as a direct cost on turnover there is still no guarantee that a cut would stimulate employment. On the other hand, there is evidence from UK enterprise zones that tax incentives, alongside other measures, can contribute towards the attraction of inward investors and increases in employment with a high proportion of new local jobs (Potter and Moore, 2000).

3.3.6 As regards the likely variation in the impacts of rates relief on different types of business, there is little hard evidence available to support

hypotheses. Intuitively, it is quite likely that the relative importance of rates relief will vary between types and sizes of business (ODPM, 1995) and between business locations. The increase in overheads faced by small businesses over recent times with post offices for example quoting a 20 per cent increase in overhead costs in the three years to 2006 (NFSP, 2009) may have an increased focus on the value of any rates relief that helps reduce this burden. An important dimension of this study will therefore be an assessment of the relative burden of non domestic rates on different types and size of business and to evaluate the relative impact that the NDRR scheme has on different groups.

3.3.7 The preliminary conclusion from the literature reported above is that little research has been conducted previously on the impact of rates relief on businesses and this probably reflects the belief that rates relief *on its own* represents a relatively small amount of money for the vast majority of businesses. To illustrate this point, Baldock (1998) looked at small business land and premises support schemes implemented through an urban support programme in London throughout the 1980s. The study concluded that where the level of support represented a very small amount of funding for a business the impact was marginal. Small amounts of financial support did not appear to have changed the patterns of sectoral performance for the small businesses involved. It was suggested that more selective targeting of businesses to support would represent more effective use of funding. The study also concluded that individual support mechanisms are more effective if designed as part of a more co-ordinated and overall integrated local economic policy.

3.3.8 There are, however, exceptions to this generalisation. Research on 30 firms involved in the Scottish NDRR scheme in 2004 suggests that the small amount of relief available would have some tangible effects on micro and new businesses. In their conclusions, the researchers recommended that future research covers a much broader number of businesses (Scottish Government, 2004). The Scottish research is supported by case study evidence from the Scottish FSB. Three examples are used to demonstrate how it is possible in some circumstances for rates relief to contribute towards

setting up a new business, allowing an SME to invest in new equipment and enabled a micro business set up in 2009 to employ its first member of staff (Federation of Small Businesses, 2009).

3.4 Equity and targeting of Rates Relief Schemes

3.4.1 There is also little academic research on other aspects of rates relief, such as the equity of schemes, the effectiveness of targeting and the cost of administration associated with schemes where application is required. By comparison, there is considerable comment on these issues in the *policy* literature. It has been observed, for instance, that while rates relief may be a practical solution to supporting businesses with small premises from an administration point of view, this form of support does not always produce equitable solutions. Not all businesses in small premises, for instance, are SMEs and not all small businesses occupy small premises. The Scottish Government has approached this dilemma by limiting the relief to business with a *cumulative* rateable value of £10,000 (Scottish Government, 2009) and the English scheme restricts rates relief to businesses occupying a limited number of premises (Business Link, 2010) thus excluding larger businesses with a collection of small premises. Rateable Value increases dramatically in London so the English rates relief scheme allows an equitable distribution of the relief increasing the maximum RV for benefit of NDRR to £25,499 compared to £17,999 in the rest of England (Valuation Office Agency, 2010).

3.4.2 Despite these attempts to introduce greater finesse into the targeting of rates relief, commentators still find room for criticism of the rates relief mechanism which, by definition, excludes many small businesses engaged in “space-extensive” economic activities particularly in manufacturing, transport and wholesale activities. Mowlah (2006), for instance notes that cabinet makers are treated unfairly as they “need larger premises due to the nature of their business”.

3.4.3 A government raising tax must ensure that it is recognised as fair and equitable. The FSB recognises the importance of the Welsh Assembly

Governments actions in regards to NDRR and the 'multiplier' in redistributing the Welsh business rates burden from SMEs to larger businesses (Wales Online, 2009). Conversely the effect of the increased multiplier on larger Welsh businesses has to be considered (Western Mail, 2009).

3.4.4 The use of rates relief to support specific sectors such as the post office is justified by the social and economic impact that the sector has on its local area (Countryside Agency, 2000; New Economics Foundation, 2006; Federation of Small Businesses, 2006 and NFSP, 2007). With a limited amount of funds available any specific sector targeting will inevitably mean that other sectors with social and economic impact may have to be withdrawn from rates relief schemes or the reduction offered to other small businesses reduced.

3.5 Barriers to access and hidden cost of rates relief schemes

3.5.1 It must be recognised that the tax burden for small businesses lies not just in cost and cash flow issues but also with issues of administration associated with access to information on schemes, gathering relevant information and compliance with rules related to qualification. Compliance with tax regulations can be a major burden for small businesses (Chittenden, Krauser and Poutziouris, 2003; 2005). A recent study in Wales looked at over 1,600 SMEs and found that fixed costs of tax compliance bear substantially more heavily on the profitability of smaller SMEs (Foreman-Peck, Makepeace and Morgan, 2006). This has an implication not just for the level of rates relief given to businesses but also for the procedures for administration of that release and in particular whether relief must be applied for or whether it is granted automatically.

3.5.2 To make rates relief accessible, the Welsh and the new Northern Ireland schemes are paid without the need for the business to apply. The Scottish and English schemes still require applications from businesses which makes them slightly less accessible for businesses but it is perhaps possible to exercise greater control over administration and targeting. FSB research

would indicate that the Scottish and English policies appear to lead to a slow uptake of rates relief from eligible businesses with only 49 per cent of businesses eligible claiming rates relief in 2005 (Federation of Small Businesses, 2008).

3.5.3 It is interesting to note that low awareness of the details of the scheme also extends to some business advisers/accountants (ODPM, 2004).

It would appear that the DCLG (Department for Communities and Local Government) in England is now considering making the application of SBRRS automatic (DCLG, 2010).

3.5.4 The communication of rates relief schemes to businesses operates through public bodies such as Business Link and the Valuation Office Agency. The Forum of Private Businesses 2009 survey of 4,000 businesses indicated that rates relief should be automatic as the greatest barrier for small businesses accessing this support is lack of business awareness of the scheme or a belief that the application process is too complicated. These findings accord with other studies that have taken a broader view of compliance costs both of tax regulations and broader business regulations upon small businesses (Chittenden, Krauser and Poutziouris, 2005; Peck, Parry, Jackson and Jackson, 2009).

3.6 Links with rental charges: Who gets the benefit?

3.6.1 One further issue that appears contentious in the policy literature concerns the possibility that the benefits of rates relief to businesses tend to be cancelled out by inflated rents for relevant commercial properties. This assertion seems plausible, but difficult to prove or disprove. There have, in fact, been conflicting research results from studies that attempt to correlate movement in rates charges to the movement of rental charges. Sibley (1989) found that rate charge differentials across areas tended to push rental charges down whilst Crosby and Keogh (1990) found little relationship between rate charge increases and rental charges whilst the ODPM (2004) in a telephone survey of 1192 businesses occupying one property found that

three in 10 landlords took into account rates relief in calculating rentals and three in 10 did not. Eve (1993) found a weak correlation between rate increases and a reduction in rental values, however these results are not strong. This in part reflects the findings of Bond, Denny, Hall and McCluskey (1996) who suggested that the level of rent landlords can raise from businesses reflects a large number of factors including: quality of the property; quality of the location; elasticity of the supply and national economic conditions. Bond, Denny, Hall and McCluskey (1996) also suggest that the time lag between rental agreements and the introduction of rates relief schemes may mean that NDRR has little effect on overall rental charges:

‘These results have a number of implications for policy design. Since, in the short run, most of the burden of changes to non-domestic rates bills falls on the occupiers of business properties, a temporary scheme of transitional relief may be a relatively well-targeted approach to easing the burden of non-domestic rates on business. However, to the extent that, in the long run, a significant proportion of higher rates bills will be passed on from the occupiers of commercial property to their landlords, schemes which aim to reduce the burden of non-domestic rates over a longer time period may actually be a rather poorly targeted method of channelling government assistance to the business community.’

3.6.2 None of the studies above provide clear evidence as to whether rates relief is soaked up in rental charges. However, it is clear that rent must also be considered as part of the fixed costs of property users. Research by Crosby, Hughes and Murdoch (2006) in 2006 found that a significant number of micro-businesses take no commercial advice when negotiating leases even when they have no prior experience.

3.7 Summary points from the literature review

3.7.1 The key points to emerge from our review of the academic and policy literature are as follows.

3.7.2 On financial support mechanisms in general, studies lead to the conclusion that tax-based interventions can be effective in supporting businesses in general but that the desired impacts of such interventions are best achieved by considering these within the broader context of business support.

3.7.3 Different types of financial incentive can produce different business responses. Reducing the tax burden, in principle, can be viewed as a good outcome in its own right. However, the limitation of tax interventions on their own is that it may not often be possible to link these schemes to particular outcomes for the business: they are more “permissive” rather than “directive”.

3.7.4 There is much less research specifically on the role and impacts of property tax and rates relief in particular. However, the policy literature clearly justifies this mechanism as a means of enabling small business survival and growth. In this context, research shows that local property taxation is an emotive issue for many small businesses and that rates relief may have an impact on the psychology of owner-managers that goes beyond the immediate financial benefit.

3.7.5 While there are few studies of the impacts of rates relief, there is research evidence to suggest that property tax interventions can have unintended negative consequences. These include the effects of thresholds which can simultaneously enable some businesses to survive while others near the threshold restrict growth to remain with the scheme.

3.7.6 To avoid these types of unintended consequences, the rates relief schemes across the UK have evolved in different ways. In particular, there are variations in definitions of thresholds, bands and levels of reductions. Other differences include measures designed to improve targeting on the most vulnerable businesses and also methods of administration (application-based or automatic). The policy literature clearly recognises the dilemmas that

arise in seeking to improve targeting, most of which tend to lead to greater complexity in the design of such schemes.

3.7.7 As regards the impacts of rates relief on small business survivability, limited research in the UK suggests that this represents a relatively small amount of money for many businesses and that the financial impacts in buoyant economic circumstances tend to be limited. However, a study conducted in Scotland suggests that there are tangible impacts on micro and new businesses where property tax represents a higher proportion of total cost. We can justifiably hypothesise, therefore, that in the present economic downturn, the significance of rates relief for survivability may be enhanced for a larger number of businesses.

3.7.8 In the policy literature, there is consensus that small business rates relief is a useful tool that can deliver equitable financial support to businesses trading from smaller premises. However, there is much discussion on the difficulty that the public sector has in ensuring that a relief system based on property size reaches the small businesses with greatest need for financial support. There is recognition that not all businesses in small premises are vulnerable and not all small businesses are in small premises. Also, mechanisms need to be in place to ensure that rates relief is not awarded to large businesses that occupy multiple small premises. There is recognition that a balance needs to be struck between effective targeting and the complexity of administration.

3.7.9 The literature review also drew attention to the hidden costs associated with the operations of rates relief. Schemes based on an application process have low uptake in part due to the barriers created by the cost of gathering relevant information and completing applications. On the other hand, schemes that are automatic can prove to be “invisible” to the recipient and awareness of the benefits of receipt may be low.

3.7.10 There is a perception that some landlords may increase the rents on property in receipt of rates relief. Studies so far would imply that this is rare as

the timings of rent reviews and decisions on rates relief rarely coincide and rent charges are based on many other factors apart from rates relief.

3.7.11 For the rates relief scheme to continue to succeed it must maintain the balance between being equitable across size, sector and geographical area; being practical to deliver with the resources available to it and its delivery and mechanisms being accessible to the SME sector.

4 Stakeholder Interviews

4.1 The broad inference drawn from the literature review is that rates relief as a mechanism is most appropriately viewed within the context of wider financial benefits and other forms of support provided to businesses. Rates relief contributes to this mix of support, but on its own its impacts on the performance of individual businesses may not be easy to determine except for particular types of business where profit margins are very tight and/or where rates constitute a higher proportion of total cost (as perhaps in the case of micro businesses or small not-for-profit organisations). In this section, we seek to test these arguments by examining evidence from the interviews with stakeholders who are currently involved in various ways with representing or providing support to businesses in receipt of rates relief.

4.2 Interviews have been conducted with a range of stakeholders. The first group of stakeholders were consulted specifically to explore various issues related to rates relief schemes that operate in Northern Ireland, Scotland and England. Approaches were made to the relevant government departments (Rating Policy Division Northern Ireland, Communities and Local Government (England) and Scottish Executive) as well as specific business organisations that operate within these areas (Scottish Grocers Federation, Northern Ireland Retail Trade Association and, Association of Convenience Stores). The independent view of the Institute of Revenues Rating and Valuation on the operation of these schemes was also canvassed.

4.3 Alongside these consultations, the general issues surrounding the impacts of rates relief were discussed with a range of stakeholders including the organisations that represent the interest of businesses in general (British Chamber of Commerce, CBI, Federation of Small Businesses), sector-specific associations (The British Hospitality Association, National Association of Master Bakers, British Beer and Pub Association), the Rural Shop Alliance and stakeholders specifically within the context of Wales (Wales Tourism Alliance and Welsh based accountancy firms).

4.4 The 20 stakeholder interviews were conducted by phone and lasted from 20 minutes to 2 hours 10 minutes. The interviewer followed a schedule of questions (see Appendices 1 and 3) with various prompts that had been agreed with members of the Steering Group at the Welsh Assembly Government. The interviewees were guaranteed strict confidence so that this report does not disclose the specific source of any quote.

4.1 General awareness of the different schemes across the UK

4.1.1 The initial part of the interviews focused on levels of awareness of the four Business Rates Relief Schemes that operate across the UK. Not unexpectedly, knowledge and understanding of these schemes varied considerably. The public sector organisations were understandably more aware of the detail of these schemes while the majority of the business groups were aware or had someone within their organisation who was aware of the different systems. It did not appear that anyone within these organisations had done a direct comparison of the four schemes.

4.1.2 The accountancy firms within Wales were aware of the existence of rates relief schemes but showed little awareness of details. It appears that discussion with their clients regarding rates and rates relief does not form a prominent part of their advice service. This may partly reflect the fact that only a proportion of their clients will be in receipt of rates relief. However, it also seems to reflect one of the findings from the literature review that rates are viewed as just one part of a much larger system of taxation and that businesses can do little if anything to alter these payments.

4.1.3 The relationship between rates relief interventions and other forms of financial support was commonly raised across all interviewees. As one interviewee observed, the 'major problem is the plethora of different schemes that might or might not apply.' Similarly another noted that 'business relief, in general, needs simplifying, not just SBRRS but the whole system.' It appears from interviewees that this complexity not only affects SMEs but also larger

firms that 'find the rate demand notices confusing...the more there is the more complicated it becomes.'

4.2 The key differences in implementation

4.2.1 Stakeholders were then asked to comment on various points of detail in rates relief schemes, particularly those aspects which differ between Scotland, England, Northern Ireland and Wales. These include consideration of the merits of requiring businesses to apply for relief, the effectiveness of various forms of targeting and the "fairness" of present systems including the impacts of threshold levels on different types of business.

4.2.1 The effect of businesses having to apply for rates relief

4.2.1.1 Arguments in favour of "automatic" rates relief were expounded by many interviewees, particularly those with awareness of the costs of administration. One of the accountants, for instance, strongly supported automatic rates relief on the grounds that the administrative costs act as a barrier:

'My experience is that many small business owners can't be bothered if they have to complete paperwork and apply.'

4.2.1.2 Another argument used in favour of an automatic system concerned the likelihood of low uptake of an application-based system due to a lack of awareness of eligibility for rates relief amongst small businesses. As one interviewee noted, 'awareness is really low... we have had to work with our members to ensure benefits reach the right businesses.'

4.2.1.3 However, there were counterarguments used by some interviewees. Those involved in administering these systems, in particular, commented on some of the potential pitfalls in automatic schemes. One of these concerns the difficulties that can arise in seeking to reclaim overpayments that occur due to gaps and possible errors in business details held by local authorities. Automatic systems require very accurate and timely information about each

business which can be costly to maintain. Also, ‘payments without applications are a headache waiting to happen... local government is left with “what do we do if an SME payment is wrong?”’

4.2.1.4 It is too simple to conclude, however, that businesses prefer automatic systems while those administering systems lean towards application systems. Application systems also generate administrative costs for local authorities. Furthermore, it can be argued that application systems promote better awareness of the benefits of the scheme. One interviewee who also ran a business clearly understood the financial benefit received from rates relief through the process of being required to apply. ‘It was fairly simple, they told us to apply ... we applied for it and got it.’

4.2.2 Relief targeted at specific sectors

4.2.2.1 The second issue concerned the effectiveness with which rates relief schemes are targeted on appropriate businesses. There was nearly complete agreement from all business organisations that schemes should seek to provide higher levels of rates relief to certain types of business. Even organisations representing businesses unlikely to benefit from this accepted this principle. The following quotes show that the justification for targeting applied to specific sectors as well as particular localities and communities:

‘Don’t have any problem with this, specific sectors do need help.’

‘The reason was mainly to support ‘essential services’ in marginal areas where falling profitability was threatening their sustainability.’

‘Yes especially pubs and petrol stations – keep services in area...essential business services in area.’

4.2.2.2 These quotes and other comments seem to suggest that there is broad support for awarding the highest levels of relief to the types of business

targeted by most schemes (such as rural business, small retailing and essential services in marginal locations).

4.2.2.3 Interviewees recognised that rates relief was helping specific market sectors that had been hardest hit by the recession and were still trying to maintain community services from high street or rural locations, specifically smaller pubs and smaller rural retail outlets.

‘It has been the difference between survival and closure for some small shops.’

4.2.2.4 This was also true for not-for-profit organisations. It was noted that rates relief is significant for these types of business as it makes it economic for them to locate in more central premises that attract high footfall. It was also suggested that the removal of rates relief for these businesses could induce locational instability and reduce their beneficial impact on the local community.

4.2.2.5 While there was general support for the principle of targeting rates relief, there were comments made regarding the effectiveness of present schemes in reaching the right businesses. One interviewee noted that there is:

‘real lack of information ...who is getting it, where it is going...terms of take up...Local Authorities have not been doing this (offering take up figures) for a long long time...couldn't find stats of percentage of take up from government so no one knows the reality of the situation.’

4.2.2.6 Another noted that changes over time in property values can distort targeting.

‘In areas of economic downturn, some businesses are doing well BUT as the area's economy decreases the RV goes down and they could

get rates relief because this is based on property value. So it goes to less successful areas, not businesses.'

4.3 The perceived benefit to business of Rates Relief Schemes

4.3.1 The interviews proved useful in examining the benefits that businesses might derive specifically from receipt of rates relief. Not surprisingly all of the stakeholders representing businesses in receipt of rates relief thought that it was important to their businesses. In justifying this view, many interviews drew attention to the current economic climate and the competitive pressures on small businesses in particular. It was argued that for small enterprises, 'Business rates are a big issue' and 'small business needs as much help as it can get in this world of globalised competitors...'

4.3.2 All of the stakeholders interviewed (including those representing large and small business) recognised rates as being part of property costs which are a significant cost to all business. In the current economic downturn, it was recognised that holding costs down through rates relief was actually helping some small/micro businesses to survive:

'helpful at margins, the reduction in costs will help businesses that are not quite commercially viable...but it is not usually make or break.'

4.3.3 One interviewee expressed the belief that even small changes in the business rates bill could have an effect on business:

'if you add £20 onto the rates bill nationally, a few more businesses will disappear.'

4.4 Impact of business rates relief on business

4.4.1 Interviewees were next asked to comment on their perceptions of the overall impact of rates relief on the business community. Most believe that rates relief financially has the greatest benefit for micro business and start up business where turnover is relatively low and property costs constitute a

relatively high proportion of total costs. As one observed, 'it is a burden removed.'

4.4.2 Some interviewees also added that receipt of rates relief should enable slightly larger businesses to release resources for other purposes, such as investing in property improvements or employees. Others might invest in ways that improve quality of life. For instance, one interviewee suggested that:

'to a small business operator working over 60 hours a week, the benefit of a relatively small reduction in costs is the opportunity to pay someone to allow them to take a holiday.'

4.4.3 It is perhaps plausible to argue that some operators might ring fence the reduction in cost and link receipt of rates relief with particular use of resources (e.g. paying for part-time staff). This argument needs to be viewed critically, however, as it assumes high level of awareness of the benefits received. In circumstances where this applies, however, it is fair to say that the psychological impact of the removal of this 'benefit' may be more significant to some owner managers than the financial impact.

4.5 Impact of rates relief on the local economy

4.5.1 There was general agreement that the rates relief schemes currently in operation have probably enabled some types of businesses to survive the economic downturn and that this is most likely to have reduced negative economic multipliers in some disadvantaged areas. Supporting small business through rates relief was viewed as an important mechanism for protecting marginal locally-owned businesses that "spend their money in the local area not like the multiples....small businesses don't have outside shareholders."

4.5.2 These views are significant in that the arguments relate as much to social as to economic effects. One interviewee argued for instance that rates relief targeted on particular businesses 'helps create a stronger *more*

cohesive economy.' (Emphasis added). This phrasing implies recognition of the role of rates relief in generating desirable outcomes for communities. Again, another consultee stated that 'the local economy is dominated by SMEs- they go bust and this will have an effect on rural places.'

4.5.3 As already recognised by the Welsh Assembly Government targeting specific sectors can help protect vital community services in both rural and deprived urban areas. This has been picked up by Northern Ireland who are specifically supporting Post Offices with their new rates relief scheme. The stakeholders have indicated that targeted rates relief does have an effect on the viability of business location and could be a useful tool for maintaining the viability and commercial sustainability of communities.

4.6 Perceived levels of fairness of the Rates Relief Scheme

4.6.1 The final theme in the interview related to issues of fairness and the overall justification for awarding preferential rates relief to selected types of business. Organisations with broad membership suggested that larger businesses generally recognised the need to support small firms and regarded this form of policy targeting in favour of smaller businesses as justifiable:

'The impact on larger business is so minimal it really doesn't affect them much.'

'Doesn't come through from larger businesses that this is unfair, they have not complained about it.'

4.6.2 Those stakeholders representing smaller businesses generally thought that rates relief is a justifiable and effective form of support. However, there was recognition that due to the limitations of property tax, threshold levels can create inequities for some types of business.

4.6.3 There was a general acceptance that the current rate thresholds were acceptable. However, interviewees representing small businesses pointed out that increases in rateable values arising from improvements in properties could take some businesses above thresholds which acts as a disincentive to invest in property in future. This would imply that some well-run businesses that have invested in growth in recent years are not being supported by rates relief at a time of downturn in trade.

4.6.4 Organisations representing the smaller businesses argued in favour of increasing thresholds so that more of their membership could benefit from relief. Their justification concerned the fact that smaller businesses ‘pay much higher rates in proportion to turnover compared to large businesses... especially true for business start ups.’ One stakeholder also observed that in the current economic downturn, some small businesses trading from larger premises are treated unfairly. This affects businesses where income has dropped but rates are still being paid on space that is currently not productive.

4.7 Comparison of the Welsh scheme to other schemes in the UK

4.7.1 Interviewees were asked if they could compare the different schemes. Organisations that represented businesses across the whole UK confirmed the complications that exist in making such comparisons (as has been noted earlier in this report). It was observed, for instance that direct comparisons of the benefits to businesses of similar types operating in different territories are difficult due to spatial variations in property values:

‘The rateable values in Wales for similar properties are lower than England, which makes a direct comparison on the cost benefit difficult.’

4.7.2 Interviewees also recognised that there are variations in the ways in which rates relief is combined with other forms of business taxation. As one example,

‘the Welsh Small Business Rates Relief scheme combines the SBRRS scheme with the Rural Rates Relief scheme, both of which still exist in England.’

4.7.3 It was also noted that methods of calculating rates vary:

‘The relief schemes in England, Scotland and Wales are based on the properties’ RV [*reviewed every 5 years*] whilst in Northern Ireland they are based on NAV [*an annual assessment*].’

.and that variations in targeting add complications to any comparisons:

‘The various schemes have targeted different sectors for additional support depending on the needs of the schemes at the time they were instigated.’

4.7.4 Despite these difficulties, stakeholders were generally positive about current features of the Welsh scheme. There was overall support for automatic entitlement rather than an application-based system, above average threshold levels and simplification of the system produced by merger with Rural Rates Relief.

4.7.5 The negative comments tended to be on issues affecting all schemes, not just on the Welsh scheme. Interviewees were particularly keen to note that problems are created not by rates relief schemes themselves but by the idiosyncrasies of valuation methods:

‘It is the rating valuation system itself that is causing the problem.’

‘Uncertainty of where rates will be year on year.’

4.7.6 While stakeholders generally favoured automatic systems of relief, several perceived poor visibility of support provided to some types of business. There was a feeling that ‘the message [*about the rates relief*

scheme] hasn't got across to business.' It was suggested that there 'needs to be information about take up made publically available.'

4.7.7 Beyond these points specific to rates relief, interviewees were also adamant about the need for further simplification of business relief in general, not just rates relief specifically.

4.8 Summary of stakeholder interviews

4.8.1 The general conclusion to be drawn from these stakeholder interviews is that while schemes are complex and varied, there is consensus that rates relief is an important element within the overall mix of financial support provided to certain types of business. There is also general support for attributes of the present Welsh scheme, including automatic entitlement and attempts to target relief on particular vulnerable businesses and communities. These include rural businesses, small independent retailing establishments and essential services in marginal locations.

4.8.2 In the context of the current economic downturn, interviewees were keen to point out that rates relief could be quite significant in contributing towards the survival of microbusinesses where profit margins are extremely tight. It can also make a disproportionate difference to new business start-ups.

4.8.3 Stakeholders were also well aware of the significance of rates relief as a mechanism for supporting marginal businesses or, perhaps more accurately, businesses located in marginal locations that serve disadvantaged communities. The importance of rates relief as a means of demonstrating political support for small businesses in particular communities was also noted.

4.8.4 As with all support and taxation systems, however, stakeholders recognised that the design of rates relief schemes can generate unintended consequences. There was recognition that due to the limitations of property tax, threshold levels can create inequities for some types of business. There

was a belief that space-extensive businesses that are experiencing difficulties in the present economic downturn may be unfairly excluded from rates relief.

4.8.5 While stakeholders overall favoured automatic qualification, it was stressed that more needed to be done to disseminate information about the benefits of rates relief schemes and to make recipients more aware of the benefits they are receiving.

5 Business Postal Survey

5.1 The information presented above from the literature review and stakeholder interviews raises some interesting and significant points of debate about the purpose and design of rates relief schemes and their intended targets and outcomes for businesses and communities. The most vital evidence, however, will be derived from a questionnaire survey of businesses in receipt of rates relief across each local authority area in Wales. This section outlines the survey design and analysis.

5.2 As noted earlier in this report, the purpose is to generate a quota sample for Wales that broadly reflects the proportion of businesses in receipt of rates relief located in each local authority area and type of business (as reflected in property type codes). To achieve this, CRED initially received data related to SBRRS recipients in 15 Welsh Local Authorities. In total, nearly 29,000 observations were collected from the initial 15 Local Authorities (see Table 2)

Table 2: Breakdown of data received from Welsh Local Authorities

Local Authorities	Count	Per cent
Merthyr Tydfil	200	0.7
Blaenau Gwent	894	3.1
Torfaen	971	3.3
Monmouthshire	1,211	4.2
Rhondda Cynon Taf	1,322	4.6
Vale of Glamorgan	1,384	4.8
Newport	1,376	4.7
Anglesey	1,417	4.9
Neath Port Talbot	1,627	5.6
Caerphilly	1,899	6.5
Flintshire	1,921	6.6
Conwy	2,308	8.0
Cardiff	2,687	9.3
Powys	2,952	10.2
Carmarthenshire	3,296	11.4
Gwynedd	3,533	12.2
	28,998	100.0

5.3 A sample of 2,400 observations (see Table 3) was extracted from the total dataset (about 8.25% of 28,998).

Table 3: Initial sample of observations from 15 Welsh Local Authorities

Local Authorities	Count	Per cent	Data to be extracted	Observations Lost	Data selected
Merthyr Tydfil	200	0.7	17	2	15
Blaenau Gwent	894	3.1	74	1	73
Torfaen	971	3.3	80	2	78
Monmouthshire	1,211	4.2	100	2	98
Rhondda Cynon Taf	1,322	4.6	109	0	109
Vale of Glamorgan	1,384	4.8	115	2	113
Newport	1,376	4.7	114	1	113
Anglesey	1,417	4.9	117	1	116
Neath Port Talbot	1,627	5.6	135	4	131
Caerphilly	1,899	6.5	157	1	156
Flintshire	1,921	6.6	159	1	158
Conwy	2,308	8.0	191	2	189
Cardiff	2,687	9.3	222	1	221
Powys	2,952	10.2	244	0	244
Carmarthenshire	3,296	11.4	273	0	273
Gwynedd	3,533	12.2	292	1	291
	28,998	100.0	2,400	21	2,379

The sample was designed to be representative of the entire population studied using the following procedures. Selection was carried out by following two main selection criteria:

- Weighting the sample with regard to Local Authorities: The number of observations extracted from each local authority dataset is proportional to the number of addresses in that area relative to the total for Wales. (For example Merthyr Tydfil had 200 addresses which is 0.7 per cent of the total addresses provided by the initial 15 Welsh Local Authorities, so in a sample of 2,400 the survey would target 0.7 per cent of 2,400 businesses in Merthyr Tydfil which is 17).
- Weighting the sample within each local authority with regard to sectors of activity: The data extracted from each local authority list mirrors the distribution across sectors within that dataset. This was achieved by

random selection within each sector code until the quota number was reached.

5.4 These two criteria were applied in order to achieve an optimal level of representation for the sampled dataset.

5.5 The first criterion was relatively easy to apply, as the number of observations to be extracted from each dataset was given by multiplying 2,400 * LAs data proportions in the total population (see Table 2). Due to rounding effects, this generated an initial sample of 2,379 observations that met the criteria above.

5.6 Data for the remaining seven Local Authorities was received subsequently and application of the same procedures generated a larger sample of 3,151 addresses (i.e. a further 772 addresses) (see Table 4).

5.7 Having determined the target number of addresses for each local authority, the second criterion was applied to each local authority dataset in turn. Addresses were selected at random within each activity code until the target number was reached.

Table 4: Sample of observations from 22 Welsh Local Authorities

Local Authorities	Count	Per cent	Data to be collected	Observations lost	Data selected
Merthyr Tydfil	200	0.52	17	2	15
Wrexham	200	0.52	17	0	17
Denbighshire	200	0.52	17	0	17
Blaenau Gwent	894	2.33	74	1	73
Torfaen	971	2.53	80	2	78
Monmouthshire	1,211	3.15	100	2	98
Rhondda Cynon Taf	1,322	3.44	109	0	109
Newport	1,376	3.58	114	2	113
Vale of Glamorgan	1,384	3.60	115	1	113
Anglesey	1,417	3.69	117	1	116
Bridgend	1,521	3.96	126	2	124
Ceredigion	1,602	4.17	133	5	128
Neath Port Talbot	1,627	4.23	135	4	131
Caerphilly	1,899	4.94	157	1	156
Flintshire	1,921	5.00	159	1	158
Conwy	2,308	6.00	191	2	189
Swansea	2,419	6.29	200	2	198
Cardiff	2,687	6.99	222	1	221
Powys	2,952	7.68	244	0	244
Carmarthenshire	3,296	8.57	273	0	273
Pembrokeshire	3,503	9.11	290	1	289
Gwynedd	3,533	9.19	292	1	291
Total	38,443	100	3,182	31	3,151

5.8 To ensure timely results for the research, questionnaires were despatched to the first 2,379 addresses prior to replies from all local authorities. A further 772 were posted out subsequently. To ensure the results represented a representative selection of SMEs by sector and location a third set of 398 questionnaires were posted to a selection of businesses that had not responded to the first two mailings.

5.9 The response to the survey was very positive. At the time of the final analysis (July 19th), we had received 403 replies, 391 of which provided full

useable data responses. This equates to 12 per cent of the questionnaires posted out which is a typical response rate for a business survey of this kind (see, for instance, CBI London Business Survey conducted by KPMG which also achieved a 12% return (CBI 2008)). It is possible to estimate the degree of reliability in estimates based on 391 replies. Most of this study involves categorical data where responses are analysed as proportions (for instance, the percentage of respondents that agree as opposed to disagree with a statement). Assuming a particular response (e.g. 70 per cent agree and 30 per cent disagree), the standard error can be computed using the following conventional method where $p=70$, $q=30$ and $n=391$:

$$SE = \sqrt{(p\%*q\%/n)} = 2.32$$

The 95 per cent confidence limit is therefore calculated as 2.32 (Standard Error)* 1.96 (95 per cent confidence limit) = 4.54 . This indicates that we can be fairly sure (at the 95 per cent level) that where 70 per cent of respondents agree with a particular statement, the figure in the population as a whole is very likely to lie somewhere between 70 ± 4.5 (i.e. in the range 65.5-74.5 per cent).

5.10 We can also analyse the data to test for possible bias in the geographical pattern of responses. Table 5 shows the pattern of replies across the local authority areas of Wales. The questionnaires were sent to 3,151 addresses that reflected the distribution of businesses across these different areas (column 3). Column 4 shows the number of replies actually received from each LA area. This number can be compared with a hypothetical target number of replies calculated by distributing the total number (391) across each LA in proportion to those posted out. So, for example, 28 replies have actually been received from Cardiff. If the overall response rate (12.4 per cent) had been obtained for Cardiff, then one would have expected to have received 27 replies. The actual number of replies for Cardiff is therefore very close (+1) to what one would have expected given the proportions posted out.

5.11 Looking further at this table, it can be seen that 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.

Table 5 Analysis of pattern of response by geographical area

Local Authorities	Total	Posted out	Replies	Target	Difference
Carmarthenshire	3,296	273	41	34	7
Powys	2,952	244	35	30	5
Gwynedd	3,533	291	40	36	4
Anglesey	1,417	116	18	14	4
Pembrokeshire	3,503	289	38	36	2
Ceredigion	1,602	128	18	16	2
Monmouthshire	1,211	98	14	12	2
Swansea	2,419	198	26	25	1
Denbighshire	200	17	3	2	1
Neath Port Talbot	1,627	131	17	16	1
Caerphilly	1,899	156	20	19	1
Cardiff	2,687	221	28	27	1
Conwy	2,308	189	24	23	1
Wrexham	200	17	2	2	0
Flintshire	1,921	158	19	20	-1
Newport	1,376	113	13	14	-1
Merthyr Tydfil	200	15	0	2	-2
Torfaen	971	78	7	10	-3
Bridgend	1,521	124	11	15	-4
Blaenau Gwent	894	73	4	9	-5
Rhondda Cynon Taf	1,322	109	8	14	-6
Vale of Glamorgan	1,384	113	5	14	-9
	38,443	3,151	391	391	0

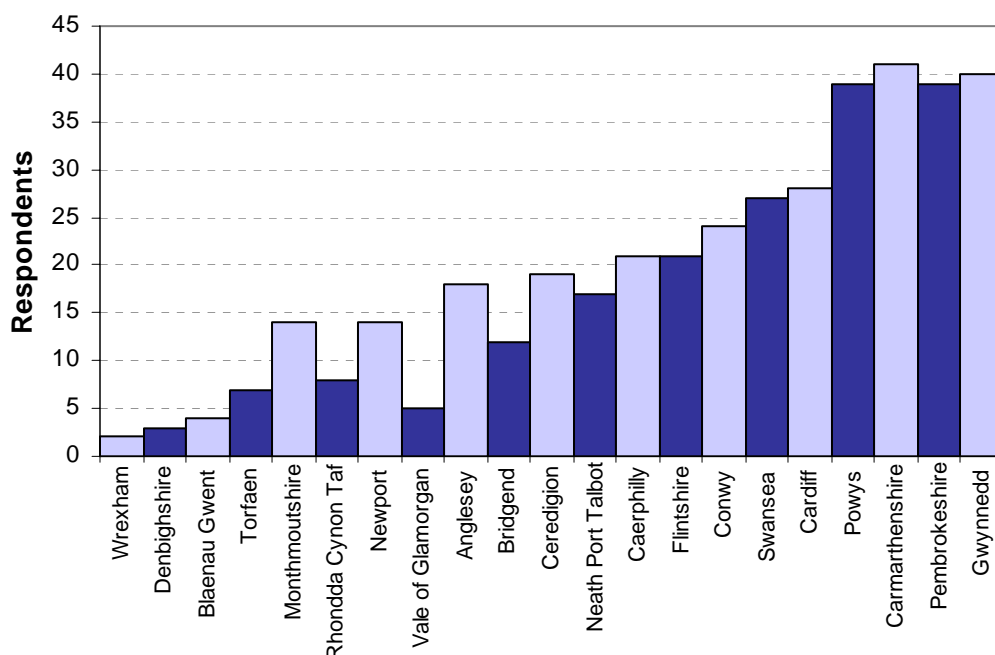
5.12 The overall quality of the responses to the questionnaire has been good with many respondents keen to go further than simply ticking boxes by adding detailed comments supporting their opinions on the relief system. The responses received are more detailed than those from similar surveys conducted within CRED recently. This is likely to reflect heightened awareness of tax reliefs in the present economic downturn as well as the symbolic significance of rates relief as a form of assistance.

The results of the survey are highlighted below:

5.1 Types of business that responded to the survey

5.1.1 The responses received represent a cross section of SMEs from different areas of Wales (Figure 2).

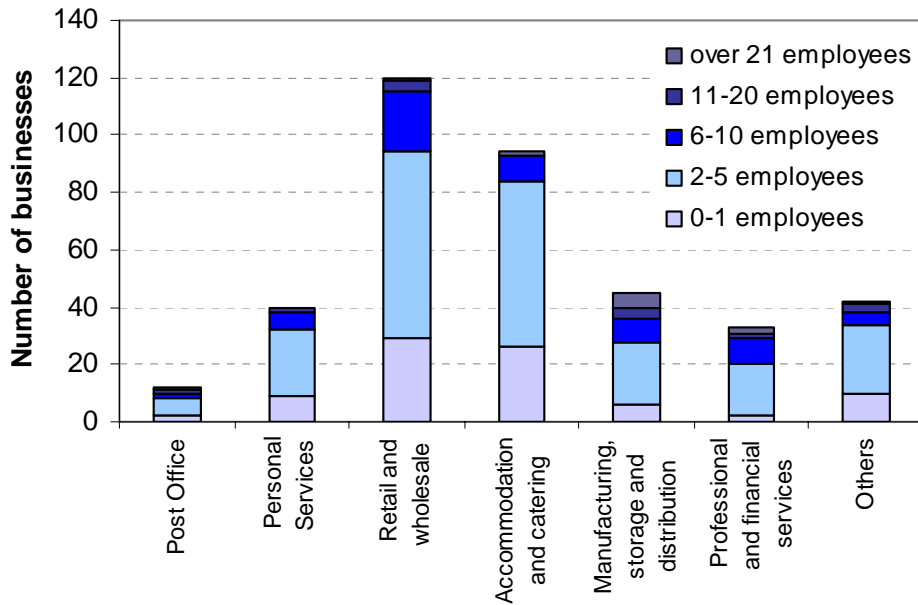
Figure 2 Responses by Authority



5.1.2 The responses also cover a cross section of SMEs by sector and by number of employees (Figure 3). The retail and wholesale and accommodation and catering sectors accounted for the largest number of businesses with 0-1 employees (34.5 per cent and 31.0 per cent, respectively, of total businesses with 0-1 employees) whilst the manufacturing, storage and

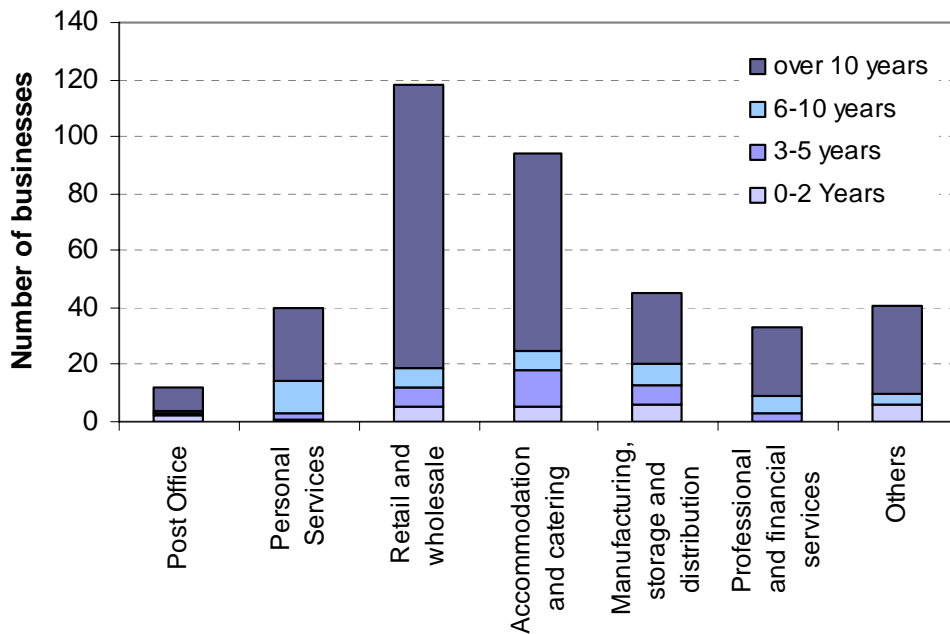
distribution sector accounted for the largest number of businesses with over 21 employees (45.5 per cent of total businesses with over 21 employees).

Figure 3: Sectors by number of employees



5.1.3 A high percentage of the responses were from established businesses (Figure 4). Fifty per cent of businesses from all sectors had been established for over 10 years, with 83 per cent of the retail sector established for over 10 years. The least established sector responding was manufacturing with 28.9 per cent of this sector established between 0 and 5 years.

Figure 4: Sectors by age of business



5.2 Awareness of rates relief scheme

5.2.1 Business managers were asked what they understand to be their current status with regard to the rates relief scheme by indicating the level of relief they currently receive. Around 30 per cent of respondents said they were not sure of their level of relief which suggests that levels of awareness of the scheme are quite varied. Looking at these replies across different categories of business, it appears that levels of awareness tend to decrease as size of the businesses (measured in number of employees) increases (see Figure 5). Levels of awareness of the SBRRS appear to be highest for post offices followed by the retail and accommodation / catering sectors. Levels of awareness appear to be lowest in the professional and financial services; personal services and manufacturing, storage and distribution sectors (see Figure 6).

Figure 5: Percentage of businesses that were unsure of Rates Relief received

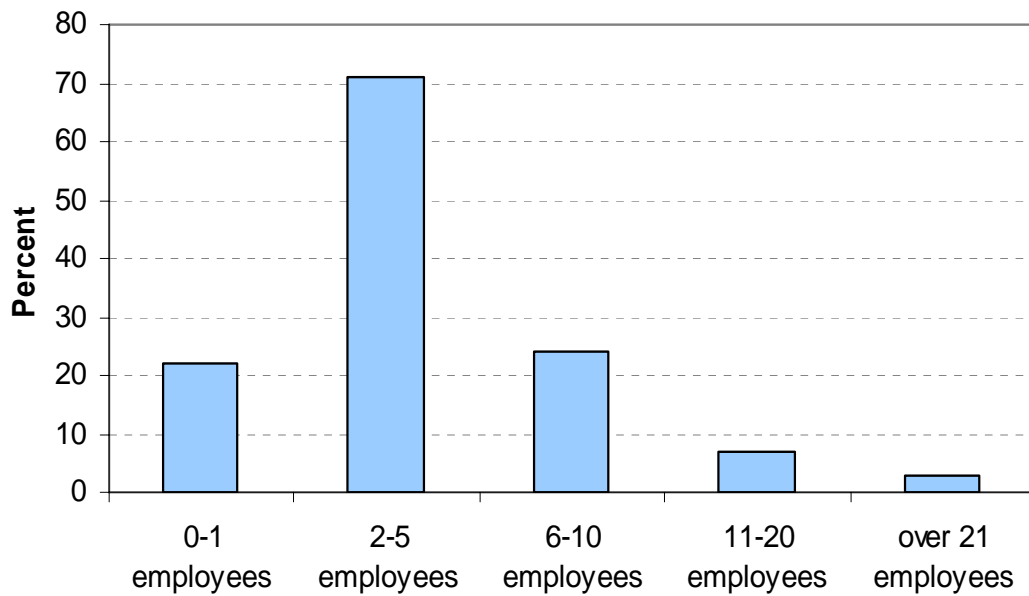
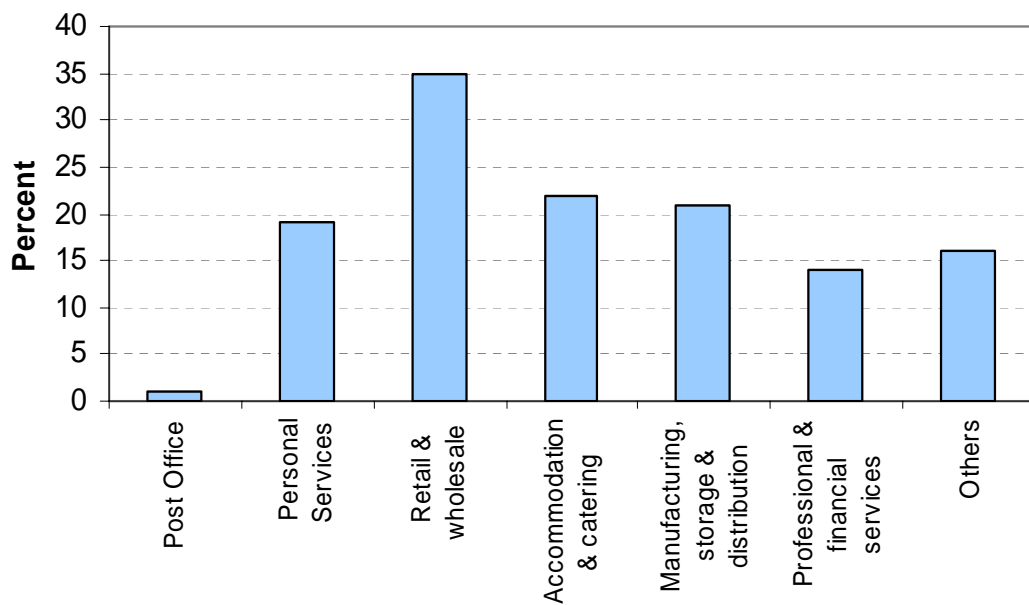


Figure 6: Percentage of businesses that were not sure of the percentage of Rates Relief they received by sector



5.3 Significance of rates in relation to turnover and business costs

5.3.1 The survey findings reveal that the significance of rates payments in relation to other costs varies considerably across business respondents. At one extreme, rates represent less than 2 per cent of total costs for some businesses (81 cases or 27 per cent of total) while at the other end of the spectrum, there are as many respondents claiming that rates account for over 10 per cent of total costs (82 replies). This diversity is also reflected in assessment of rates as a percentage of turnover which varied from less than 2 per cent (127 cases, 41.5 per cent) to over ten percent (55 cases or 18 per cent). This suggests that sensitivity to changes in rates and rates relief will vary quite widely.

5.3.2 The sample size of over 400 enables us to disaggregate these patterns. Table 6 shows that the significance of rates to total cost varies across different sectors. Compared to average, a much higher proportion of businesses in “accommodation and catering” and “personal services” have indicated that rates account for over 10 per cent of their total costs. This may, of course, reflect the fact that other costs tend to be lower than average in these types of businesses (i.e. they may employ no staff and may have minimal purchasing requirements). By comparison, businesses where rates costs are only a small proportion of total cost (under 2 per cent) are over-represented in “manufacturing” and “professional and financial services” (as well as post offices that are, of course, eligible for 100 per cent rates relief).

Table 6: Industry category - rates as a percentage of business costs

Industry category	Rates as a percentage of business costs				Total
	0-2%	3-5%	6-9%	10%+	
Post Office	6	3	0	1	10
	60.0%	30.0%	0%	10.0%	100.0%
Personal Services	6	11	3	11	31
	19.4%	35.5%	9.7%	35.5%	100.0%
Retail and wholesale	24	32	13	21	90
	26.7%	35.6%	14.4%	23.3%	100.0%
Accommodation and catering	5	21	22	25	73
	6.8%	28.8%	30.1%	34.2%	100.0%
Manufacturing, storage and distribution	16	9	3	10	38
	42.1%	23.7%	7.9%	26.3%	100.0%
Professional and financial services	13	9	3	3	28
	46.4%	32.1%	10.7%	10.7%	100.0%
Others	12	10	3	10	35
	34.3%	28.6%	8.6%	28.6%	100.0%
Total	82	95	47	81	305
	26.9%	31.1%	15.4%	26.6%	100.0%

5.3.3 As might be expected, small businesses in accommodation and catering and personal services are also characterised by higher rates cost in relation to business turnover. Rates costs represent above 10 per cent of turnover for over one third of businesses in these two sectors (see Table 7). This partly reflects the fact that a relatively high proportion of businesses in these sectors are microbusinesses that employ no workers, hence their cost base is comparatively low.

Table 7: Industry category - rates as a percentage of turnover

Industry category	Rates as a percentage of turnover				Total
	0-2%	3-5%	6-9%	10%+	
Post Office	6	3	0	0	9
	66.7%	33.3%	.0%	.0%	100.0%
Personal Services	6	12	5	6	29
	20.7%	41.4%	17.2%	20.7%	100.0%
Retail and wholesale	48	26	4	16	94
	51.1%	27.7%	4.3%	17.0%	100.0%
Accommodation and catering	7	30	18	19	74
	9.5%	40.5%	24.3%	25.7%	100.0%
Manufacturing, storage and distribution	23	5	5	5	38
	60.5%	13.2%	13.2%	13.2%	100.0%
Professional and financial services	21	7	1	0	29
	72.4%	24.1%	3.4%	.0%	100.0%
Others	16	6	2	9	33
	48.5%	18.2%	6.1%	27.3%	100.0%
Total	127	89	35	55	306
	41.5%	29.1%	11.4%	18.0%	100.0%

5.3.4 The significance of rates relief also varies systematically by size of business (as measured by numbers of employees). Table 8 shows a clear difference between businesses below and above the five employee threshold. In particular, 47 per cent of all businesses with one or no employees claim that rates account for over 10 per cent of costs. A similar gradation occurs in relation to rates as a proportion of turnover across different size bands (Table 9). The general conclusion from these patterns is that whilst rates are a significant cost to many businesses (over five per cent of total cost for over 40 per cent of businesses), rates represent a particularly significant cost for businesses with less than two employees and those involved in accommodation and catering and personal services.

Table 8: Employment Category - rates as a percentage of business costs

Employment Category	Rates as a percentage of business costs				Total
	0-2%	3-5%	6-9%	10%+	
0-1 employees	10	8	13	27	58
	17.2%	13.8%	22.4%	46.6%	100.0%
2-5 employees	40	63	28	43	174
	23.0%	36.2%	16.1%	24.7%	100.0%
6-10 employees	19	18	4	5	46
	41.3%	39.1%	8.7%	10.9%	100.0%
11-20 employees	7	5	1	2	15
	46.7%	33.3%	6.7%	13.3%	100.0%
over 21 employees	6	1	1	2	10
	60.0%	10.0%	10.0%	20.0%	100.0%
Total	82	95	47	79	303
	27.1%	31.4%	15.5%	26.1%	100.0%

Table 9: Employment Category - rates as a percentage of turnover

Employment Category	Rates as a percentage of turnover				Total
	0-2%	3-5%	6-9%	10%+	
0-1 employees	11	15	12	19	57
	19.3%	26.3%	21.1%	33.3%	100.0%
2-5 employees	70	57	19	31	177
	39.5%	32.2%	10.7%	17.5%	100.0%
6-10 employees	29	12	1	3	45
	64.4%	26.7%	2.2%	6.7%	100.0%
11-20 employees	10	3	1	1	15
	66.7%	20.0%	6.7%	6.7%	100.0%
over 21 employees	7	1	2	0	10
	70.0%	10.0%	20.0%	.0%	100.0%
Total	127	88	35	54	304
	41.8%	28.9%	11.5%	17.8%	100.0%

5.4 Impacts of Rates Relief on Businesses in the past 12 months

5.4.1 Business respondents were asked to indicate whether the receipt of rates relief has had any effect upon business decisions in the past 12 months.

Overall, half of the respondents indicated there had been an impact.

Interestingly, the positive responses to this question came not only from microbusinesses where rates are a relatively high contributor to cost, but also slightly larger businesses employing up to ten people. In fact, 28 businesses in the 6-10 employees range noted that rates relief had affected some of their recent decision-making (Table 10). Table 11 also shows that the business impact of rates relief has been most prevalent for post offices and businesses in “accommodation and catering”.

Table 10: Employment Category Has rate relief affected any of your business decisions in the last 12 months?

Employment Category	Has rate relief affected any of your business decisions in the last 12 months?		Total
	No	Yes	
0-1 employees	38 52.8%	34 47.2%	72 100.0%
2-5 employees	95 45.9%	112 54.1%	207 100.0%
6-10 employees	27 49.1%	28 50.9%	55 100.0%
11-20 employees	10 71.4%	4 28.6%	14 100.0%
over 21 employees	7 70.0%	3 30.0%	10 100.0%
Total	177 49.4%	181 50.6%	358 100.0%

Table 11: Industry Category: Has rates relief affected any of your business decisions in the last 12 months?

Industry category	Has rate relief affected any of your business decisions in the last 12 months?		Total
	No	Yes	
Post Office	4 33.3%	8 66.7%	12 100.0%
Personal Services	24 64.9%	13 35.1%	37 100.0%
Retail and wholesale	59 52.2%	54 47.8%	113 100.0%
Accommodation and catering	31 36.5%	54 63.5%	85 100.0%
Manufacturing, storage and distribution	20 48.8%	21 51.2%	41 100.0%
Professional and financial services	21 65.6%	11 34.4%	32 100.0%
Others	19 48.7%	20 51.3%	39 100.0%
Total	178 49.6%	181 50.4%	359 100.0%

5.4.2 Table 12 shows that younger businesses' business decisions are more likely to be influenced by the rates relief scheme (0-2 years 65 per cent and 3-5 years 60 per cent). This could be because the location decision was more recent for these businesses and so they were more aware of the costs of premises.

Table 12: Years in Business - has rate relief affected any of your business decisions in the last 12months?

Years in Business	Has rate relief affected any of your business decisions in the last 12months?		Total
	No	Yes	
0-2 Years	8 34.8%	15 65.2%	23 100.0%
3-5 years	12 40.0%	18 60.0%	30 100.0%
6-10 years	22 53.7%	19 46.3%	41 100.0%
over 10 years	137 52.3%	125 47.7%	262 100.0%
Total	179 50.3%	177 49.7%	356 100.0%

5.4.3 Respondents were invited to give examples of the kinds of decisions that had been influenced by rates relief. For some, these were quite significant aspects of business, including some situations where rates relief had actually had an influence on business survival. Overall, over one fifth of all respondents indicated that rates relief had been “a very significant factor in remaining in business”. This response was particularly prevalent for businesses in the smallest size bands (under five employees – see Table 13) and for Post Offices (albeit with low numbers in the survey) and the category of “miscellaneous services” which includes a number of “not-for-profit” organisations, garage services, community facilities and leisure services (see Table 14).

Table 13: Employment Category - has the receipt of rate relief been a significant factor in your remaining in business over the last 12 months?

Employment Category	Has the receipt of rate relief been a significant factor in your remaining in business over the last 12 months?			Total
	Not significant	Significant	Very significant	
0-1 employees	30 40.0%	29 38.7%	16 21.3%	75 100.0%
2-5 employees	70 33.3%	86 41.0%	54 25.7%	210 100.0%
6-10 employees	24 43.6%	22 40.0%	9 16.4%	55 100.0%
11-20 employees	10 62.5%	5 31.3%	1 6.3%	16 100.0%
over 21 employees	5 45.5%	5 45.5%	1 9.1%	11 100.0%
Total	139 37.9%	147 40.1%	81 22.1%	367 100.0%

Table 14: Industry category - has the receipt of rate relief been a significant factor in your remaining in business over the last 12 months?

Industry category	Has the receipt of rate relief been a significant factor in your remaining in business over the last 12 months?			Total
	Not significant	Significant	Very significant	
Post Office	6 50.0%	2 16.7%	4 33.3%	12 100.0%
Personal Services	15 38.5%	17 43.6%	7 17.9%	39 100.0%
Retail and wholesale	41 36.6%	46 41.1%	25 22.3%	112 100.0%
Accommodation and catering	26 28.0%	46 49.5%	21 22.6%	93 100.0%
Manufacturing, storage and distribution	16 39.0%	21 51.2%	4 9.8%	41 100.0%
Professional and financial services	18 56.3%	7 21.9%	7 21.9%	32 100.0%
Others	16 42.1%	8 21.1%	14 36.8%	38 100.0%
Total	138 37.6%	147 40.1%	82 22.3%	367 100.0%

5.4.4 While responses indicate that rates relief has contributed towards the survival of many smaller businesses in particular, examples were given of the ways in which rates relief has affected other aspects of running a business. Some see it as an operational financial benefit that can be used to employ casual staff, reduce prices to customers or spend slightly more on sales and marketing.

‘It means we can invest a little more in sales and marketing.’

‘Receipt of rate relief has enabled the business to maintain the level of stock and therefore maintain the levels of staff.’

‘This has enabled me to run the business in a profitable manner, to allow me to employ a casual worker, so as to give that person a part-time job, and to provide local businesses with business.’

‘It means that I can offer better prices and value to my customers.’

‘Even our small percentage helps a lot to enable us to keep a good standard and cover ever persistent costs and expenditure - including income tax, domestic council tax and non-domestic council tax - advertising - water and gas and electric rates - refuse costs - fire safety costs and tourist membership costs etc etc etc.’

5.4.5 Others appear to use the resource more strategically through investment in improved IT and other types of equipment or investment in property improvements.

‘Allows us to channel the money into staff resources and improved IT equipment and communications so that we can deliver our services promptly and efficiently to our clients.’

‘Enormously important to a small, young growing business. It has already allowed us to take additional space which we would have not been able to afford without it.’

‘We can improve the business appearances painting-flowers, plants, replaced equipment (showers-drying machine, hot water unit) etc.’

‘We can keep our prices down and keep updating our premises in this difficult climate.’

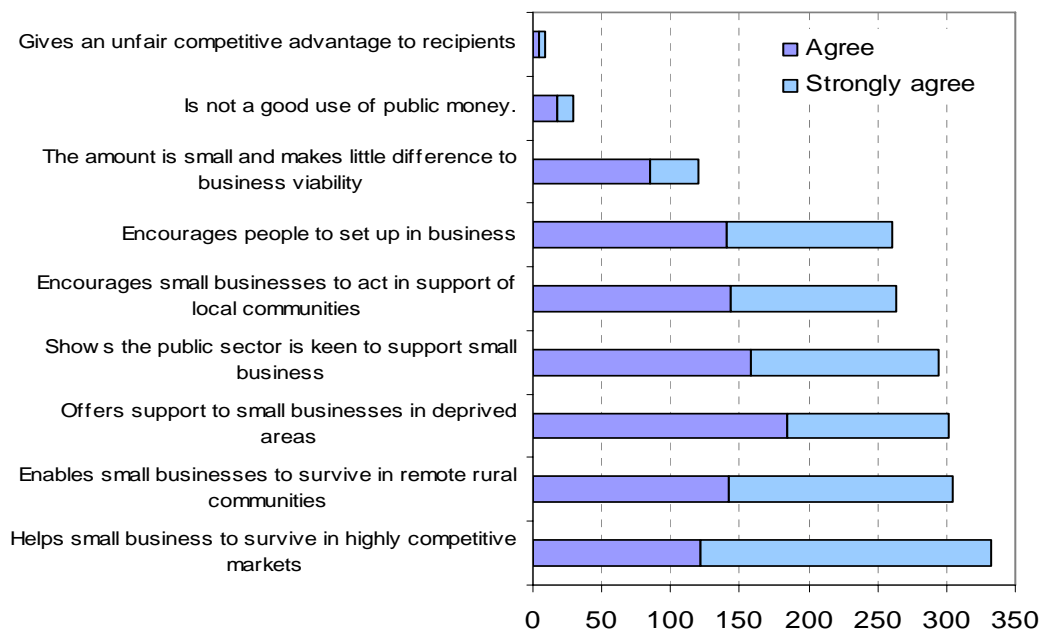
‘We were initially looking at incubator offices, but due to business rates being relatively low we were able to consider larger premises.’

5.5 Views on Rates Relief

5.5.1 Businesses in receipt of rates relief felt that it was useful to them (see Figure 7). The strongest agreement amongst the respondents was that rates relief helped them to survive in a highly competitive market. Around 300 respondents agreed or strongly agreed that rates relief was important for deprived areas and rural areas, they also believed it showed public sector support for SMEs (294 agree/strongly agree).

5.5.2 There was fairly strong agreement that rates relief encouraged small businesses to support their communities (263 agree/strongly agree) and that rates relief encouraged people to set up in business (260 agree/strongly agree).

Figure 7: Perceived benefits of rates relief



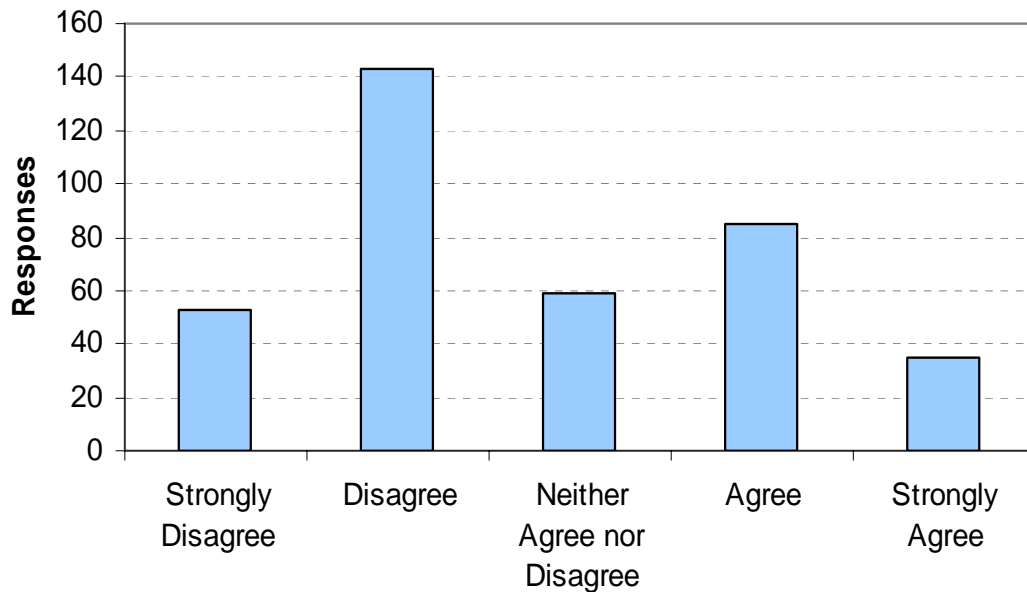
5.5.3 The only statement on the questionnaire that had a split response was “The amount of rates relief is small and makes little difference to business viability” with 120 agreeing/strongly agreeing and 196 disagreeing or strongly disagreeing (Figure 8). This probably reflects the level of rates relief received compared to individual business circumstances.

5.5.4 There was strong disagreement with the two negative statements in the questionnaire with only 30 respondents agreeing or strongly agreeing with the statement that 'Rates relief scheme is not a good use of public money' and only nine agreeing or strongly agreeing with the statement 'Rates relief gives an unfair competitive advantage to recipients.'

5.5.5 The consistency of the reactions to the statements in the questionnaire highlights SMEs' appreciation for the support the rates relief scheme offers. The bi-modal reaction to the statement 'The amount of rates relief is small and makes little difference to business viability' is unique in the responses. The possibility that responses to this question might be influenced by the financial significance of rates for each respondent business was considered. However, cross tabulation revealed no significant differences in replies depending on rates as a percentage of turnover; for example, businesses where rates are less than 2 per cent of turnover seem just as likely to agree with this statement as those where rates represent over 10 per cent of turnover.

The pattern of responses across these statements as a whole, therefore, suggests that respondents recognise the significance of rates relief in financial and also less tangible ways. Rates Relief is viewed as offering financial support for small businesses particularly in rural communities and deprived areas but Rates Relief is also seen as symbolic of government's commitment to assist small businesses and to support disadvantaged communities.

Figure 8: The amount of rates relief is small and makes little difference to business viability

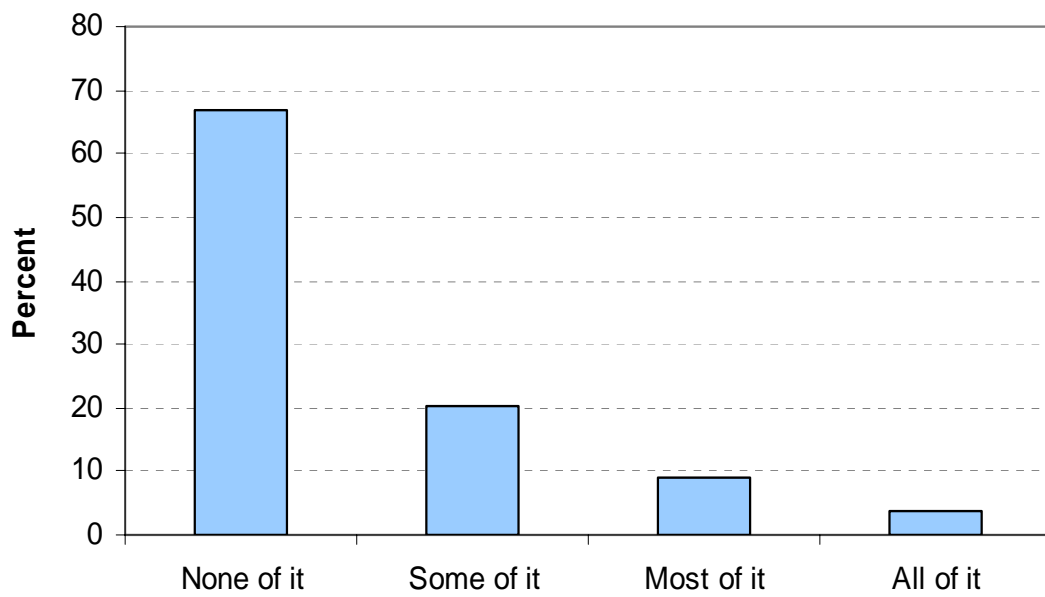


5.6 Amount of rates relief absorbed by increased rental charges

There was some discussion in the literature review about the amount of rates relief received by SMEs that was absorbed by increased charges from landlords. The questionnaire asked SME owners with rented property how much of their rates relief they believed was taken by the landlords in extra rental charges (Figure 9).

The response from these 132 businesses would suggest that this practice does not affect the majority of SMEs (66.7% thought none of the NDRR was absorbed by increased rental charges). However 20 per cent of those responding did think some of the rates relief was taken up in increased rental charges and 12.9 per cent believed that most or all of their rates relief went in increased rental charges.

Figure 9: What proportion of rates relief do you think is absorbed in higher rent charges to your business?



6 Interviews with businesses in receipt of Rates Relief

6.1 Interviews with Small Businesses

6.1.1 Interviewees were selected on the basis of their answers to questions 14, 17, 18 and 19 in the questionnaire. The comments (Qs. 17-19) of those who had replied that the receipt of rates relief had been either significant or very significant to their remaining in business over the last 12 months (Q.14), were read. If it was felt that they might have an interesting story to tell about what rate relief meant to them and they had also agreed to being called for interview, then they were a possible candidate for interview. A final criterion was the sector in which they operate as the desire was to select at least one from each of the seven sectors: Post Office; Personal Services; Retail and wholesale; Accommodation and catering; Manufacturing, storage and distribution; Professional and financial services; and Others. In a minority of cases (2), the interviewees had answered that the rate relief received had not been significant in their decision to stay in business in the last 12 months but nevertheless, rate relief was important to them. We wished to investigate further why this might be.

6.1.2 We felt that those businesses contacted provide good case studies of how important rate relief can be for some, if not most, small businesses and it is hoped that the following cameos convey a flavour of life on the ground – a more tangible picture than the statistical analysis can convey. 14 of the 15 are reported here, the other one being repetitious of the points already made.

6.2 Post Offices which also provide a caring service

6.2.1 Two post offices were chosen for interview, one with a general store attached, but both in receipt of 100% rate relief.

6.2.2 The first was in a small seaside town in North Wales and employed two full time, four part-time and two casual staff. The sub post-master had replied that the rate relief had enabled him to employ an additional member of staff in

the last 12 months. He was able to specifically ring fence the amount of relief received knowing that 'it allows me flexibility with staff.'

6.2.3 However, there were a number of causes of Post Office revenue going down. Firstly, bill payments had changed dramatically over time and there were other competitors in the market place. Mail volume had dramatically reduced over time and there were private sector carriers dropping returns instead of Royal Mail. There were internet services including the buying of currency on-line, which was cheaper than purchasing it from the Post Office. This decline in revenue meant that his net profit was also in decline and so although rates were only a small percentage of his total costs or total turnover, as a percentage of his profit, they were huge.

'Last year, we made a net profit of £8,000 – if a rates bill of £4,000 were paid, that would mean we would only be making £4,000, a cut of 50 per cent. I might as well pack it in for that!'

6.2.4 Hence, the removal of such relief would cause him to look at the viability of things and therefore cut back on staff.

6.2.5 He felt that the support given by rate relief was absolutely crucial and a signal that the 'Welsh Assembly Government recognise the crucial role of Post Offices in the community.'

6.2.6 As an example of the latter, he said that the old sorting office at the back of the building had been developed by the church for use by the community to provide free cups of tea and coffee as an opportunity for people to meet and that about 30 people per week used this facility. When asked whether he thought that rate relief encouraged him to use his business and resources to support the community, he replied 'Absolutely!' Another aspect of his job that was of social value was the fact that he would visit customers who might be vulnerable – the elderly if sick and unable to leave their homes – and if need be, sort out their pension payment for them. None of these activities, however,

would be affected by any loss of rate relief because ‘You don’t do it for financial gain, you do it to support your community.’

6.2.7 The proprietor of the second post office and corner store which was in a village near to another seaside town in North Wales had also remarked that the receipt of relief had affected his recent business decisions in that it had released funds for him to pay other expenses. He stated that

‘rate relief is a relatively insignificant amount financially when considered in isolation but everything you save is all to the greater good and every little helps.’

6.2.8 When he initially heard a few years ago, when post offices were closing down, that Post Offices were going to receive 100 per cent rate relief, he thought

‘Wow, fantastic! and it was great news at the time.’

6.2.9 This is because

‘a business such as mine operates on very low margins and cash flow is paramount. One less business expense to worry about gives real meaning to the word “relief”.

He sees his shop as important for the local community due to it being the only one for 1.25 miles ‘and a catchment for elderly folk.’ However, because he **does** get full relief, he doesn’t have to save a given amount to pay for rates, unlike for example, taxes and so, the relief isn’t actually ring-fenced for any particular purpose. It was also clear that the removal of relief would not stop him from doing any of his current activities – that although of a social or community nature and unpaid, they were part of his ethos for living. These included the home delivery of goods for OAPs and the provision of raffle prizes at two local nursing homes. He also provides a small amount of

revenue to the local football club through the placement of an advert in their programme.

6.3 A business providing valuable work experience

6.3.1 From the Personal Services sector, we chose to interview the owner of a Hairdressers and beauty salon located in a small town in South Wales. She currently employs three full time, two part-time and one casual members of staff. She felt that the rate 'relief had been a tremendous help, especially with the "credit crunch".' Although the money just went into the general business pot, she stated that its receipt had affected her business decisions in the last 12 months, during which time she had done improvements to the salon, had another job opening and increased the training given to school pupils. She finds the relief financially important and is appreciative of the fact that it is given to small businesses since, in the ten years of trading, she has gone 'from being self-employed to employing five people.'

6.3.2 If removed, she stated that:

'It might be that the staff hours would be cut, as all the bills going out have to be cut somehow.' She said that she couldn't fund the business by any other means being 'up to the hilt on her overdraft anyway, loans and mortgage.'

6.3.3 The lady felt that her business offered a service for the community as it was:

'very important for them to come out and have their hair done. There are not many businesses here, so we help others by being here – the knock-on effect of people visiting other shops in town when they get their hair done. Lots of shops have closed due to the recession.'

6.3.4 She had noted that a lot of people were cutting back on their expenditure, for example, whereas they would have been having a cut and

blow dry, they were now asking for a dry cut instead. She had commented on her questionnaire that she 'would like to see more support and funding for small businesses as I believe it could make the difference of staying in business or not during this financial climate.' Certainly, the social provision of services to the community by her business appeared to be great. These consisted of students from the local college coming in once a week to gain work experience and similarly, school pupils. Pupils from another school were able to gain an NVQ 1 from them. The business also provided all of the teas and coffees free of charge for the annual Macmillan Cancer Trust coffee morning.

6.3.5 Her particular grievance with the rate relief system was that

'I have had to pay 50 per cent of council rates to my empty flat above my salon. I had been unable to rent this out as there was an improvement notice on it by the Council prior to my purchase. I was unable to do the work as [I] didn't have the funds.'

6.4 Rural High Street businesses

6.4.1 Three businesses in the Retail sector were chosen, all of them with premises on the high street.

6.4.2 The first was a shop selling carpets, vinyl floor covering, fancy goods, bedding, curtains etc. in a village in the South Wales valleys which has been trading for nearly 30 years and employs one full time and one part-time member of staff. The receipt of rate relief was very important to this business and without it, they would surely close.

'It's that bad that we just need the money, it's not insignificant to us.'

6.4.3 When the level of relief that they received fell from 50 per cent to 25 per cent last year just based on the size of the property, and not on their audited takings, they nearly closed. With the recession and inability to stay in the

black, the father, who is now passing the business to his son, has suggested that he close it if

‘he cannot make a go of it by Christmas.’

6.4.4 He said that:

‘The loss of takings are due to the general decline in this area, nothing else – not the competition because the big carpet stores over 5 miles away, they can always outcompete on price. This area is very depressed, people are taking the minimum wage if they can even get a job and they will be stuck on that for ever. The two public houses have closed, the British Legion club and shops have gone.’

He had felt unable to answer question 10 on the questionnaire which asked about the percentage of turnover accounted for by rates because takings had been dropping year on year.

6.4.5 He views rate relief as essential to keeping small businesses open that benefit the community and contests that rate relief should be based on that benefit rather than on the rateable value of the property. His argument is two-fold. Firstly, he has the largest business property in the town (four times the average size) and although taking similar monies to other businesses, they are still receiving 50 per cent rate relief. Secondly, he argues that:

‘Our own shop helps people pay weekly for essentials for the home which they could not otherwise afford – a lot of OAPs and young people who get married who pay on credit – credit that has been built up for 30 years with the family. We also do a lot of home visits to OAP’s, disabled etc. but none of this is taken into consideration. In today’s age, we would consider our shop more essential to the community than the Post Office who receive 100 per cent relief.’

When asked whether the receipt of rate relief encourages him to use his business and resources to support the community, he replied:

‘There’s not a lot going on round here at the moment. The fishing clubs are closing down. There’s only one now not five angling associations in the area.’

So, their fishing tackle business has gone because of sales going down and they used to give prizes and he used to give lectures on fishing at the school. He also commented:

‘The wife used to go round to measure up curtains for OAPs and carpets for which there was no charge but she has had to stop that as there isn’t the demand.’

6.4.6 The second business was a village pharmacy/ newsagent in rural mid-Wales. The shop employs five full time and one part-time member of staff and has been trading since 1995. Although they had stated that the receipt of rate relief had not been a significant factor to their remaining in business over the last twelve months, the proprietor felt that it may be more important in the next twelve because the recession was just hitting them now. He outlined, as follows, a general if not particular case for why pharmacies should receive support:

‘Several pieces of research (including some conducted on behalf of government) identify 3 core businesses required to sustain or grow small business communities. These are a source of money (Post Office), a GP surgery and a pharmacy. Post offices are exempt, GP surgeries have their rates paid for them. This practice was in receipt of discretionary rate relief based on that scenario, but the discontinuation of discretionary rate relief replaced with SBR @ 25 per cent has made this situation worse for a business with high costs.’

In the interview, he added:

‘When there was more of a discretionary basis for councils to give rate relief, they were able to give 100 per cent to his pharmacy. It had been triggered by an oil leak off the coast of Pembrokeshire and a desire to help those businesses that contributed to tourism.’

Now, the rate relief was viewed to be so small that it just went into the business mix whereas when

‘it was a significant amount, it would allow development in the pharmacy services area (as opposed to the newsagents side of the business).’

6.4.7 He thought that the giving of a significant amount of rate relief would be a signal that the local authorities were providing support in the health care division and were working with the NHS to see what provision were necessary. He also thought that relief encouraged him to use his business and resources to support the community:

‘Some things are paid for by the NHS, yet we don’t receive great demand for, and they require a lot of training e.g. drugs rehabilitation services and emergency home contraception services.’

6.4.8 At the moment, he is keeping the provision of these services under review as they are marginal in terms of revenue versus cost of provision. It would obviously be good if they could keep offering these services as if they were to stop, the nearest pharmacy that people would have to go to for drug rehabilitation services is about 10 miles away (and they too may be contemplating withdrawing the service). Other activities of a social nature that he does but which are threatened by the financial situation are:

- a) he has spent a lot of time on NHS and professional bodies to try and improve health services. He has had to cut back on this activity partly due to finances and
- b) he supports charities both nationally and locally with cash and gifts. He has clawed back on these, and they would be reviewed further if there were to be any reduction in rate relief. For example, he still gives to the cancer and children's charities but unfortunately, has had to stop his donation to the British Legion.

6.4.9 The third interview was with the owner of a shop which sells army surplus. It is located in a small market town in Mid Wales and employs four full time and two part-time workers. The receipt of rate relief is very important to him, even more so now in the recession. He uses it to keep his ticket prices down and to keep as small a margin as possible. He explained:

'Rural businesses just don't have the foot traffic that cities have and because you know you've got to have loyal customers, you have to rely on local support so if you can turn any saving into a reduction in ticket price, you've got a better chance of keeping their custom – it's all down to trying to stay competitive. There are lots of pressures from different angles and rate relief allows a cushion against them. If rate relief went, it would just mean higher prices. Given the downward trend in incomes, even a VAT increase will mean a reduction in income as you try to keep the same prices as you have got to compete with the larger shops.'

He resents the fact that the large retailers like Tesco which can expand into areas other than food have been allowed by local authorities to set up in small rural towns. He feels that rural businesses need all the help that they can get and that the relief can make the difference between employing somebody or not.

6.4.10 In addition, in the questionnaire, he commented that rate relief

‘means that I can offer better prices and value to my customer, thus hopefully remain profitable and provide essential employment to local people who have little option of gaining “professional” employment.’

He said that ‘I would like to expand the current premises but I’m concerned that the extra rates for the increased area would make it not viable.’

6.4.11 He finds that the rate relief is a very significant amount to him financially but as a means of support from the Welsh Assembly Government, his criticism of it is that:

‘It is a half-hearted support ie. in order to sustain local communities, they need to commit to it e.g. for a period of three years which would allow businesses to plan investment in premises etc. You always get the feeling that it is not real support as it can be taken away at any moment.’

He also thinks that rate relief encourages a business to support the community – a partnership relationship. He supports local charities and events either through giving free products for raffle prizes or sponsorship. There is also an area in his shop where people can post adverts free of charge. Their opening times are also of service to the community and appreciated as they are only closed for four days in the year.

6.5 High business costs make it hard for small businesses to expand

6.5.1 From the Manufacturing and Construction sector, we interviewed two firms, both of which were on city trading estates in South Wales.

6.5.2 The first was a construction firm, a shopfitter, employing 23 full time and one part-time member of staff. It has been in business since 1984. The owner had stated that the receipt of rate relief had been of importance in their remaining in business over the last 12 months as it had helped in their

maintenance of staff levels and limited trading losses. He explained further its importance:

‘Under the economic crisis that we find ourselves in, rate relief is absolutely vital for a small business because the fewer workers that you employ, they need to do several things rather than specialise, as in a bigger business. So one cannot quote as aggressively against a larger company. With rate relief, £/cost average falls and therefore the competitiveness of those prices that one markets at increases. We are in a country of high wage requirements, but manufacturing is needed in this country and it is environmentally better than importing. They are a Green Dragon business and hence care a lot about the environment. Support is needed to achieve this.’

He feels that

‘overall business costs required by the public purse whether it be rates, employment costs, VAT collection, NI collection, planning, health and safety, ISO, tax, pensions etc have now reached a horrific cost in money or people cost to administer. These total costs DO NOT DEVELOP a business only HINDER IT. No business misuses the savings (from rate relief), it is used to take the business forward as no business aims to go backwards and that means invest in infrastructure, people, machinery, marketing.’

6.5.3 He said that the business had been running at a loss for the last eight months and that if rate relief were to go, it would mean the loss of a job. They were trying to keep the number of workers intact so that in a recovery, they would not have lost any of the expertise and experience to be able to enjoy the recovery.

‘People and training (ISO, IPP) would take a knock – so it is absolutely vital to have it (rate relief) and also to stave off the knock-on effects for the families of those workers.’

When asked whether he thought that the relief encouraged him to use his business and resources to support the community, he replied that it helped him to secure jobs and therefore also support their families. As for other works of a social nature, he just doesn't have the time. His efforts have to be concentrated totally on his business. He added that he would love to devote his time to charity work but that he would see this as being abroad where the need is far greater.

6.5.4 The second was a manufacturer of organic pies and pasties, in business since 2007 and employing 2 full time and 2 part-time workers. He stated that:

'rate relief is enormously important to a small, young growing business. It has already allowed us to take additional space which we would not have been able to afford without it. It changes the business case for expanding premises – reduces the risk of expansion.'

He went on to say in the interview:

'It's very expensive to set up in business nowadays especially in food because of health and safety and we use a huge amount of electricity and water. As we're in the organic food sector, it's good for the business to expand. When another unit on the estate became available and when deciding whether to go for additional space, you look at the minimum fixed cost and with the rates being lower due to the rate relief, it allowed us to take it on.'

Had the relief not been available, he was not sure that they would have gone ahead with the second unit but would have waited until they were at bursting point.

6.5.5 On the topic of rate relief as a visible measure of support to small businesses from the Welsh Assembly Government, he commented:

'I have invested an enormous amount in this business and unlike people in corporate jobs and the public sector, a lot of small business people are scratching around for a few hundred pounds per month. We should be subsidising entrepreneurs if we want Britain to have an entrepreneurial spirit ie. if we had 100,000 firms employing four people, that would take a lot of people off the dole.'

He feels that:

'the UK is set up for everyone to work in Tesco's or large corporate firms or the public sector'

and in addition, resents the fact that one has to pay the NICs of unskilled people when they should be **rewarded** by 10 per cent if they are to employ such people.

6.5.6 He didn't think that rate relief acted in a conscious way to make him use his business or resources to help the community. However, he said:

'indirectly, it might because we took on the other unit and we used a local guy to fit it out and obviously there is a local multiplier effect if we expand. We buy local beef and packaging, so if we grow, there is a knock-on effect for them.'

He doesn't have the time to do anything of a social nature in the community because:

'it is more than a full time job just to keep the business going – to take on more people would not be viable – but he works 70-90 hours per week, so it is enormously draining with no time other than to eat and sleep. I would like to do something related to our business like teaching children at school how to eat healthily – it would be business focused unless he were a millionaire!'

6.6 Leisure business regards rate relief as a lifeline

6.6.1 From the “Other” category of firms, those that were not assigned to any of the other clearly defined sectors, we chose to interview the manager of a ten-pin bowling alley. His business is located in a town in Mid-Wales and employs four full time, six part-time and one casual worker. He regards rates relief as essential to his profitability and stated that its receipt had been a very significant factor in his remaining in business over the last twelve months. He feels strongly that:

‘remote rural communities need this support to attract businesses like ours (ten pin bowling place) where they had to travel 50+ miles before. Local police and the community appreciate this facility as this provides youngsters something to do. In a big city, numbers are high, so they can keep the price low. For us we need support to keep the price low enough to allow people to use it.’

‘It’s just a lifeline really, it’s a nice place to live and you need an evening activity for a 14 year old kid. It’s something that the Welsh Assembly **would have to** consider doing. If you didn’t get it (the relief), you’d have to think of what else you could do.’

When asked whether he thought that the relief encouraged him to use his business and resources to support the community, he replied:

‘Yes definitely, especially in this isolated community. We organise competitions (free of charge) in the schools on a morning.’

The schools also use their 10 pin bowling coupons (offer of free games) to encourage book reading.

6.7 If rate relief were to be reduced, voluntary work would not suffer but training would be cut back

6.7.1 Whilst the majority of businesses from the Professional Services sector who had responded to our questionnaire, stated that rate relief was not of great significance to them, the Director of an employment agency in a seaside town in North Wales begged to differ. She stated that the receipt of rates relief meant the following:

‘Being able to keep office costs down, particularly during a recession has enabled us to keep our staff in full employment.’ Rate relief ‘allows us to channel the money into staff resources and improved IT equipment and communications so that we can deliver our services promptly and efficiently to our clients.’

In interview, she added:

‘Obviously we need to keep our costs down as much as possible and we have competition from national agencies. We have to try and maintain quality of service. Quality of service means a fast response to clients’ requests, providing a personalised, customised service, ability to sort out problems very quickly. Rate relief is a factor in our office overheads cost and comes into the pricing of the hire of temporary staff e.g. if firms are trying to get discounts on the cost of hiring, then we can provide this given that we’ve got some rate relief.’

If rate relief were to be taken away,

‘We would have to look at our other costs even though we have cut these as much as possible. We would probably cut back on training and advertising costs but we have low budgets already. We supply the public sector with temps, so we will face cuts there too in the future.’

She said that they had inaugurated a pay freeze for employees this year.

6.7.2 Her grievance with the rate relief system is that she believes that the rate evaluation for her business has been set according to:

‘the general RV for the High Street but we don’t have a High St entrance and we are on the first and second floors of the building so don’t get passing trade. This doesn’t provide a level playing field. High rates have prevented us from moving from first floor offices (with a back street entrance) to ground floor premises on the High Street.’

6.7.3 With regard to business support in general, she thought that rate relief was a good scheme because at least the Council had a comprehensive list of businesses whereas if support were delivered through some other scheme, some businesses might lose out. Her view was that:

‘If you give a small business some monetary incentive, what they are saving they will definitely use for other things like a new printer, photocopier etc that increases the work flow and increases the quality of service to customers.’

With regard to voluntary work that she does for the community, she has been a voluntary director of the local business network for the past 5 years and a trustee for a company that provides training for people with learning disabilities. She has been doing this on a voluntary basis for 19 years. She couldn’t envisage either activity suffering if rate relief were to be reduced.

6.8 If the business closed, there would be loss of trade for other local businesses

6.8.1 The owners of two businesses were selected for interview from the Accommodation sector.

6.8.2 The first was the owner of a holiday cottage in a rural area of South Wales. They employ two part-time and two casual workers and set up

the business in 2005. The receipt of rate relief had been a significant factor in their remaining in business over the last 12 months and they stated that:

‘it makes a marginally profitable tourist business viable. All businesses in my sector are small and will qualify for rate relief, therefore it does not affect the competitive landscape locally to Wales. It does, however, help in competing with low-cost overseas destinations such as Greece and Spain.’

In interview, he added:

‘Financially speaking, it’s questionable whether it is a profitable business. The national agency through which we operate takes a significant cut and once you take the income and time costs into account, it’s difficult to justify the business case.’

6.8.3 If rate relief were to be significantly reduced, he said that he would revert to incorporating the holiday cottage into the rest of their house because the change would only increase their domestic rate bill by one band which would work out cheaper than having two lots of rates to pay. When their rateable value increased recently by 30 per cent overnight (for no apparent reason) and there was no transitional relief, that made them seriously consider whether they should continue with the business. As it stands, the receipt of rate relief:

‘allows us to upgrade the property and keep it as a 4* property. E.g. we put in a fridge-freezer this year and fitted a power shower last year. If the relief were reduced, the economics of keeping it 4* instead of a 3* would not mean it got much more rental but would cost less to maintain as such. We could replace the wide screen plasma TV with a bog standard TV and DVD player if only 3*.’

He added that the psychological effect of receiving rate relief had been over-ridden to some extent by the negative effects of revaluation.

6.8.4 When asked whether rate relief encourages them to use their business or resources to support the community, he replied:

‘No, the business simply does not make sufficient money to enable you to do that. There is nothing that we purchase locally – all our products for the cottage are sourced elsewhere. However, we do get a reasonable number of rentals from wedding guests of local people and that would disappear if we had to close. The people who stay, shop in the local grocery store, use the garage and pub and go to local events and attractions, so that would be the knock-on effect if we closed.’

6.8.5 The second business was a Bed and Breakfast in a seaside town in North Wales. They employ two full time and two casual workers and set up the business in 2005. The role they saw that rate relief played was as follows:

‘Since we bought the business in 2005, we have not been able to achieve profitability, we have now upgraded it through investment and it now needs to become profitable to survive. Rate relief is a significant part in helping achieve this. Though rate relief may be small compared to overall costs, every little bit counts for a small business and therefore is very important.’

He said that they don't ring fence the relief. If the relief were reduced, they would have to cut back on their expenditure, the first things being the “extras” provided to the B&B visitors e.g. welcome chocolates, extra strawberries for breakfast, the soaps would be downgraded in quality. When asked what kind of gesture he felt that rate relief was from the

Welsh Assembly Government, he replied: 'It's a way to help small businesses and start-ups in hard times.'

6.8.6 When asked whether he thought that the relief encouraged him to use his business and resources to support the community, he replied:

'It does to a certain extent because we do try and buy local – meat, bacon, local to Anglesey and we could buy cheaper in Tesco's if need be.'

Other things that they do to support the community included sponsoring some of the school's prizes and raffles. They pay for an advertisement in the local events programmes which gives them financial support.

6.9 Business survival in the valleys of Wales

6.9.1 The owner of a tearoom/internet café was selected for interview from the Catering sector. She is self-employed and opened her shop in 2007. It is located in an ex-mining village in one of the valleys of South Wales. She said that

'There used to be a lot of shops – now there's only a handful left which the local people are reliant on. The business rate relief is vital because the population is still here but the income isn't. There are empty houses here already – people need work. The shop income isn't very much as the people are not wealthy.'

6.9.2 She emphasised the fact that the receipt of rate relief

'helped the business to survive. The rate relief has been a relief especially during the UK's difficult financial times. If I had to pay the full amount, I probably would have lost the business.'

6.9.3 She went on to add that without rate relief

‘there would be no businesses here and the people would be without facilities. A lot of people don’t have cars and in the snow this Winter, just couldn’t get their goods for survival.’

6.9.4 She said that she wasn’t earning much more than income support but that she was keeping the shop going because the community needed it. She gave examples of things that she did in her business that were of benefit to the community:

- she provided an internet facility
- instead of passing through the town or sitting alone in their cars, a lot of trades people would stop at her café
- she acted as a “counsellor” on a daily basis as people came in
- people could leave things with her for others to collect
- groups and charities could leave their leaflets and display posters in the café.
- These benefits would be lost if her business did not survive.

6.10 Rates relief is ring-fenced for repairs, maintenance and improvements

6.10.1 The owner of a public house situated on the edge of an area of outstanding beauty in Mid-South Wales was interviewed. He had also taken the time to write a long letter in answer to our questionnaire. The couple had acquired the 18th century pub in 2005 and employed two full time and five part-time staff.

6.10.2 They said that the receipt of rate relief had been significant to them in the last 12 months because it had allowed them to carry out improvements

‘rate relief has been ring-fenced for repairing the roof. It all helps because it helps the business to improve, it makes it look a lot tidier especially for tourists coming in. £2,000 is a lot of money if you can put it back into the building and do it yourself.’

6.10.3 He said that if he had no rate relief ‘maintenance would be straight out the window and improvements’ and that therefore he might have to close because it would be unsafe without the improvements that he had made to the pub as an electrical engineer and builder. He added that if rate relief were reduced ‘it would affect the number of staff we employ and what we offer in terms of entertainment.’ After 20 per cent VAT is introduced, he is not sure that they will still be in business.

6.10.4 As far as benefitting the community, he said that

‘we’ve helped the local hospital, raising money via raffles for cancer. Every week, we have a pot for donations which is then emptied.’

Last year, they raised £1,000 for the local community hospital, paying for a large screen TV and electric fans.

6.11 Summary of business interviews

6.11.1 The majority of the businesses interviewed were finding it difficult to remain in the black given the recession. Even if not financially a large amount,

rate relief was a very welcome contribution to reducing their expenditures which were in most cases already being cut back in other areas so as to keep the business going.

6.11.2 Rate relief was generally not ring fenced for any particular purpose either because it was a relatively small amount or because businesses were struggling to remain in business and hence, it went into the 'general business pot.'

6.11.3 Many small businesses thought that the giving of rate relief was an essential lifeline to small rural communities so that businesses and the population might be sustained.

6.11.4 There was mixed opinion on whether rate relief encouraged the use of people's businesses or resources to support the community. Some felt that their very presence as a business was a support to the community given the knock-on effects of their employing workers or buying local products or providing customers on that particular day for other High Street shops that people might visit on 'their morning in town.' Others however, stressed that they did not have the time to devote themselves to anything of a social or charitable nature given that their business took up all their available energies.

6.11.5 There were many examples of the owners of these businesses doing works of a voluntary, charitable and social nature. These included such things as giving goods for raffles at local schools and events, sponsoring school prizes and local events, delivering goods free-of-charge to the homes of the infirm, providing free teas and coffees as a chance for people to meet socially.

6.11.6 When questioned whether activities of a social or voluntary nature would be cut back if rate relief were reduced, most respondents said that they wouldn't – they were too much a part of their own ethos, but a few did say that they had already had to cut back on donations given the financial constraints they were under.

7 Focus group with stakeholders involved with Business Rates Relief

7.1 Attendees of focus group

7.1.1 Twelve of the thirteen organisations approached to attend the focus groups expressed an interest in participating in the research demonstrating the continuing significance of the Welsh Small Business Rates Relief scheme. The pressure of prior commitments and unforeseen circumstances resulted in a focus group of seven. The organisations that were unable to attend did contribute to the research at the stakeholder interview stage of this research.

7.1.2 Several of these business support groups run on very tight staff resources so the research team gratefully acknowledge the time commitment they made to this research.

Attendees

Jan Alexander: Institute of Revenues Rating and Valuation (IRRV)

Nia Davies: Federation of Small Businesses (FSB)

Adrian Grearson-Walker: Wales Tourism Alliance (WTA)

Frank Hurley: National Federation of Retail Newsagents (NFRN)

Keith Richards: National Federation of Sub Postmasters (NFSP)

John Rowlands: National Federation of Retail Newsagents (NFRN)

Ed Woodall: Association of Convenience Stores (ACS)

Keith Jackson: University of Cumbria

Dr. Simon Parry: University of Cumbria

Apologies due to unforeseen circumstances

Martyn Evans: South Wales Chamber of Commerce

Other Commitments

Jim Cathcart: British Beer and Pub Association (BBPA)

Ben Cottam: Association of Chartered Certified Accountants (ACCA)

Abbie Shelton: Association of British Credit Unions (ABCU)

Miles Vaughan: British Institute of Inn Keeping (BII)

Businesses represented at the focus groups

7.1.3 The organisations at the focus groups represented all sizes of business from the micro to SME (FSB/NFRN/NFSP/ACS and WTA) and the SME to the larger organisations (ACS and WTA).

7.1.4 The specific sectors relating to the SBRRS included post offices (NFSP) retail stores (ACS and NFRN); tourism businesses (WTA); the small business sector in general (FSB) and those responsible for the rateable valuations.

7.1.5 The groups' activities relating to regulations and regulators ranged from:

- interpreting regulations and offering advice to members
- offering advice to members and some limited lobbying on specific issues affecting their membership
- lobbying on regulatory issues that have direct effect on their general membership
- commissioning and participating in national research linked to the regulatory needs of the membership and been directly consulted by government prior to new regulatory initiatives
- providing professional support for valuation officers.

7.1.6 A general summary of the findings from the research so far was presented. This included findings:

- from the literature that all business support schemes have to be equitable, practical and accessible
- from discussions from the four UK countries that all the rates relief schemes have slightly different mechanisms because they were set up at different times to meet different business conditions

- from interviews with business stakeholders that:
 - there is general support for the current Welsh scheme
 - the current economic downturn is making rates relief more significant to business
 - rates relief is a mechanism of support for marginal businesses or businesses in marginal areas
 - rates relief can generate unintended consequences as it is based on property not business
 - more is needed to be done to make recipients more aware of the benefits they are receiving.

7.1.7 A general summary of the telephone interviews with the sample of businesses that had answered the questionnaire was also offered:

- trading is difficult
- most are making no profit or are in the red
- they continue to employ staff where they can
- staying open is their biggest contribution to community (they are now working 70-90 hours per week)
- some have considered closing at the end of the year
- a cut in relief would not be seen as fair
- The Welsh Assembly Government does and should support SMEs
- it's part of their psyche to support local communities.

7.1.8 The group accepted that the summary of the findings represented a fair picture of the general issues affecting SMEs and the impact of SBRRS. There was some discussion on the combined impact of the economic downturn, the recent rates revaluation and the encroachment of multiple businesses on the SME sector in Wales. It was also obvious that the group regarded SBRRS as part of a package of support that the Welsh Assembly Government currently offered to Welsh SMEs.

7.1.9 The group was also shown the postal questionnaire and the rest of the meeting was focused on five key issues raised by this questionnaire:

- what businesses use rates relief for
- the awareness of the rates relief scheme
- whether rates relief should be targeted at specific sectors
- whether rates relief should be targeted at specific sizes of business
- whether tax relief should be given automatically.

7.2 What businesses use rates relief for

7.2.1 The initial response from the group was that rates relief was generally used to maintain staffing levels, with the squeeze on business from the economic climate and the increasing encroachment of multiples into the Welsh market place, rates relief was now part of the factors that were keeping SMEs afloat.

7.2.2 It was generally agreed that it is difficult to identify exactly what rates relief is used for in individual SMEs. This is because SMEs view the relief in two distinct ways. If the recipient sees the relief as a monthly reduction in their rates bill, then they only see 1/10 of the reduction paid equally over 10 months. So this could be seen as helping cash flow and used to support running costs such as wages. If the recipient sees the relief as directly increasing their 'bottom line' in their end of year accounts then they could see the whole amount as available for investment in the future, so it could be used to help invest in new fixtures and fittings or the repair and upkeep of equipment such as IT or other business assets.

7.2.3 The group accepted that the findings from the postal questionnaire generally reflected what SMEs would use rates relief for.

7.3 Awareness of levels of rates relief received

7.3.1 The group was shown several charts and quotes from the analysis of the questionnaire that highlighted that around 30 per cent of SMEs in receipt

of SBRRS were unaware of the amount of SBRRS they were receiving. In the discussion that followed, the group agreed that there is a poor awareness of business on the receipt of rates relief; on the percentage of rates relief received; that the Welsh Assembly Government are spending money delivering it and that the relief arrives after representations from business groups.

7.3.2 It was decided that this problem was created because businesses don't read their rates demands which by law should highlight everything the business can claim. It was accepted that some of these demand bills are poorly designed (not Wales) but equally that business is just interested in the bottom line (the figure that they have to pay) and that they don't always read the fine print above this figure.

7.3.3 The group strongly agreed that there needs to be more clarity on the rates demands especially because £20 million is spent by the Welsh Assembly Government is providing the SBRRS.

7.3.4 This apathy of business could be explained 'because rates relief is given automatically it is not valued as much.' The group all agreed that the benefit of SBRRS had to be communicated more effectively to the Welsh SMEs, possible solutions being:

- a standard letter including the message...'Because of the Welsh Assembly Government you have actually got...'
- the letter should be published in part with the various trade bodies
- this letter would be part of the communication process that could highlight the rates relief is part of a 'negotiation with industry'
- the communications should carry the message 'In the public interest to support small business in the area'

7.3.5 The business support groups within the focus group were keen to work with the Welsh Assembly Government in order to get the message out:

'I think that there's got to be some acknowledgement that the representative bodies have been involved in the negotiations, because not everybody knows where that business rates [relief] comes from and they just think it's an automatic thing, handed down by the Assembly Government.'

7.3.6 The group felt that if this communication were made via trade/professional bodies and worded properly it would:

- make small business more aware of rates relief
- provide clear information
- show that business representative bodies were actively involved in negotiations
- show that local authorities are having a dialogue with business
- allow clear communications which would mean that the Welsh Assembly Government could let business know what they are not getting (permanent rates relief as opposed to a temporary measure to support small business in times of need) and to keep business informed of what could happen.

7.4 Targeting by type

7.4.1 The group discussed the acceptability of targeting certain sectors for extra rates relief. It was noted that other sectors apart from the post offices do get support via the mechanisms in place from the Welsh Assembly Government. The group agreed that this reflects the Welsh Assembly Government's planning policies and suggested that the Welsh Assembly Government needs to continue its 'health checks' on industries in specific geographical areas in order to develop a core business support strategy; the group did not suggest a return to geographically targeted rates relief schemes.

7.4.2 Part of this extended discussion which demonstrates how rates relief is seen as part of a much broader public sector support mechanism for SMEs mentioned a private members bill looking at retaining local business property for specific services and the Welsh Retail Strategy which is looking to identify which businesses need to survive.

7.5.3 It was agreed that post offices are essential and that the post office support needs to stay.

‘The post office brings the old people in then they use the convenience store, they use the butchers, they use the village. Without the post office the village will die.’

It was felt that we have come to the end of government closures of post offices and that we need to maintain what’s left and that rates relief is part of the support.

7.4.4 At the end of this discussion it was accepted that each trade association tends to fight for its own membership. There is a real difficulty reaching a definition of an ‘essential service’ and it should be recognised that if an area hasn’t got the other services it cannot support ‘essential services’ (the cluster of other businesses support the essential service businesses in a mutual support circle). There was however a general acceptance that the Post Office was a special case.

7.5 Business targeting by size

7.5.1 The group then went on to discuss whether certain sizes of business should be targeted with extra relief. To help with the discussion they were shown results from the postal questionnaire that indicated that rates were a higher percentage of costs for the very small businesses (0-1 and 2-5 employees).

7.5.2 This led to the question of whether small businesses were less successful businesses:

‘By targeting the smaller business are you targeting the less successful businesses because of the way they operate?’

Or small representing start ups:

‘Is it new start-ups we want to encourage?’

7.5.3 The equitability of supporting businesses as they start up was discussed at length. The difficulty in creating a practical solution which would probably have to be based on a combination of turnover, profit and age of business was acknowledged and again the group came to the general conclusion that the current Welsh system was probably the most practical solution to an equitable rates relief system for smaller businesses.

7.5.4 The idea of increasing the accessibility of rates relief to those slightly above the threshold by introducing a 10 per cent relief band at a higher threshold was dismissed:

‘We’ve discussed this [10 per cent band] with our members. Although it would be nice to have a 10 per cent band, it wouldn’t make any difference to the running of the company. It’s too small to have an impact.’

7.5.5 Again to try and alleviate the impact of rates revaluation the idea of tapered relief banding was also discussed but it was thought that the expense of this more complicated system might reduce the overall amount available for rates relief:

‘The more it costs to run, the less there is in the pot to give out to businesses. So we are looking at the cheapest option which is the best fit.’

There was also some belief that a tapered system would appear overly complicated:

'England has a taper system and it's just more complication. You're making it harder and harder each time.'

7.5.6 The general agreement of the group was that the Welsh Assembly Government with their current banding was distributing the rates relief across business sizes as equitably as was practical.

7.6 Automatic Entitlement

7.6.1 The group acknowledged the benefit of an 'automatic system' and whole heartedly were in favour of 'keeping the system simple.'

7.6.2 There was acknowledgement that a fully automatic system would be an administrative burden because recipients of SBRRS must only have one property which leads to the problem of how you prosecute people for incorrectly claiming relief.

7.6.3 It was felt that a return to a non-automatic scheme could lead to less SMEs who were entitled to SBRRS claiming it:

'If they had to apply then there's a lot of them that won't. They don't even understand it when they do read it.'

7.6.4 One of the major problems with an 'automatic' system was the lack of value placed on the relief as illustrated in the overall business awareness of the scheme. This took the group back to focusing on how the benefits and details of the scheme could be communicated to the business community.

7.7 Other Issues Raised

7.7.1 What do businesses get for rates?

7.7.1.1 Discussing rates relief with businesses inevitably leads them to question what they get for the rates they pay:

‘Businesses don’t mind paying rates, as long as it is affordable to them. The problem is that they don’t actually know what they get for the rates. Because if for example you get a council tax bill, you know x amount is going to the police, you know it’s going to local services. Where the system is at the moment it’s all going to Cardiff and it’s being redistributed around Wales. Businesses basically don’t see what they get for their money. There’s no link between what they pay and what they see in services.’

7.7.2 The economy and the encroachment of multiples into the Welsh Market Place

7.7.2.1 Reflecting on the economic and market influences on Welsh SMEs’ attitudes to the NDRR scheme, there was concern from the group that they were not only suffering from the economic downturn they were also experiencing a large influx into their market from multiple organisations. Specifically with reference to TESCO in the retail sector and discount hotel chains in the tourist sector, several stakeholders felt that the multiples were being given an unfair advantage by the current rates system. There was a perception within the group that the large retail multiples did not pay fair rates on their free car parks whilst SME customers in towns and villages had to pay for their parking. These comments are outside the scope of this current research but serve as an example of how emotive rates and the NDRR scheme is to the SME population within Wales. As previously discussed, businesses with multiple sites were less affected by individual property revaluations whilst SMEs with one property with a large rates revaluation could not spread the increase across their business.

7.7.3 Other comments on rates relief

7.7.3.1 There was general agreement that rates and rates relief should be controlled centrally:

‘We wouldn’t want to see business rates controlled locally.’

7.7.3.2 One of the group also queried whether the Welsh Assembly Government could use rates relief to support its greener business or safer community’s agenda:

‘One part of the Assembly’s trying to push for businesses to be greener and stuff. So basically the Assembly should be looking at what they want a business to do. The rates system should follow the other strategies that the Assembly’s got.’

7.8 Summary from focus group

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

7.8.2 The difficulty of individual SMEs identifying what SBRRS was used for could be explained in the way the business owner personally acknowledges receipt of the relief (either as a monthly reduction in costs or an annual grant to increase investment for the following year).

7.8.3 The low awareness of the amount received as SBRRS and the mechanism driving it was an issue that needs to be corrected. Trade and professional bodies appear to be keen to work with the Welsh Assembly Government to get this message across to the SME sector; this would be beneficial to the image of these bodies and may help the Welsh Assembly Government explain how and why the SBRRS system might change in the future.

7.8.4 The group acknowledges that the post office is probably a special case and that the current Welsh SBRRS scheme also supports other SME sectors in most need.

7.8.5 The group also acknowledges that the current system equitably supports Welsh SMEs of various sizes in the most practical and accessible method currently available. So the current bands for rates relief are probably about right (pre revaluation) and do not need amending.

7.8.6 Overall, the group voiced appreciation 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 the Welsh Assembly Government in the future delivery and communication of this support.

8 Conclusion

8.1 We have presented an analysis of surveys, literature and a focus group. Some key conclusions can be drawn from the triangulation of these sources. SMEs in receipt of benefit obviously appreciate assistance from the SBRRS but see it as part of the Welsh Assembly Government's commitment to the SME sector which is vital for the Welsh Economy in general.

8.2 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.

8.3 Contrary to the findings of the literature review, the survey reveals that rates can account for a very significant proportion of turnover for many small businesses (in excess of 10 per cent for many). It is quite likely that this pattern is accentuated in the current trading environment.

8.4 The SMEs in general appear to be unaware of the mechanism of SBRRS and of the exact benefit that they are receiving.

8.5 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.

8.6 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 by the public sector would be significantly magnified compared to previous years.

8.7 The 'automatic' eligibility for SBRRS used by the Welsh Assembly Government appears to be acceptable to the SME community.

8.8 There is an overall acceptance that the current design of the present Welsh scheme is acceptable and appropriate to business needs.

8.9 An increase in the equity of the scheme through introducing a tiered threshold scheme would add to the complication and cost of the present scheme, reducing the overall benefit to the SME community and thus possibly losing majority support of this sector.

8.10 All business sectors want less tax and more support and their trade bodies will argue for their individual cases but 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.

8.11 Responses from the questionnaire would suggest that the majority (66 per cent) of SMEs receiving rate relief do not see any increase in rental charges because of the relief. However in a minority of cases (12 per cent) landlords would appear to be taking most or all of the rate relief received in higher rental charges.

9 Recommendations

9.1 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.

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

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

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

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

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Appendix 1: Stakeholder Interview Schedule

Interviews with national stakeholders from the public and private sectors within Scotland, England and Northern Ireland.

Public Sector (contacts supplied by WAG)

Good morning/afternoon I am from the Centre for Regional Economic Development based at the University of Cumbria. We have been commissioned by the Welsh Assembly to evaluate their Business Rates Relief Scheme. Part of this process is to gather the experience of similar schemes from across the UK. It is very important for our understanding of the issues they face that we gather your views on how your scheme works and your contribution is very important to our research.

As an independent research body we will guarantee confidentiality of any comments you pass on to us.

1 DETAILS OF THE SCHEME

1.1 Outline of scheme... (*Prompt*) we understand that the scheme covers (insert Scottish, Welsh or NI details) can you confirm that these details are correct.

1.2 How long has this scheme been running for?

1.3 Who are the main recipients?

1.4 How is the scheme funded?

1.5 (If the scheme is application based)... Does your scheme being application based cause you any problems?

What are the take up rates by business for the scheme (can you break these down by size, sector)?

2 EVALUATION OF THE SCHEME

2.1 What are main objectives of scheme? Why is it important to you?

- *(Prompt)* Is it business survival?
- *(Prompt)* Is it to support start ups?
- *(Prompt)* Is it for community support/regeneration?
- *(Prompt)* Is it to 'encourage' SMEs

2.2 How do you evaluate the scheme?

(Prompt) To see whether it is achieving its objectives

2.3 Do you think the rate relief scheme is value for money?

2.4 Are there any problems with the scheme?

- *(Prompt)* In its present form
- *(Prompt)* In the foreseeable future

2.5 What has the feedback from business been like?

- *(Prompt)* good, please give examples/ bad , please give examples

2.6 Do you think the scheme has had an impact on local economies?

2.7 Have you any future plans for the scheme?

3 OTHER COMMENTS

As we are conducting this research on behalf of the Welsh Assembly Government. From your experience with your scheme, is there anything you think would be of interest to, or useful for the Assembly?

Private Sector (Retail groups across the UK SGF, NIRTA and ACS)

Good morning/afternoon I am from the Centre for Regional Economic Development based at the University of Cumbria. We have been commissioned by the Welsh Assembly to evaluate their Business Rates Relief

Scheme. Part of this process is to gather the experience of similar schemes from across the UK. It is very important for our understanding of the issues they face that we gather your views on how your scheme works and your contribution is very important to our research.

As an independent research body we will guarantee confidentiality of any comments you pass on to us.

1 WORKING KNOWLEDGE OF THE SCHEME

1.1 Outline of scheme... *(Prompt)* Could you briefly describe your organisations understanding of the (Scottish, English or Northern Ireland) business rates relief scheme?

1.2 Who do you think are main recipients?

1.3 Who funds the scheme?

2 EVALUATION OF THE SCHEME

2.1 What do you think are the main objectives of the scheme?

- *(Prompt)* Is it business survival?
- *(Prompt)* Is it to support start ups?
- *(Prompt)* Is it for community support/regeneration?
- *(Prompt)* Is it to 'encourage' SMEs

2.2 What are the main benefits for your businesses in Scotland/England/Northern Ireland?

2.3 Has it had any other effects?

- *(Prompt)* With local economies

2.4 Are there any problems with the scheme?

2.5 Would you like to see any changes in the scheme?

- *(Prompt)* If yes please illustrate.

3. OTHER COMMENTS

As we are conducting this research on behalf of the Welsh Assembly Government, who run a different rate relief scheme to (England, Scotland or Northern Ireland). From your experience with your scheme, is there anything you think would be of interest to, or useful for the Assembly?

Appendix 2: Postal Questionnaire (English version)

SMALL BUSINESS RATES RELIEF SCHEME

The Centre for Regional Economic Development (CRED) has been commissioned by the Welsh Assembly Government to carry out a review of the impact of small business rate relief on businesses in Wales. As part of this study, we are contacting businesses to gather information on the impact of the scheme. The questionnaire provides an opportunity for small businesses to voice their opinions on the scheme and how it might be improved in future. All answers that you provide will be treated in strict confidence by researchers in CRED and data will only be presented in aggregate form. Individual responses will not be reported to the Welsh Assembly Government.

Please complete the questionnaire by following the instructions for each question and return it to us in the pre-paid envelope provided.

If you have any questions regarding the questionnaire, you can contact Dr Gail Mulvey on 01228 616316 / 616254.

Section A: Information about your business

1. Contact Name:.....
2. Role/ Job Title:.....
3. Name of Company:.....
4. Company Address:.....
..... Postcode:
5. Email Address:.....
6. Which of the following categories describes your business?

Post Office	<input type="checkbox"/>	Retail Outlet with Post Office	<input type="checkbox"/>	Other retail	<input type="checkbox"/>
Petrol Station	<input type="checkbox"/>	Restaurant/Café	<input type="checkbox"/>	Take Away Food Outlet	<input type="checkbox"/>
Public House	<input type="checkbox"/>	Child Care Premises	<input type="checkbox"/>	Wholesale	<input type="checkbox"/>
Manufacturing	<input type="checkbox"/>	Personal Services	<input type="checkbox"/>	Construction	<input type="checkbox"/>
Transport/Storage	<input type="checkbox"/>	Hotel/Guest Houses/ B&B	<input type="checkbox"/>	Banking, Finance and Insurance	<input type="checkbox"/>

Other Please specify:
7. What is the total number of workers in your business? **(please include the owner/manager as well as part-time and current casual workers as indicated below):**
No. of full time workers ____ No. of part-time workers ____ No. of casual staff ____
8. What year was your business founded?

Section B: Small Business Rates Relief and Business Costs

9. What percentage rates relief do you receive?
25% 50% 100% Not sure
10. Please estimate what percentage of your total turnover is accounted for by your rates
0-2% 3-5% 6-9% 10%+
11. Please estimate what percentage of your business costs are accounted for by rates
0-2% 3-5% 6-9% 10%+
12. Do you see rates relief:
 As a contribution to cutting costs and increasing profitability
 As an opportunity to use resources for other purposes (e.g.: employment of casual staff)

Section C: Impact of rates relief on your own business

13. Do you think the receipt of rates relief has affected any of your business decisions in the last twelve months? – **(for example, on where to locate, which premises to occupy, whether to physically expand your premises, whether to move to new premises, whether to employ more, or fewer, people).**
Yes **Please explain in what way**.....
.....
.....
No **Please explain why not**
.....
.....
14. Has the receipt of rates relief been a significant factor in your remaining in business over the last twelve months?
Not significant Significant Very significant
15. Are your premises at this address rented or owned?
Rented (answer question 16 and 17) Owned (go to question 17)
16. What proportion of the financial benefit of rates relief do you think is absorbed in higher rents charged to your business?
None of it Some of it Most of it All of it
17. What does rates relief mean to your business? **Please elaborate**
.....
.....
.....
.....

Section D: Your Views on Rates Relief

18. The statements below suggest some of the ways in which rates relief might affect small businesses in Wales in general. Please tick the box that best reflects your level of agreement with each statement.

a) It helps small businesses to survive in highly competitive markets

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

b) It encourages people to set up new businesses

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

c) It shows that the public sector is keen to support small business

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

d) The amount of rates relief is small and makes little difference to business viability

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

e) It offers support to small businesses in deprived communities

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

f) The rates relief scheme is not a good use of public money

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

g) It enables small businesses to survive in remote rural communities

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

h) It encourages small businesses to act in support of local communities

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

i) The scheme gives an unfair competitive advantage to recipients

Strongly Disagree Disagree Neither Agree nor Disagree Agree Strongly Agree Don't know

If you wish to elaborate on any of your answers above, please use this space to do so.

.....
.....
.....

19. Please use this space to add any additional comments you would like to share about your business costs or needs.

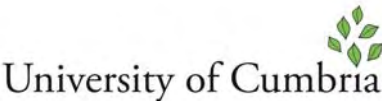
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In order to help in our evaluation of the Welsh Rates Relief Scheme, we may consult further with a small number of business owners on their views of the impact of the Scheme. Please fill in the details below if you would be willing for one of our research team to contact you by telephone.

Name:.....Tel. No.:.....

Thank you for taking the time to complete our questionnaire.

**Centre for Regional Economic Development, University of Cumbria
on behalf of the Welsh Assembly Government**



Appendix 3: Stakeholder Interview Schedule

Stage 2: Semi Structured Interview Schedule for stakeholder organisations.

(Aimed at business organisations, also used as basis for Accountants and Retail Interviews)

Reminder of the reason for the interview: as you are aware we are in the process of assessing the impact of small business rate relief on businesses on behalf of the Welsh Assembly Government. The interview today will be used to support the results of a postal survey we are conducting with businesses across Wales.

*The answers you provide in the interview will be treated in strict confidence according to the normal practice of research at the University of Cumbria. This means that the information you provide individually in the questionnaire will **not** be shared with any other agencies or external bodies and data will only be published in an aggregate form.*

The results of the interviews and the postal survey will then be presented at a focus group.

As a significant business organisation it is important that we gather your views on the following questions:

1 Awareness of the different schemes

1.1 Are you aware of the differences in implementation of the business rate relief across England, Scotland, Ireland and Wales?

1.2 How does the following implementation of rate relief affect your members?

- **Business having to apply for rate relief** (England and Scotland).
- **Specific sectors targeted for extra rate relief.**

(Prompt: do you think it is justifiable? Why / why not?)

- **The various cut offs for Rateable Value at which discounts are applied.**

(Prompt: where would they set the cut off and why?)

- **Larger business having to pay more in business rate to subsidize the rate relief scheme for SMEs**

2 Main Beneficiaries

2.1 What type of business do you think is the main beneficiary of rate relief?

(Prompt: by size, industry, location (rural, urban))

2.2 Do you think rate relief is important for your sector in general? (Prompt:Why / not? In which way is it important?)

(Prompt: does it just help SMEs or is this support important for new entrants to your sector or does it help sustain your sector in peripheral areas?)

3 Impact of the Scheme

3.1 Could you highlight the impact business rate relief has had on your sector?

(Prompt; financial support for micro/sme ; financial/moral support for new entrants/micro; equitable share of the business taxation burden)

3.2 Do you think the rates relief schemes have an effect on the local economy?

(Prompt: If so, in which way? If not, why not?)

4 Issues with the Scheme

4.1 Has your sector had any issues with any of the rate relief schemes across England, Scotland, Ireland or Wales?

(Prompt: Explore any issues mentioned.)

5 Possible alterations to the Schemes

5.1 Given your experiences with the rate relief schemes are there any parts of their implementation that you feel could be changed to improve its impact?

5.2 Do you believe rate relief scheme is a good idea?

(Prompt: why?)

6 How does the Welsh scheme compare with the other schemes in the UK?

(Prompt: If better, why? If worse, why?)

6.1 What works well in Wales?

(Prompt: why?)

6.2 What is good/ bad about the Welsh scheme?

(Prompt: why?)

6.3 What lessons could Wales learn from other schemes?

7 Other comments