



# **WALES OFFICE**

# **RURAL ECONOMY TASKFORCE**

**SUMMARY REPORT**

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# 1 MINISTERIAL FOREWORD

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**Last summer** we asked officials at the Wales Office to pursue an initiative aimed at exploring the major issues affecting the rural economy in Wales. We were pleased to launch this at the Anglesey Show in August.

We wrote to a wide selection of representatives of rural communities and businesses across Wales, asking them to identify the issues that they felt were affecting Welsh rural communities and to suggest possible solutions.

This Government believes that for too long, politicians have been identifying people's problems for them and coming up with their own preferred solutions. Our approach is different. We believe that government should be asking people what their concerns are and what they feel could and should be done to make their lives better.

Our belief in public consultation is demonstrated by, for example, our Programme for Government, the Spending Review, and the contents of the Protection of Freedoms Bill. . Our "Red Tape Challenge" is the biggest ever public consultation on regulation. We believe in listening to people.

We received a range of responses, which highlighted just how complex and inter-related are the issues important to those who live and work in rural Wales. Those concerns ranged from fuel prices to local services such as post offices.

This report, we hope, will serve to identify those concerns. Along with Wales Office officials, we are working to identify the impact these issues are having on rural Wales and to suggest solutions, where appropriate, to colleagues in government.



**Rt Hon Cheryl Gillan MP**  
**Secretary of State for Wales**



**David Jones MP**  
**Parliamentary Under-Secretary**  
**of State for Wales**

## 2 SUMMARY OF FINDINGS

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A broad range of responses were received which highlighted the issues important to those who live and work in rural Wales. Some of these were expected, as they related to matters that had been brought to the attention of Wales Office Ministers during meetings with rural life interest groups at agricultural shows across Wales. Many respondents raised issues that were specific to their members, but there were some issues that cut right across the spectrum of responses.

### **Broadband**

One of the issues almost universally raised by respondents was broadband provision and speed in rural areas. The evidence presented showed slow or even non-existent connections. Accompanying data indicated that 40% of those who can access broadband in rural areas could not get speeds over 2Mbps, and that one third of farmers could not access broadband at all. This is causing some difficulty as more and more services are accessed online. The consensus was that more investment is urgently required in broadband infrastructure and that broadband should be treated like any other infrastructure service, such as the utilities, when planning future property developments.

### **Fuel and Vehicle Excise Duty (VED)**

The price of fuel and the impact of fuel duty were also widely raised. Respondents felt that fuel prices in rural areas are above average. The budgetary implications of remote filling stations and the reliance that rural dwellers have on personal vehicles due to a relative lack of public transport in comparison with urban areas, was felt to place an extra burden on their budgets. It was also recognised that a large percentage of the cost of fuel is made up of fuel duty, and it was through some mechanism which adjusted fuel duty in rural areas that those who had strong views on the issue felt the coalition Government could help.

Many raised the point that Vehicle Excise Duty (VED) on 4x4 vehicles has been increased in recent years to discourage the so called 'Chelsea Tractor' effect of large 4x4 vehicles being used in urban areas. Respondents argued that this unfairly penalises owners of these vehicles in rural areas, where they are seen as a necessity. In rural areas, particularly in winter, access to farms for example, often necessitates a 4x4 vehicle. A potential solution put forward by respondents was for a discount on VED for 4x4 vehicles based on the postcode of the registered address.

### **Local Services**

Concern was expressed over the perceived decline of local services in rural areas, particularly banks, post offices and petrol stations. Evidence sent to

the taskforce indicates that just four per cent of villages in Wales have a local bank branch. Lack of access to essential services can cause difficulty for local businesses and residents, especially those without private transport. It was also presented to us that the role of post offices and banks are linked, and that their future success may depend on co-locating to form hubs in areas in or near busy shops and garages.

## **Businesses**

Many of the respondents stressed the importance of small businesses to the rural economy. The evidence suggested that Small and Medium Enterprises (SMEs) are even more important in rural areas than they are elsewhere in Wales and that more should be done to encourage small businesses and start-ups to take people on. The possibility of changes to the tax regime to encourage the growth of SMEs was put forward.

Of course many of the levers of business support are devolved to the Welsh Government and it has always been made clear that the focus of this work should remain on matters within the coalition Government's remit.

There were other matters raised that tie in very closely with the fortunes of SMEs including the availability of credit from banks; issues with business rates, particularly around the valuation of premises; and concerns about the extent of the regulatory burden being placed on businesses.

The Department for Environment and Rural Affairs (DEFRA) rural proofing toolkit (currently being piloted across three departments) was considered to be a valuable process that ensured specific rural impacts were considered from the outset. Evidence suggested that there was a desire to see it rolled out across all Whitehall departments. It was noted that the Welsh Government ensures that all of its departments must prove that rural issues have been considered before progressing policy.

Among the other interesting ideas put forward were that thought should be given to reducing the burden of Local Authority statutory requirements for inspection and measuring; and steps should be taken to encourage the production and use of biofuel on farms by reducing the level of duty charged.

# 3 SUMMARY OF GOVERNMENT ACTIVITY

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The coalition Government is taking forward its programme to catalyse an economic and social recovery in the United Kingdom. There has been a wide range of activity across the issues that were identified by the respondents to the Wales Office Rural Taskforce.

## **The Role of DEFRA**

Although rural affairs are in the main devolved DEFRA still has a role to play in relation to Wales, especially as Wales and England share a long and largely rural border. As champion of rural affairs DEFRA discusses at ministerial and official level the rural responsibilities of other government departments, many of which impact on both English and Welsh residents.

To this end, DEFRA and the Commission for Rural Communities (CRC) have been working on a pilot study to monitor the effectiveness of the rural proofing it has been undertaking.

A significant example of DEFRA engaging with the Welsh Government on key areas is the work on Common Agricultural Policy (CAP) reforms. This will obviously impact significantly on Wales, so it is vital that Welsh interests are considered as we help shape a CAP that will serve the interests of the whole of the United Kingdom and provide for a more sustainable farming community.

Water and flood management is another vital area that DEFRA and WG are working collaboratively to ensure Wales' interests are fully served. Joint working has facilitated important initiatives such as 'Exercise Watermark' which assessed England and Wales' resilience to flooding and our ability to respond to its impact on the rural economy.

## **Broadband in Wales**

The Government recognises that effective, reliable communications infrastructure is increasingly essential to life in rural communities and that it must make sure that they can benefit from the convenience of the delivery of online services – whether those come from government, local authorities or the private sector. That is why the Government has made broadband one of its top priorities.

Wales is central to the coalition Government's plans for improving broadband infrastructure. On 10 February, the Chancellor for the Exchequer, along with the Secretary of State for Wales, visited North Wales and announced £10 million of funding to support the early phases of super fast broadband and test the provision of high speed broadband in a rural environment. The funding will help deliver the roll out of next generation broadband in Pwllheli

and its surrounding areas, and will complement the Welsh Government's national plan for Wales. Further broadband infrastructure investment in Wales will be announced as the roll out develops.

The Government's Broadband Strategy, which was published in December, outlines its intentions to ensure that Britain has the best super fast broadband network in Europe by 2015. It is committed to ensuring the rapid rollout of super fast broadband across the country, including rural and remote areas of the country.

The strategy also sets out how Broadband Delivery UK will be investing the £530 million agreed as part of the Spending Review over the lifetime of this Parliament, including the existing under-spend from the Digital Switchover Help scheme, as well as setting out how the Government will create the right regulatory and policy environment to allow the market to deliver as far as it can.

### **The Price of Fuel**

In addressing the country's budget deficit the coalition Government were compelled to implement the fuel duty increases already set and legislated for by the previous Government. It is an unfortunate truth that tough decisions are unavoidable and the Government has been clear from the outset that the burden of deficit reduction will have to be shared fairly.

However the Government is conscious of the effect that rising oil prices have on fuel prices, affecting domestic consumers as well as businesses.

In June 2010, the Chancellor commissioned the Office of Budget Responsibility (OBR) to make an assessment of the effect of oil price fluctuations on the public finances. It was Government's intention to use this assessment to examine the options for design of a fair fuel stabiliser that could support motorists and businesses when oil prices are high, so that it can share some of the burden.

The OBR published its assessment in September and the Government carefully considered its findings leading up to the Budget.

The April 2011 Budget announced that the Government was acting immediately by cutting fuel duty by 1 penny per litre from 6pm on Budget day. We also abolished the fuel duty escalator which would have increased duty by 1 penny above inflation each year up until 2014. Furthermore, we have also made sure that there will be no fuel duty rise this year by deferring April's inflation-only increase to January 2012.

We also introduced a fair fuel stabiliser that will support motorists and increase tax on North Sea oil companies when oil prices are high. The stabiliser will ensure that the burden of high oil prices is better shared between oil companies and motorists. These measures will be a welcome relief, particularly in rural areas where the majority of individuals rely on their cars for routine travel or to earn a living.

The Government has also confirmed that a derogation request has been submitted to the European Commission for a rural fuel duty rebate pilot scheme. This is intended to deliver a five pence per litre duty discount on petrol and diesel across the Inner and Outer Hebrides, the Northern Isles, the islands in the Clyde and the Isles of Scilly.

These areas have been identified for a pilot scheme due to their extreme isolation, which is not comparable to any other part of the United Kingdom. This isolation has a manifest effect on the price of fuel, which has consistently been around 20 pence per litre more expensive compared to the mainland. This gulf in prices dwarfs anything that can be identified in Wales and therefore it is appropriate that any scheme should be explored in these areas first.

That is not to say that the Government is not aware of the serious effect that the high price of fuel is having in rural Wales. The decisions to postpone the fuel duty increase alongside the immediate reduction of 1 penny per litre are part of a wider £1.9 billion package to help ease the burden on motorists resulting from record pump prices.

### **Vehicle Excise Duty (VED) and Heavy Goods Vehicle (HGV) Charging Reform**

As part of a package to support motorists and hauliers, the Chancellor announced in his April Budget that in 2011-12, VED changes are limited to inflation based increases, and VED rates are frozen for Heavy Goods Vehicles.

The Government does recognise that for some, especially in rural areas and in severe weather conditions, driving larger cars is a necessity.

The current structure of VED, set by the previous Government, uses measured CO<sub>2</sub> for cars registered from March 2001 and engine size for earlier cars. This helps to highlight the availability of lower CO<sub>2</sub> fuel saving choices within all types and classes of car. Incorporating a postal code basis could increase the cost of collecting the tax and the risk of fraud.

In addition, agricultural vehicles are currently exempt from paying VED, and can also use red diesel rather than main road fuels, and therefore benefit from a lower duty rate. For people that work the land, there is a VED exemption available where a vehicle is only used on the public road in passing between different areas of land for a distance of no more than 1.5 kilometres.

To support our haulage firms we intend to introduce a new system of Heavy Goods Vehicle (HGV) road user charging to ensure a fairer arrangement for UK hauliers. These steps are being designed to address the unfairness of foreign hauliers not having to pay for UK roads whilst UK hauliers have to pay to use the roads in a vast majority of EU countries.

## Local Services

The Big Society vision resonates with the desire of local communities to preserve local services such as post offices, banks and petrol stations. The Big Society is a radical new agenda which we hope will re-make the fabric of our society for the better. The Government wants to shift power to the hands of people at the local level, allowing communities to make changes and design solutions to their problems.

It is not always practical or desirable for the state to intervene on a local level. Communities should get the services that they choose, fine tuned to their needs. A 'one size fits' all state led approach will not always be able to achieve this.

Two of the three pillars of the Big Society, social action and community empowerment, point the way to making this happen. Wales Office ministers have seen examples of this working in Wales. In Trefeglwys, Mid Wales, a community co-operative is running a post office, community shop and petrol station from the same site. Volunteers man the post office counter, which is run in partnership with the main post office in Newtown. This innovative solution has preserved the local shop and petrol station, which were previously on the verge of closure, as well as providing a venue for a florist and a tea room. This has not just preserved, but has expanded the local economy.

They are not alone in coming together to improve their community. The Raven Inn in Llanarmon yn Iâl is being run by the local community, and now supports a post office alongside its main purpose as the local pub.

Examples such as these are an inspiration for other rural communities across Wales. This is the power of the Big Society – local people coming together to preserve the things that they care about, taking ownership of their communities through more autonomy and greater decision making.

In the early autumn the Wales Office plans to hold a seminar on the Big Society in Wales to bring together ministers, stakeholders and practitioners to discuss the opportunities presented by the vision. We will also seek to identify any barriers to realising the vision in Wales and the means to overcome them.

## Support for SMEs

The coalition Government recognises that it will be the private sector who will lead the economic recovery in the UK, and that its responsibility is to create the environment where the private sector is able to grow and to prosper. Significant changes have already been made since May 2010 and the Government will continue to work towards supporting the private sector.

The coalition Government has introduced a package of reforms to reduce the rates of corporation tax, with the main rate reduced by 2% this year, taking it from 28% to 26%. By 2014 the rate will be reduced to 23%. The small profits rate has also decreased to 20% in April 2011, meaning that the UK will continue to have the lowest rate of corporation tax in the G7 and one of the

most competitive regimes in the G20. The Government has also extended the Entrepreneurs Relief from Capital Gains Tax from the first £2million to the first £5million of gains made over a lifetime. This demonstrates its determination to encourage entrepreneurship.

Last June, in the Emergency Budget, it was decided to increase the threshold that employers start to pay National Insurance Contributions by £21 per week saving up to £140million for businesses in Wales. The coalition Government has also introduced a regional National Insurance Holiday worth up to £50,000 for new businesses, who set up outside of the London and the South East. This three year scheme means that new businesses in selected areas do not have to pay the first £5,000 of 'class one' NICs due in the first month of employment for each of the first ten employees hired during the first year of trading. This NI holiday is a prime example of the Government's aim to encourage and stimulate growth across the country, including rural areas.

It is intended that 25% of new Government contracts will be awarded to small and medium sized enterprises. This will be achieved by addressing some of the biggest barriers faced by smaller businesses when competing for public sector contracts and making it easier to find opportunities to do business with the public sector. In March 2011, Government introduced a new facility - *Contracts Finder* - which will enable SMEs to access public procurement opportunities more easily online.

The Government initially extended the Enterprise Finance Guarantee (EFG) scheme, a loan guarantee scheme that helps facilitate additional bank lending to viable businesses, by £200million to £700million, enabling it to run until March 2011. Subsequently the Government has given a commitment to continue to support the EFG scheme until 2014-15, providing up to £600million of additional lending to around 6,000 businesses this year. Since April 2010, the EFG has approved over £18.5million worth of loans to over 180 applicants in Wales alone<sup>1</sup>.

Exports play an important part in the Welsh economy, worth £11.8billion in 2010. However we recognise that SMEs are not always able to take full advantage of exports markets. In the UK, there are 4.4million SMEs but only 1 in 5 of them currently export goods and services. If we increased the proportion of SME exporters from 1 in 5 to 1 in 4, which is in line with the current EU average, we could add as much as £40billion to UK exports. This is significant, as the UK current account deficit in 2009 was £23billion. Through SME exports, we have the potential to wipe out the UK trade deficit.

United Kingdom Trade and Investment (UKTI) provides valuable support to SMEs across the UK, including those based in Wales, through a wide range of programmes aimed at creating networks, advice and support services. In May the UKTI Strategy launched "Britain Open for Business" which builds on this. By targeting services at innovative and high growth SMEs, we want to encourage more companies to export, while helping existing exporters reach more high growth and emerging markets.

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<sup>1</sup> As of 22 June 2011

## **Bank Lending**

On 9 February 2011, the Chancellor of the Exchequer announced details of 'Project Merlin', which secured an agreement between the Government and five of the UK's largest high street banks. HSBC, Barclays, Royal Bank of Scotland, Lloyds Banking Group and Santander have committed to making up to £190billion of credit available to businesses in 2011. £76billion of this is being made available to smaller businesses, which represents a 10% increase on 2010 lending to SMEs.

This followed a Department for Business, Innovation and Skills consultation on 'Financing a Private Sector Recovery' in July 2010. The consultation looked at ways to make sure that the UK has a financial system which delivers for business – this is central to the coalition Government's ambition for growth.

The British Banker's Association (BBA) have established and invested in a new £1.5billion Business Growth Fund which will provide flexible equity finance to SMEs. We will work with the banks to ensure the success and efficient delivery of this scheme.

The coalition Government is also keen to see an improvement in the relationship between businesses and banks and it welcomes the BBA's new set of measures to improve transparency and the credibility of bank commitments in their dealings with customers via a revised lending code, new commitments to micro-enterprises and an extension of lending principles for larger SMEs.

In the Budget, the Chancellor announced major reforms of the Enterprise Investment Scheme (EIS) and the Venture Capital Trust schemes, including increasing the rate of EIS income tax relief to 30% and increasing the size of qualifying company for both sizes. This will allow more companies to be eligible and incentivise increased levels of investment in companies facing barriers in accessing external sources of finance.

## **Business Rates**

While Business Rates are devolved to the Welsh Government, Wales still uses the same primary legislation as England while having its own secondary legislation. The Valuation Office Agency (VOA) is responsible for rating businesses on behalf of HMG in England and the Welsh Government in Wales. Decisions on valuations are made independently by the VOA within the framework set by each Government, meaning that in Wales valuations flow from overall policy decisions made by Welsh Ministers. There is an appeals process in place for any business that regards its valuation as unfair. Wales also sets its own non domestic rates "multiplier" which for the current financial year (2011/12) is 0.428, up from 0.409 in 2010/11. The multiplier in England for the current financial year is 0.433.

The coalition Government is committed to increasing the support available to small businesses that pay business rates in England. It introduced a temporary increase in the level of Small Business Rate relief (SBRR) to eligible businesses. The Budget extended the current small business rates relief

holiday by one year from October 2011. The temporary increase could mean that those eligible businesses with a rateable value of up to £6,000 could be entitled to up to 100% relief. For those eligible businesses with a rateable value between £6,001 and £12,000, the relief will be based on a sliding scale between 100% and 0%. The Welsh Government also introduced the same support for small businesses and has extended the scheme until September 2012.

The Government has already legislated to freeze payments of certain significant backdated business rates bills in England until April 2012. The Welsh Government has received consequential funding in line with the Barnett formula which could be used to take similar action should they wish to. However they have not decided to do so.

## **De-Regulation**

The Government is working towards creating the conditions that businesses need to prosper and understands that for too long businesses have been burdened with unnecessary regulation. A commitment was made in the Programme for Government to cut red tape through the 'One-in, One-out' rule, ending the culture of tick box regulation while imposing 'sunset clauses' on regulations and regulators.

Our One-In, One-Out: Statement of New Regulation set out all new domestic regulations due for implementation between January and June 2011. The Statement of New Regulation acts as an important tool to enable Ministers to manage the flow of new regulation, provides a mechanism to aid the implementation of the One-in, One-out rule and provides the business community with a transparent view of upcoming regulatory measures.

Since taking power the Government has also completed a major review of Health and Safety legislation and ended the 'gold-plating' of EU regulations, which will ensure that British businesses are not put at a competitive disadvantage compared with their competitors from elsewhere in Europe.

In further pursuit of better conditions for business on 7 April the Prime Minister and the Business Secretary launched the Red Tape Challenge, an online arena providing the public with the opportunity to put forward their views on existing rules and regulations. This challenge will look at some 21,000 rules and regulations across various sectors, starting with the retail sector. People and businesses in rural areas will have an interest in removing a wide range of unnecessary regulation; however the consultation on environmental regulations and energy regulations, which will take place in September and October 2011 respectively, will be of particular interest in terms of the regulatory environment in rural areas. The full review will take up to two years to cover all regulations in the chosen sectors.

# 4 CONCLUSIONS

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The aim of this work was to discover what rural communities perceived to be the issues of real importance to them and what they felt could be done to help them face them.

When approaching any work involving rural affairs in Wales it must be recognised that many of the policy levers that are pertinent to rural life in Wales are devolved to the Welsh Government, in areas such as agriculture, local transport and public services.

This project has proved however, through engagement with the rural communities that many of the areas that have a profound effect on rural life are under the control, in full or in part, of Her Majesty's Government. These range from broadband infrastructure and support for SMEs, to the level of fuel duty. It is the nature of devolution that some issues are cross-cutting, with some policy levers which affect largely devolved issues not under devolved control. The Government is committed to working with the Welsh Government on all issues, including those that cut across the devolution settlement, to benefit Wales. Broadband infrastructure investment is a prime example of how successful such joint working can be.

Together with colleagues across government we have already identified a wide range of policy changes, planned or underway, that will begin to address many of the issues our study has raised. Whilst many of these are also of concern to those who live in urban areas, the effect on rural community can be magnified.

We are conscious that government does not hold the only answer to some of the issues. For example there is space for communities to step in and protect local amenities and services.

## **The Role of the Big Society**

The vision for the Big Society sees communities in control, designing services for their own particular needs, and not relying on large organisations many times removed from their daily lives, to attempt to micro-manage them.

Some local services may be suitable to be managed by local residents. Radical new ways of running services can be found, and promoting the site of one local service as a 'hub' can attract other services and service providers.

The Big Society vision points the way forward in respect of these issues. The examples already operating in rural Wales illustrated in this report demonstrate what can be done when a community decides to take control and come together to design a bespoke solution to a local problem. The coalition Government has an enabling role when it comes to the Big Society, and will stand by the side of those who wish to build it, providing the advice and support needed.

Of course in Wales many of the strands that make up our Big Society vision are devolved. Devolution itself is aligned with the vision, being aimed at greater local decision making and de-centralisation. The coalition Government cannot create the conditions for the Big Society unilaterally in Wales and it will continue to work with the Welsh Government as our vision develops.

Our findings show that Wales is ahead of the game when it comes to Big Society principles. The idea of local communities working together for the common good is very much part of the fabric of Welsh life, especially so in rural and semi-rural areas.

### **The Plan for Growth**

The Government's commitment to addressing the specific needs of rural communities is reflected in the recent announcement of Stage 2 of the Plan for Growth that will span the life of this Parliament. A key plank of this second stage will be an examination of the rural economy. Government will be scrutinizing the constraints, opportunities and risks impacting on economic growth in rural areas, and considering specific issues including labour market characteristics. This work will be undertaken with a view to identifying solutions and creating the right environment for companies to invest and grow in rural areas. Detailed announcements on how this will be done should be published in the autumn.

### **The Future**

From the initial stages of this work it is clear that there would not be any quick fixes for the issues identified. This remains the case. Some require a clear long-term strategy and investment in infrastructure, such as the need for improved broadband provision. Others are more about enabling the conditions that will ensure that key services are available to support rural communities and their economic health.

Although this report signals the end of the specific work of the Wales Offices' Rural Economy Taskforce it does not signal the end of our interest in the issues identified. They will continue to inform our thinking and future interaction with other Government Departments.