

 Executive Committee 12 February 2020		Agenda Item No. <h1 style="text-align: center;">13</h1>
Title	Discretionary business rates relief as a tool for business growth and inward investment	
For further information about this report please contact	Martin O'Neill, Business Manager, Projects and Economic Development, 01926 456064 Martin.oneill@warwickdc.gov.uk	
Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	Executive 31 st October 2018 item number 9	
Background Papers	None	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	Yes – Ref 991
Equality Impact Assessment Undertaken	Yes – see Appendix 4

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive		Chris Elliott/Bill Hunt
Head of Service		Dave Barber
CMT		Bill Hunt
Section 151 Officer		Mike Snow
Monitoring Officer		Andrew Jones
Finance		Mike Snow
Portfolio Holder(s)		Cllr Alan Rhead
Consultation & Community Engagement		
<p>External consultation has taken place with the business community in the District. Internal consultation has taken place between WDC Finance, Development Services along with the WCC legal team and finance team in respect of the draft policy. The draft policy has been revised where appropriate in response to both internal and external consultation responses.</p>		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1. **Summary**

- 1.1 To agree a policy for incentivising the District's inward investment activities through discretionary business rates relief following the consultation exercise.
- 1.2 To agree a pilot of the policy for up to a 12-month period to allow officers to monitor and evaluate the success of the policy in attracting inward investment, and the financial impact of the policy on the Business Rates Retention scheme for Warwick District Council.

2. **Recommendation**

- 2.1 That Executive approves the policy as it currently stands (attached as Appendix 1) to be launched as a pilot scheme for up to a 12-month period to allow for officers to monitor and analyse the impact, success and costs of the scheme during that period.
- 2.2 That Executive agrees that the results of the pilot, once completed and analysed, are brought back to Executive Committee and that consideration be given to the scheme being adopted formally at that time, dependent upon those results.

3. **Reasons for the Recommendation**

Recommendation 2.1

- 3.1 This policy was originally presented to the Executive in draft format at their meeting on 31st October 2018. At that meeting, the draft policy was approved for a 3-month period of formal consultation to take place with the business community. The policy was then to be revised in accordance with any appropriate suggestions made from the consultation exercise and presented back to the Executive for final approval
- 3.2 The current version of the policy (attached at Appendix 1 to this report) takes account of the comments received following the formal consultation exercise, as well as further internal consultation with relevant officers from Finance and the Portfolio Holder for Environment and Business. In addition, advice has been sought from Warwickshire Legal Services who have approved the policy in its current form.
- 3.3 Appendix 2 to this report shows the comments that were received from the consultation respondents. Overall, the feedback from the external consultation was broadly supportive of the concept of such a policy. However, one responder did not believe that the introduction of this policy is required for Warwick District as inward investment into the District is already very healthy in comparison to other districts in the County of Warwickshire.
- 3.4 Summarising the primary observations from respondents, the following points were most prevalent from the consultation;
 - There is no requirement for such an incentive as Warwick District is one of the most sought after areas for inward investment in the County.
 - The rateable value is set at too high a level, aimed only at big businesses and does not provide any support for small business to invest in the area.
 - The high rateable value threshold does not provide any support for the small retail outlets.

- The Policy objectives and the eligibility criteria in the policy should include a requirement for businesses to reduce their carbon footprint and achieve climate change targets
- The proposed scheme will not protect the interests of local taxpayers as stated in the policy objectives
- Businesses locating to a building with a rateable value of £75,000 or over are likely to be less incentivised by this scheme due to their likely scale.
- The requirement to report on compliance to the eligibility criteria from successful applicants in 6 months is too short a timescale.
- Reviewing the policy after 12 months may again be too short a timescale for meaningful impacts and success criteria to be gathered
- Clawback should not be sought from genuinely failing businesses.

3.5 In response to the consultation, the following will be considered in relation to the original draft policy;

- If approved, during the pilot of the scheme officers will consider if 6 months is, in fact, proving to be too short a timescale to report on compliance. If it is felt that this is the case, then this requirement will be removed/amended at the inception of a permanent scheme.
- At this time, it is not felt appropriate that the rateable threshold value should be lowered. The success of the pilot, if approved, will consider this in terms of the analysis of its success in attracting inward investment to the area.
- In response to the comment in the consultation and in line with the Warwick District Council Climate Emergency, sustainability requirements have been added as part of the qualifying criteria for applicants to satisfy in order to take advantage of the scheme. There are a number of suggested sustainable business practices by way of examples included in Appendix 3 of this report. Each case will be considered on its merits and this list serves as a guide only. If approved, the pilot of the scheme will evaluate the viability of this requirement and in what ways it can be measured in terms of compliance.
- During internal consultation, officers raised concerns that the total "pot" (previously £500,000) that has been set aside for this scheme may be fully spent if applications are received from large industrial units such as B1, B2, B8 which attract very high rateable values, such as those being planned at Spa Park. In response to this the total level of the fund has been increased to £1million.
- As described below, in relation to recommendation 2.2, officers will closely monitor the levels of award in relation to the number and value of the applications and bring a further report back to the Executive after the proposed pilot with further information in respect of this revised total. The anticipated return on the initial investment in respect of providing new and expanding businesses into the District will be the longer term increase in the business rates base following the increased inward investment.

Recommendation 2.2

- 3.8 This policy has been developed and consulted on in response to the growing demand from new businesses to provide them with support in moving into the District or in assisting existing businesses to expand here.
- 3.9 Consideration has also been given to the fact that, as a District, we are a more expensive location to be based within and, in offering this policy, we seek to ensure that we remain competitive and clearly appear to be 'business-friendly' and 'welcoming.'
- 3.10 Following internal and external consultation, it is proposed to launch the policy, as it currently stands, for up to a 12-month period so as to allow for detailed monitoring and analysis of the impacts. Officers wish to monitor the number of applications for the relief and the number of successful applications in relation to the current criteria. Officers equally wish to monitor the reasons and rationale for applications which are rejected due to non-compliance with the current criteria and to assess whether there is a need to alter those criteria in order to maximise the benefits of this policy to businesses and to maximise inward investment and business expansion in the District.

This analysis, following a meaningful pilot, will indicate whether or not this policy is the most appropriate mechanism to offer that support to businesses looking to locate into or expand within the District.

- 3.11 In addition, the analysis will consider the actual cost of the scheme in respect of the impact on the Council's income from Business Rates Retention Volatility Reserve. Following consultation, there is an overall limit set at £1million for the total amount of Business Rate Relief to be awarded during the pilot. Officers need to consider if this limit is too low or too high in terms of the financial cost to the Council along with any potential adverse impact this has in terms of preventing inward investment from businesses once the limit has been reached.
- 3.12 By way of an illustration of a potential issue with the proposed £1million limit; with the current (2019/20) Business Rates standard multiplier at £0.504 per rateable value, an applicant with a rateable value of £1,984,000 would use up the whole of the £1million budget in one application. Some of the new larger, currently unrated properties in the district that may be eligible if occupied, could easily command rateable values in excess of £1million which would see a substantial percentage of the budget used in just one or two applications.
- 3.13 A report will be brought back to Executive, including the results of the monitoring as described above, to allow for consideration of the success and impact of the policy. This will then facilitate consideration on the choices available in terms of continuing the scheme, amending the scheme or withdrawing the scheme.
- 3.14 From April 2021, the current system of Business Rates Retention is expected to be altered significantly. The impact of these changes is not yet known. It is likely that the changes could have an impact on this scheme in terms of affordability to the Council. In bringing the results of the pilot back to the Executive, coupled with the details of the expected revised Business Rates Retention scheme, this will allow for consideration of the future viability of the scheme.

4. Policy Framework

4.1 Fit for the Future (FFF)

The Council’s FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council’s FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment and income levels
Impacts of Proposal		
Given the reciprocal nature of the intended policy, benefits for the wider community should be felt. Here, the increase in the overall business rates pool would provide additional funds to go back into the core statutory services, such as housing.	These additional funds could also be directed back into maintaining and enhancing the public realm and our open spaces. More specifically, where we suggest offering a scheme to employ ex-offenders, this would have a significant impact on reoffending levels. Ex-offenders with a job are much less likely to continue committing crime if they have a job ¹ .	Successful implementation of this proposed policy would directly contribute to these outcomes by incentivising and supporting business to increase their performance and their headcount. In particular, it seeks to support a more diverse workforce and tackle long-term unemployment issues.
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged,	<u>Intended outcomes:</u> Focusing on our customers’ needs Continuously improve our processes Increase the digital	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management

¹ MOJ Education and Employment Strategy, May 2018.

empowered and supported The right people are in the right job with the right skills and right behaviours	provision of services	Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
N/A	N/A	N/A

4.2 Supporting Strategies

The proposed Policy would directly support Fit for the Future rather than a supporting strategy.

4.3 Impact Assessments

An impact assessment was carried out in respect of the draft policy prior to it being approved for consultation at the October 2018 meeting of the Executive. This assessment is attached at Appendix 4 and is due to be revisited in May 2021.

The overall conclusion in respect of this is that there is unlikely to be any adverse impact on any of the Protected Categories as a result of implementing this scheme.

5. Budgetary Framework

- 5.1 The discretionary relief of up to 50% will be awarded for a 12-month period, subject to a cap on the overall relief to be awarded of £1m.
- 5.2 Business Rate Relief is subject to State Aid threshold, for which the maximum is €200,000 over 3 consecutive fiscal years to a single undertaking. State Aid exemptions may be applicable in certain cases. In the event that an alternative exemption under the State Aid rules applies, the applicant will be required to comply with such requirements as are necessary to satisfy the criteria of that exemption, in addition to the requirements set out within this policy.
- 5.3 Through the Business Rate Retention Scheme, the Council benefits by 20% of any increase in business rates received (and conversely bears 20% of cost of any reduction). In offering this a discount in accordance with the proposed policy (Appendix 1), WDC's actual financial contribution is only 20% of the total amount awarded. Therefore, if the State Aid threshold of €200,000 (£179,524.14 based on an exchange rate of 0.9) is taken into account, the maximum financial contribution from the District Council is £36,000 to any individual organisation.
- 5.4 It is proposed that the Council's share of the cost of the scheme is funded from the Business Rate Volatility Reserve. This will be by way of a contribution to the General Fund in lieu of the reduction in the Council's share of business rates.
- 5.5 The Business Rate Volatility Reserve was created in 2013/14 with the start of the Business Rate Retention Scheme. This reserve was created to "smooth" the level of business rates supporting the General Fund each year. The level of business rates credited to the General Fund can vary significantly annually. Consequently, when more rates are received in the year than allowed for in the

original estimate, a contribution will be made to the reserve, and should there be a shortfall in the level of business rates received, a contribution will be made from the reserve to the General Fund.

5.4 As at 31 March 2019 the Business Rate Retention Reserve had a balance of £4.5m. During 2019/20 it is projected that this balance will increase to over £6m. This significant increase is primarily due to prior year adjustments, notably in respect of a reduction in the level of appeals provision.

5.5 The Projected balance on the Business Rate Volatility is shown below:-

Business Rate Retention Project	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000						
B/F	889	4,535	6,894	7,481	6,073	5,440	5,214
Extra charge to BRRVR/Write back to	3,646	2,358	587	-1,408	-633	-226	-117
C/F	4,535	6,894	7,481	6,073	5,440	5,214	5,097

It will be noted that the balance on the reserve is forecast to peak in 2019/20. From 2021/22, with the outcome of the current Fair Funding Review and changes to the Business Rate Retention scheme due to come in from April 2021, it is expected that the Council will receive a lower amount of business rates. The Council's Medium Term Financial Strategy (MTFS) allows for annual contributions from the reserve. As with contributions from any reserve, recurring contributions are not sustainable. The MTFS also assumes that further savings need to be sought so as to be able to stop the need for allocations from the Business Rate Retention Volatility Reserve.

5.6 Whilst the Business Rate Retention Volatility Reserve was set up to support the General Fund as outlined in paragraph 5.4, the Council does have flexibility to vary the use of this reserve. Consequently, it is proposed for £200k to be allocated from the Reserve to support the Inward Investment Discretionary Rate Relief Scheme. The £200k will be an initial cap on the Council's share of the cost of any relief awarded. With the Council bearing 20% of the cost of any relief, the balance will be shared through the Collection Fund, with the County Council and Central Government having their share of business rate income being reduced. The value of the total amount of relief that may be awarded, based on the Council's share is £1m.

5.7 With the Business Rate Retention Scheme due to be changed from 2021/22, it will be necessary for this Discretionary Business Rates Relief scheme to be reviewed once details of the changes are known.

6. Risks

6.1 Five key risks have been identified and assessed within this policy.

6.2 Building an open-ended financial liability for WDC: In order to mitigate this risk, a total cap of funding of £1million has been written into the policy and, at the time that limit is reached, the pilot of the policy will automatically cease, therefore ensuring that no further monies are spent.

6.3 Insufficient benefit shown to the District tax payers: A core principal of the policy is that it is not sufficient for a business to just move into the District or

expand to qualify. They also need to provide additionality to the District in the form of support to certain initiatives (as detailed within the policy attached as Appendix 1). In doing so, successful implementation of the policy is intended to bring wider socioeconomic benefit. Annual reviews by officers (following engagement with stakeholders) will take place to ensure this wider benefit is realised. By also introducing the policy as a pilot, WDC would not be committing to an open-ended endeavour that is not realising sufficient socio-economic benefits.

- 6.4 Failure of the businesses to comply with their statement of intent: To prevent this from occurring, businesses will be obliged to supply periodic updates (at 6 months, 1 year, 3 years and 5 years) to demonstrate their compliance. Should there be a failure to do so, WDC will reserve the right to clawback the relief offered to the business.
- 6.5 Insufficient financial return on investment for WDC: Whereas discretionary relief will only be offered for one 12-month period, businesses must commit to a minimum occupancy period of five years. This will provide WDC with sufficient time period to recoup its initial discount through the longer term growth of the business rates income.
- 6.6 There is a risk that the policy may be affected by the Government announcements surrounding business rates in the recent Queen's Speech. The Government has pledged to undertake a fundamental review of the wider business rates system, although there is no timetable for this review at this point in time. The government have stated that they will work in collaboration with local authorities as part of the review when it does take place. Additionally, the Government has pledged to increase the existing reliefs for retail businesses from one third to 50%. This may have a financial impact on the council and as such presents a risk in terms of the affordability of this policy during and after the pilot.

7. Alternative Option(s) considered

- 7.1 To implement a policy without a pilot period. This is not recommended, given that this is a new approach for WDC to take. A trial implementation period will provide the most suitable level of control and evaluation of the policy so that the true effectiveness can be determined.
- 7.2 To not put forward a draft policy for discussion and consideration by the Executive Committee. Following discussions between Officers it is felt that the Executive ought to consider the draft policy and confirm a position on the adoption of such a policy which carries a considerable financial cost for the Council.

8. Background

- 8.1 Business Rates (also known as National Non-Domestic Rates or NNDR) are a tax on business properties. The tax is set by the government and business rates collected by local authorities are the way that those who occupy non-domestic properties contribute towards the cost of local services.
- 8.2 Business Rates are collected locally by Warwick District Council. A rates demand will be issued for a year from 1st April to 31st March the following year. The total amount payable will be split into 10 monthly instalments, although this

amount can be paid in a number of ways ranging from 1 annual payment up to 12 monthly instalments.

- 8.3 Warwick District Council currently sends rating demands for over 5000 'properties' in the District producing a total revenue of circa £73million.
- 8.4 Many local authorities have implemented similar financial support schemes in relation to reductions in business rates in order to help support local businesses to invest and be retained in the local area.
- 8.5 After longstanding discussions around some of the perceived barriers to new and existing businesses locating to, and remaining in, the District, it is considered a good time to pilot a local scheme of Discretionary Rates Relief.
- 8.6 The policy had originally been targeted at new businesses locating to the area, but following consultation with colleagues from our legal services team, it has been amended to include existing businesses in the District.