INWARD INVESTMENT TASK GROUP – 3 SEPTEMBER 2012

A meeting of the Inward Investment Task Group will be held at 5.30 pm on Monday 3 September 2012 in Committee Room 1 at the Town Hall, Rugby.

Andrew Gabbitas
Executive Director

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Appointment of Chairman - to appoint a Chairman of the Task Group for the duration of its work.

2. Apologies - to receive apologies for absence from the meeting.

3. Declarations of Interest.

   To receive declarations of –

   (a) non-pecuniary interests as defined by the Council’s Code of Conduct for Councillors;

   (b) pecuniary interests as defined by the Council’s Code of Conduct for Councillors; and

   (c) notice under Section 106 Local Government Finance Act 1992 – non-payment of Community Charge or Council Tax.

   Note: Members are reminded that they should declare the existence and nature of their non-pecuniary interests at the commencement of the meeting (or as soon as the interest becomes apparent). If that interest is a pecuniary interest, the Member must withdraw from the room unless one of the exceptions applies.

Membership of Warwickshire County Council or any Parish Council is classed as a non-pecuniary interest under the Code of Conduct. A Member does not need to declare this interest unless the Member chooses to speak on a matter relating to their membership. If the Member does not wish to speak on the matter, the Member may still vote on the matter without making a declaration.
4. Introductory presentation / background information (briefing paper attached).

5. Review of the one page strategy (attached).

6. Programme of work.

7. Dates of Future Meetings – please bring your diaries to the meeting.

*Any additional papers for this meeting can be accessed here via the website.*

**Membership of the Task Group: -**

Councillors Mrs Ms Edwards, G Francis, Hazelton, Mrs O’Rourke, Ms Robbins and Roberts

*If you have any general queries with regard to this agenda please contact Linn Ashmore, Democratic and Scrutiny Services Officer (01788 533523 or e-mail linn.ashmore@rugby.gov.uk). Any specific queries concerning reports should be directed to the listed contact officer.*

*If you wish to attend the meeting and have any special requirements for access please contact the Democratic and Scrutiny Services Officer named above.*
Review of Inward Investment

Task Group Meeting – 3 September 2012

Briefing Paper

1. Background to the review

On 19 March, the Overview and Scrutiny Management Board placed a review of inward investment in the overview and scrutiny work programme, on the recommendation of the work programme workshop held in February 2012. The review topic had been suggested both by Leadership and Operations Team and by Customer and Partnerships Committee.

The level of investment in any country is largely determined by national economic policy. Nevertheless, there are many ways in which local councils can influence the level of inward investment into their own particular areas. This review will focus in general on the extent to which we can promote economic growth and attract businesses into the borough and more particularly on the opportunities presented by the Government’s proposal to localise the retention of business rates from 1 April 2013 onwards.

A draft one page strategy for the review was agreed by Customer and Partnerships Committee on 21 June 2012 and a copy is attached to the agenda papers for consideration by the task group.

2. Purpose of the meeting

Apart from the election of the chairman, the key tasks for this first meeting of the task group will be to:

- receive an introductory briefing from officers providing key background information and identifying issues for consideration by the task group
- review the one-page strategy in the light of what is learnt from the briefing and presentation
- agree a provisional programme of work for the task group

Further background information to the review is provided below and in the accompanying papers and includes:

- a briefing on the legislative changes around business rate retention and implications for the council
- an explanation of current business rate administration processes and how these will change
- details of the council’s economic strategy, including its planning provision
- data on the borough’s business base and current business rate income.
This information has been prepared by the Head of Resources, the Revenues Manager, the Economic Development Manager and the Scrutiny Officer, in consultation with Ian Davis (Executive Director), and the Head of Planning and Culture. These officers will be present at the task group meeting to present the information and answer questions.

3. Business rate retention – legislative background and issues for the council

3.1 Local Government Resource Review

Over the last year the Government has been conducting its Local Government Resource Review. A key element of this is the proposal to introduce the local retention of business rates from April 2013. The thinking behind this is that the current local government finance system is very centralised and controlled. This means that councils are overly reliant on the Government for their funding and have little or no real direct incentive to promote economic growth in their areas. By linking the direct funding they receive to the business rate growth they can generate, councils will now be incentivised to encourage businesses to relocate and invest within their boundaries. That is the opportunity and the challenge facing the council.

The actual proposals from Government are quite complex and technical. To help members gain a better understanding of the proposals, a plain English guide is attached at Appendix 1. This gives a useful overview of the key issues. A more detailed report on the proposals and some of the specific issues facing Rugby in terms of joining a wider pool of authorities was approved by Cabinet on 25 June 2012. This can be found at Appendix 2.

3.2 The council’s current position

The detailed proposals for the local retention of business rates have been around for some time and have been firmed up following a significant amount of stakeholder consultation. The Council responded to the initial Government consultation on 17 October 2011, and since that time a number of changes have been made.

One of the early decisions that the Council had to make was whether it was interested in exploring the option of joining with other councils to pool its retained business rates. There are a number of pros and cons to this and these are covered in the report to Cabinet on 25 June 2012 (see Appendix 2). On balance it was decided that Rugby should express an interest in being included in any wider business rate pooling arrangement being considered for Warwickshire (which may now potentially also include Coventry). Officers have been given delegated authority to pull out of any pooling arrangement, once we know our actual funding allocations from the Government in early December, should this
show that we would be in some way disadvantaged by pooling with other councils.

A series of technical consultation documents was published in July 2012 which provide a large amount of detail for the proposed business rate retention scheme. A Step-by-Step Guide has been produced by the Department for Communities and Local Government (DCLG) which attempts to show how the scheme will be set up and operate, including how all the detailed calculations will made in principle. This is not the easiest and most simple to understand guidance ever produced but has been included at Appendix 3 for reference and completeness.

In theory the business rate retention scheme is a significant opportunity for those councils that can attract inward investment and grow their business rate base at a faster rate than inflation and a faster rate than others. They will not just have an incentive to promote economic growth but much greater certainty about their future funding and managing their financial risks, including greater autonomy and flexibility. In practice, however, members should understand that the sums at stake for this Council are not as large as one might expect. That said, each ½% increase in the borough’s business rate base (ignoring inflation) will result in a potential funding increase of around £80,000 year on year, so not insignificant for a council of our size.

4. Business rate administration

4.1 Current arrangements

National Non-Domestic Rates in its current form was introduced on 1 April 1990. Prior to this the rates from businesses were collected and kept locally.

All properties that are non-domestic have a Rateable Value attributed to them by the Valuation Office Agency. Some properties such as churches and parks are exempt from rating. The current total Rateable Value in Rugby is £102,509,171 and there are 2,983 assessments. The Rateable Value broadly represents the yearly rent the property could be let for on the open market. Rateable Values are reassessed every 5 years.

The Government calculates a rating multiplier and this is used to calculate how much each ratepayer will have to pay. This is currently 45.8p. Throughout the 5 year period, the multiplier goes up by the rate of inflation.

There are several reductions that can be allowed and the main ones are listed below:

- Empty properties – there is no charge for the first 3 months that a property is empty and this extends to 6 months for industrial properties. After that rates are due in full, except where properties have a Rateable Value of less than
£2,600. There are further exemptions such as listed buildings and properties owned by a charity or part of a business administration.

- **Small Business Rate Relief** – This has altered many times since it was introduced. Currently we give 100% relief, if it is under £6,000 RV and is their only business. The percentage reduces for all those properties with between £6,000 and £12,000 RV by 2% per £120 RV. This will change to 50% relief for properties under £6,000 RV from 1 April 2013 and reduce by 1% per £120 RV for properties between £6,000 and £12,000 RV.

- **Charities, Community Amateur Sports Clubs and rural** – All charities and CASCs get 80% relief. Certain business in rural areas can get 50% relief.

- **Discretionary Rate Relief** – the Council can give discretionary relief to charities and non profit making organisations. Part of this relief has to be funded by Rugby Borough Council.

### 4.2 Business rate collection in Rugby

Business rates are normally collected over 10 monthly payments. During 2011/12 Rugby collected in £36,661,412. We have to pay this over to the Government in full and we received a grant back of £4,045,475. Warwickshire County Council also receive a grant, which was £102,500,000 from the 5 Warwickshire Local Authorities.

Over the past five years, the following amounts have been collected:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>2010/11</td>
<td>£36,708,563</td>
</tr>
<tr>
<td>2009/10</td>
<td>£36,079,998</td>
</tr>
<tr>
<td>2008/09</td>
<td>£35,106,721</td>
</tr>
<tr>
<td>2007/08</td>
<td>£34,512,516</td>
</tr>
<tr>
<td>2006/07</td>
<td>£35,095,338</td>
</tr>
</tbody>
</table>

Rugby Borough Council collected 98.9% of the charge in 2011/12 and continues to collect the remainder in subsequent years.

Examples of business properties in Rugby include:

- Rolls Royce has a RV of £1,320,000 and will pay £604,560.00 in 2012/13.
- Asda has a RV of £1,750,000 and will pay £801,500.00 in 2012/13.
- Three Horseshoes Hotel has a RV of £42,000 and will pay £19,760.00 in 2012/13.
5. Economic strategy and planning provision

5.1 Inward Investment

The relocation or expansion of a firm to another geographical area will, in general, be influenced by three areas:
- labour supply (including appropriate skill levels)
- location (both of customers and competition)
- availability of land or property (at an agreeable rate).

In order to influence the investment within Rugby borough, it is necessary to intervene in one of these areas. As these factors are interlinked, intervention in any one of these areas will have a knock on effect with the others.

The area that Rugby Borough Council can influence most is the availability of land or property through the planning system. The allocation of land for commercial use is a key priority of the council’s development planning document, the Core Strategy. It is possible for the Council to influence the other two areas, but to a lesser extent.

Inward investment operations can be simplified into two areas: pro active and reactive. Examples of proactive inward investment would include advertising and marketing, research into the future of the commercial landscape and visiting internal/external businesses. Reactive inward investment operations would include the availability of data for enquiries, council services being geared up to deal effectively with enquiries and the ability to engage quickly with third parties. Historically Rugby Borough Council has operated in both of these areas.

5.2 Economic Strategy

The Council’s economic strategy is articulated in the RBC Core Strategy. To build an evidence base for the Core Strategy the Council commissioned an Economic Prosperity Study (EPS) in 2007. The Council also produced an internal working document, the Local Development Framework Economic Development Background Paper 2010, which also informed the economic development chapter of the Core Strategy.

The council’s vision is to “develop the prosperity of the Borough of Rugby and raise its importance as an economic engine within the sub-region”.

The vision acknowledges that future development in Rugby should encourage the existing business base to grow organically, whilst also shaping and promoting diversity amongst the sectors represented and types of employment they support.

The strategy can be summarised as follows:
The economy of Rugby Borough is not just important to its residents but those who commute daily into the Borough for employment purposes.

Presently approximately 43,000 people are employed within the Borough.

Further diversity of Rugby’s economic base will be encouraged.

The period 2006 to 2020 will see the Borough’s economy grow by a predicted rate of 12%. For the West Midlands this figure is 13%.

Rugby has a healthy economy with low unemployment and steady growth in new employment development.

Existing employment land should be protected, any redevelopment of existing sites should incorporate at least 20% as employment land.

There is a need to provide employment land for more small to medium-sized enterprises.

The Borough needs to provide more B1 (offices, research and development, light industry) floor space. (The provision of such floor space will help in diversifying the economic base of the Borough).

Rugby should maintain and improve a job density of 48 jobs per ha.

There is potential for over-reliance on storage and distribution if more B1 floor space is not achieved.

By 2027 distribution, transport and communications is predicted to be the most prominent employment section, providing approximately 14,500 jobs, the next largest sector will be non-marketed services (ie. public administration, health, social care etc.), highlighting that there will generally be an increase in demand for office floor space to support these sectors.

Predicted sector growth will also see a continued demand for the supply of B2 land to serve the Borough’s significant manufacturing and construction industries up to 2027.

Overall, Rugby has a healthy economy in terms of an existing business base, unemployment and also gradual commercial growth. The steady increase in employment within the logistic sector in the area indicates a need to ensure that any future development recognises the importance of that sector, yet also ensures diversity amongst the borough’s employment offer.
5.3 **Business Growth Forecasts**

5.3.1 **Core Strategy allocations**

Outlined below is the economic growth forecast through the allocation of land in the Core Strategy:

- The Core Strategy allocates 108 ha of employment land, to be delivered between 2006 and 2020. This assumes a job density of 48 jobs per ha - This figure does not include the Ryton (former Peugeot site) or Ansty RIS.

- There will be a 'rolling reservoir' of delivery of 36 ha every 5 years.

- 67 ha of this allocation will be delivered through the two urban extensions – the Mast Site and the Gateway site. This land forms the medium to long-term commercial growth.

- The short-term forecast growth will come from the additional sites listed in the economic development background paper.

It is important to note that **ha figures represent a gross employment figure**, rather than a net floor space figure that would be needed to calculate business rates. The floor space could be estimated through the use class allocations for the land.

5.3.2 **Recent development and completions**

To gain a wider understanding of the year on year development of commercial sites, it is important to consider the extent of development/completions in recent years. Due to market conditions, the context has been one of limited speculative built commercial properties.

There was no development / completion of employment floorspace in 2010/11 and 2009/10. In 2008/09 15568 ha of office space (B1) was developed.

5.3.3 **Developments that are predicted to be completed by the end of 2013**

Below is a list of major sites that are either in the process of development or have planning permission and are expected to be built by the end of 2013. It should be noted that some of these are considered as the short term growth as mentioned within the Background Paper and are not an addition to that.
### Key Questions

Over the course of this review there are a number of key questions that the Task Group will wish to consider, the answers to which are likely to inform some of the final recommendations to Cabinet.

- What further steps could the Council take, with partners, to encourage inward investment in the borough? What is the appropriate level of resource for the Council to commit to supporting economic growth in the borough, in view of the incentive we now have to grow our business rate base by more than inflation?

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<table>
<thead>
<tr>
<th>Site</th>
<th>Status</th>
<th>Floor space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ryton – former Peugeot site</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site A and B</td>
<td>planning permission granted</td>
<td>143,394 m²</td>
</tr>
<tr>
<td>Site C</td>
<td>planning permission pending Secretary of State approval</td>
<td>29,236 m²</td>
</tr>
<tr>
<td>Ansty Park RIS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sainsbury’s</td>
<td>planning permission granted</td>
<td>12,835 m²</td>
</tr>
<tr>
<td>MTC</td>
<td>considering expansion plans</td>
<td></td>
</tr>
<tr>
<td>Coton Park</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quartzcelec</td>
<td>construction in progress</td>
<td>8826 m²</td>
</tr>
</tbody>
</table>

**Total predicted competitions by 2014 – 337,685 m² net.**
- What should the Council's position be with regard to balancing the financial value of businesses to the Council and the wider economic vision for the borough? (i.e. Do we encourage any form of business growth to maximise income, or do we continue to seek to achieve a balanced profile of businesses, in line with our agreed economic strategy and planning policy, to optimise our income?)

- Are our business rate collection practices successful? Can we do anything more to increase our rate collection levels and ensure business properties are correctly valued?

- What is our current policy regarding discretionary rate relief? Given that we will have much greater freedom and discretion to award relief, does this need to change at all to support business growth or increase business rate income?

- If it is the Government's intention that business rates paid in respect of new renewable energy projects will be retained entirely by the Council, do we wish to use any funding to specifically encourage further business growth in this sector?

7. Next steps

Following the presentation and briefings by officers at the meeting, the task group will need to review the one page strategy and begin to identify a programme of work to deliver the intended outcomes for the review.
A Plain English Guide to Business Rates Retention

Local Government Finance Bill
Why are we changing the system?

Government wants to give councils more freedoms and flexibilities. This is since we want to reduce Whitehall interference and give more power to local people. We also want to give councils stronger incentives to create and support local jobs and local firms.

The local government finance system is one of the most centralised in the world with councils getting more than half of their income from a central government grant. Under the existing system all businesses - shops, offices, warehouses and factories - pay a tax to their local council (called business rates). Although the local council collects the bills, it doesn’t keep the money. It goes into a Treasury pot and is then redistributed back to local authorities, via an extremely complex formula.

There are a number of problems with the current scheme. It fails to reward local authorities for increasing new business in their area. No matter how many new businesses start up in their locality, councils don’t get a penny extra. They could even lose out for having to stump up the cost of providing additional services to new companies. Instead of encouraging businesses, the system encourages a ‘begging bowl’ mentality with councils looking to be rewarded for being worse off. It’s a system in need of reform.

Government’s proposals will shift more financial power from Whitehall to the town hall allowing councils far greater influence over the money they earn. Overall, councils will now get to keep 50 per cent of what they earn giving them a real incentive to go for growth and encourage enterprise and job creation. It has been estimated that these reforms could boost economic growth by £10 billion over the next seven years. If economic activity increases, the total amount of money raised from business rates will grow too. This means there will be more money ‘in the pot’ both for prosperous councils and to support less well-off areas.

They will also have much greater flexibility to pool their business rates to encourage growth across their areas. And the scheme also enables local authorities to borrow money against future business rate growth to fund infrastructure projects in their area.

Meanwhile, councils that struggle to increase their business will have protection for basic services. And all local authorities will now have much greater certainty about their budgets over a longer period of time - allowing them to plan ahead.

How will the new scheme work in practice?

Instead of business rates going straight into the Treasury coffers without touching the sides of the local authorities, town halls will now get to keep a proportion of their hard earned cash.

But the reality is that some wealthier authorities earn more in business rates than they used to receive from the current formula grant. While there are other...
authorities who earn much less. So Government is levelling the playing field through a mixture of “top-ups” and “tariffs”.

In the first instance, Government will calculate a funding level for every local authority for 2013/14. Should a local authority receive more in business rates than its funding level then Government will pocket the difference (the “tariff”). This will be used entirely to “top up” local authorities who receive less than their funding level. Government intends that this will be fixed for seven years.

Once underway the scheme allows councils to keep 50 per cent of the additional funds they generate. But without adjustment the scheme would be weighted towards richer authorities. This is because, for a comparatively small investment in growth, councils with a large amount of business property can gain large increases in their revenue. Whereas hard-pressed councils who put a lot in would get comparatively little out.

For example, in an authority with business rates income of £100 million and funding level of £50 million, a 5 per cent increase in business rates income produces a 10 per cent increase in income compared to its funding level. A town hall with a different rate base (£10 million) and the same funding level (£50 million), would find the same 5 per cent increase in rates income only produces a 1 per cent increase in income compared to its funding level.

So Government is evening up the odds to encourage enterprise in councils whatever their resources. Where a council’s increase in revenue outstrips the increase in its funding level. Government will again take the difference through a levy. So if an authority grows its rates by 2 per cent and its funding level growth is 4 percent, it will get to keep 2 per cent of that growth.

However, this money will still be ploughed back into local authorities. In this case it will be used as a shock absorber to protect other authorities that see their income drop to a particular level, for example, as a result of big business going under. Government is consulting on where between 7.5 per cent and 10 per cent this level should be set.

**What do these proposals mean for you?**

*Local residents* - should see greater investment in local services as authorities see their business rates revenue increasing. Equally, spending is protected even if it suffers a significant decrease in its business rates revenue.

*Businesses* will see no change in the way their business rate bills are calculated. But they will have more influence on council’s decisions, including their budget as the council’s income is directly linked to the successful of businesses in its areas.

*Charities and voluntary groups* which currently receive tax relief on their bills will see no change, as such relief will continue.
Councils will have much greater incentive to grow businesses in their areas and much greater certainty about their future funding - allowing them to plan ahead, manage risk, budget for the long term and plan for worst case scenarios. They will also want to work more closely with the Valuation Office Agency (the body which helps calculate the amount of business rates that firms should pay) to ensure local firms are having their properties valued correctly and paying the right amount of tax.

Developers will find a more conducive atmosphere with councils actively seeking to encourage appropriately-sited and well-planned non-residential development. This is especially true of new renewable energy projects that start paying business rates from year one.

The police authority will not be affected by fluctuations in business rates in your area.

All single purpose fire and rescue authorities will be funded through a two percentage share of each district or borough council’s business rates income. They will receive a top-up to bring their funding up to their funding level.

More information about business rates

Information on how business rates bills are currently calculated can be found at http://www.businesslink.gov.uk/bdotg/action/layer?r.i=1080387285&r.l1=1086951342&r.l2=1087348731&r.l3=1081626979&r.l4=1080387124&r.s=m&r.t=RESOURCES&topicId=1081626979. This will not change.
AGENDA MANAGEMENT SHEET

**Name of Meeting**  
Cabinet

**Date of Meeting**  
25 June 2012

**Report Title**  
Local Business Rates Retention

**Portfolio**  
Resources and Corporate Governance

**Ward Relevance**  
All

**Prior Consultation**  
Cabinet 17th October 2011- Response to Government Consultation on the Retention of Business Rates

**Contact Officer**  
Adam Norburn x3430

**Report Subject to Call-in**  
Yes

**Report En-Bloc**  
No

**Forward Plan**  
No

**Corporate Priorities**  
This report relates to all of the Council’s outcomes and priorities.

**Statutory/Policy Background**  
Local Government Finance Bill 2012

**Summary**  
This report sets out the background and some of the key issues relating to the Government’s proposals to localise the retention of business rates from April 2013. The key points are as follows:

- Councils will be able to keep 50% of new business rates locally
- The Government will retain 50% centrally and redistribute to councils as it sees fit
- This will create “winners” and losers” – Rugby Borough Council is likely to be a “winner”
- The Government will introduce a safety net to protect the biggest “losers” and a levy from the biggest “winners” to finance this protection
Appendix 2

- Councils can opt to go it alone or pool with their neighbours to mitigate risk and share benefits
- It is unclear at this stage whether pooling will definitely be beneficial to Rugby Borough Council, although on balance it looks as though it will, but we have to make our intention to enter into a pooling arrangement by 27th July 2012 and will miss the opportunity if we do not
- Once the Council has been notified towards the end of 2012 of its financial settlement for 2013/14, it will be clear whether pooling is advantageous for us and we will have 28 days to withdraw from any proposed pooling arrangement
- Once in any pooling arrangement, the Council must stay in the pool for a complete financial year, but will have the opportunity to review the decision annually

**Risk Management Implications**

Pooling business rates rather than the Council going it alone will mitigate the risk of business rate volatility significantly affecting the Council’s future finances.

**Financial Implications**

The local retention of business rates will provide a fundamental shift in the way that the Council is financed. The detailed financial impact for 2013/14 onwards will not be known until the next Draft Local Government Finance Report due in November/December 2012.

**Environmental Implications**

There are no environmental implications.

**Legal Implications**

There are no legal implications.

**Equality and Diversity**

There are no equality and diversity implications.

**Options**

1. **Agree to join a Warwickshire councils business rate pool before the 27th July 2012 Government deadline**

   **Risks:** None

   **Benefits:**
   - The Council will protect itself against any volatility in its business rate base.
   - All of the business rate income generated within Warwickshire will remain within Warwickshire (as the pool would be a small “top-up” area).
   - An agreement could be made that all councils in the
Appendix 2

pool would be at least as well off as if they were not in the pool.

The Council would still have the opportunity to change its mind and not enter into a pooled arrangement once its actual business rate allocations are known in November/December 2012 (thereafter 28 days to decide).

2. Do not agree to pool business rates before the 27th July 2012 Government deadline

Risks:
The Council will be at the mercy of any volatility in its business rate base and may experience relatively large swings in future funding.

Any above normal growth in the borough is likely to be subject to a levy and redirected away from the Council and this area to another area of greater need.

The Council will not have the opportunity to join the pool after 27th July 2012 deadline has passed.

Benefits:
The Council will not need to make any governance arrangements with other councils.

The Council will be guaranteed to keep its business rate growth up to the level where the levy comes into force.

**Recommendation**

1. The Council agree to be included in any Warwickshire-wide business rate pooling proposal to the DCLG should there be one; and

2. Officers be given delegated authority to pull out of any Warwickshire-wide business rate pooling proposal if actual business rate allocations published in the Draft Local Government Finance Report in November/December 2012 show that this would potentially disadvantage the Council.

**Reasons for Recommendation**

There are a number of potential benefits for the Council in pooling business rates with other Warwickshire councils. To be able to create a pool Warwickshire councils must submit their pooling proposals to the Government by 27th July 2012.
Cabinet – 25 June 2012

Local Business Rates Retention

Report of the Head of Resources

Recommendation

1. The Council agree to be included in any Warwickshire-wide business rate pooling proposal to the DCLG should there be one; and

2. Officers be given delegated authority to pull out of any Warwickshire-wide business rate pooling proposal if actual business rate allocations published in the Draft Local Government Finance Report in November/December 2012 show that this would potentially disadvantage the Council.

1. INTRODUCTION

1.1 Over the last year the Government has been developing a proposal to change the way local government is funded by introducing the local retention of business rates. The proposal states the case for change in that the current system is overly centralised and such devolution will create a strong incentive for the local promotion of economic growth.

2. BACKGROUND

2.1 The Department for Communities and Local Government (DCLG) launched the business rates retention consultation on 18th July 2011. DCLG subsequently published eight technical papers, to supplement and provide further detail on the initial consultation paper, on 19th August 2011. The consultation period ended on 24th October 2011. The Council responded on 18th October 2011.

2.2 On 19th December 2011, the government produced its response to the consultation, setting out how it intended the business rates retention scheme to operate. The legislative framework required to introduce the business rates retention scheme forms part of the Local Government Finance Bill, introduced on 19th December 2011. The Government’s intention is that the new business rates retention scheme will be implemented from 1st April 2013.

2.3 On 17th May 2012 DCLG published five papers relating to the proposed business rates retention scheme. These covered:
   • the central and local shares of business rates;
   • the safety net and levy;
Appendix 2

- renewable energy projects;
- a pooling prospectus; and
- the economic benefits of local business rates retention

The first four papers provide information regarding the design of the proposed business rates retention scheme, with the first three papers being statements of intent. The fifth paper, the economic benefits of local business retention, attempts to gauge the overall impact of the business rates retention scheme on Gross Domestic Product (GDP), so this will not be covered in this report.

3. KEY ISSUES

3.1 The central and local shares of business rates

3.1.1 The original consultation stated that the business rates retention scheme would operate within the original Comprehensive Spending Review 2010 (CSR10) control totals. In order to achieve this, the Government was intending to retain a central share of business rates.

3.1.2 The Government has indicated that it intends to set the central share at a fixed percentage of the total, namely 50%. This percentage will be fixed until any reset of the system i.e. re-assessing individual authorities’ baseline funding levels, potentially on the basis of a different assessment of need. This level of central retention of business rates reduces the level of direct “reward” for local authorities, with central government taking a proportion of the business rate growth to distribute as it sees fit.

3.1.3 The creation of a 50% central share will mean that the amount local authorities are able to keep in business rates (i.e. the remaining 50% local share) will be lower than the CSR10 amounts for 2013/14 and 2014/15. The intention is, therefore, for government to provide the remaining Spending Review allocation for local government through Revenue Support Grant (RSG).

3.1.4 This arrangement provides DCLG with increased flexibility regarding the amount of resources that it can take from local government. By reducing the amount of funding that local authorities are receiving through the business rates retention scheme and creating a separate funding stream (i.e. RSG), it will allow DCLG to have a greater opportunity to control local government funding, especially in light of the fact that DCLG intends to roll a number of specific grants into mainstream RSG funding.

3.1.5 The level of RSG for 2013/14 and 2014/15 will be set out in the 2013/14 Local Government Finance Report. Future years’ allocations will be determined through future Comprehensive Spending Reviews and will be announced through future finance reports. The basis for the distribution of RSG will be set out within the local government finance reports (as is currently the case).

3.1.6 Despite the introduction of business rates retention, the creation of RSG (and its increased size due to the rolling in of specific grants), will mean that the Council will continue to be reliant on the allocation of a grant from central
government (i.e. RSG) and will continue to receive funding notifications through a local government finance settlement.

3.2 The safety net and levy

3.2.1 The government had previously set out its preferred methodology for determining the safety net and levy. The levy and the safety net are linked, as it is the levy (acting on councils that have business rate growth) that will fund the safety net (to support councils in business rate decline).

3.2.2 The Government proposes introducing a baseline safety net. This is triggered if an authority sees its income in any year decline by more than a set percentage below its baseline funding level. The baseline could be increased by Retail Price Inflation (RPI) each year, so that the level of protection offered by the safety net remains constant over time. The safety net threshold is likely to be set in the range 7.5% to 10% below the calculated spending baseline (the amount the Council is considered to need to spend).

3.2.3 There will be no cap on the amount of resources that an authority can receive through the scheme. However, the scheme will include a levy on additional receipts due to business rate growth. The Government proposes to introduce a proportional levy, whereby each council would be assigned an individual levy rate. The rate would be set such that a 1% increase in an authority’s business rates would result in a maximum 1% increase in income measured against its spending baseline.

3.2.4 For “top up” authorities (where the business rate baseline is less than the needs baseline) this will mean that no levy is payable. For tariff authorities, the rate of the levy will be determined by a set formula. The Government proposes that levy and safety net calculations will be carried out after the end of each financial year.

3.3 Renewable energy projects

3.3.1 All business rates revenue from new renewable energy projects will be fully retained by the councils within the area of the project i.e. they will be disregarded from calculations in the rates retention scheme on the central/local share, levy and reset of tariffs/top ups.

3.3.2 The billing authority (i.e. RBC) will be responsible for the decision as to whether a new or expanded property meets the new renewable energy project definition.

3.3.3 The local planning authority (i.e. usually RBC) that has given approval for the new/expanded renewable energy scheme will gain the benefit from the disregard in two-tier areas.

3.4 Pooling

3.4.1 The Government has now summarised its views on the potential benefits of pooling and the process for formally designating pools. Local authorities are invited to come forward with their pooling proposals by 27th July 2012.
3.4.2 The Government believes that pooling offers opportunities in terms of encouraging joint working, sharing the benefits from economic growth, investment across the wider area and managing volatility in business rates income levels. It considers existing examples of joint economic activity / working between authorities and Local Enterprise Partnerships, identifying that pooling could be a potential mechanism to support the delivery of economic growth.

3.4.3 Pooling effectively combines the tariffs/top ups of individual authorities within the pooling area and treats the area as a single authority (although individual authorities would still be notified of their tariffs/top ups). A single levy rate applies to the sum of the pool’s income and growth levels (a 1:1 proportional levy as considered previously). Similarly, safety net eligibility (between 7.5%-10% below the business rate baseline, as considered previously), is also calculated at aggregate pool level.

3.4.4 Local autonomy to distribute resources amongst pool members as pools themselves wish has now been confirmed; for example, authorities could decide that each member will receive at least the same amount as they would have if a pool had not been in place, and additional resources could be distributed through local discretion or weighted (potentially according to the level of benefit received).

3.4.5 As identified previously, levy payments will only be determined at the end of the financial year, and therefore pools will need to have arrangements in place to deal with the cessation of pools; for example, to determine how levy payments will be apportioned.

3.4.6 Key issues identified in relation to pooling are that:
- Pooling will be entirely voluntary and not imposed by the Government;
- Local authorities will themselves determine the pool’s geographic coverage, including wider than within a county region, although the Government will have the ability to refuse pooling proposals where they perceive that there is no clear rationale for the proposed pool. The Government will also have the right to consider whether the operation of pools could impact the level of funding available for the safety net and (in exceptional circumstances) consider such affordability, when making decisions on pools;
- One pool member will need to act as the lead authority, purely in terms of payment / administrative arrangements;
- Pools can be any size, although authorities can only be a member of one pool. Those authorities that are affected by pool proposals e.g. neighbouring authorities in a county region who are not included within the pool and who may be disadvantaged will be consulted by the DCLG;
- Pools will need to determine their own governance arrangements and transparently publish their pooling arrangements and financial information on how the pool will operate; and
- There will be no specific additional financial incentive for pooling, although the Government retains the option to consider this in future.
3.4.7 The designation of the pool area must be made by the DCLG in advance of authorities being notified of the basis of the calculation of top ups/tariffs i.e. before the Local Government Finance Report is published (usually late November/early December). The Government intends to allow authorities the chance to withdraw from pooling arrangements once the draft Local Government Finance Report is published (if the request is made within 28 days of the draft report being published).

3.4.8 The DCLG will also be able to attach specific conditions to a pool e.g. in relation to publication of financial information and to dissolve a pool if conditions of pool designation are breached.

3.4.9 The specific timetable set out in relation to pooling is:
- 17\textsuperscript{th} May 2012 Councils invited to bring forward pooling proposals
- 27\textsuperscript{th} July 2012 Deadline for submission of pooling proposals
- September 2012 Pooling proposals consultation
- November 2012 Pooling proposals designation
- April 2013 Business rates retention scheme commences

3.4.10 The Council will need to decide whether it wishes to consider being in a pool and if so, which geographical area it would wish to pool with. This could range from pooling with another single district council, all the districts in the county, include the county council and even further afield.
Name of Meeting: Cabinet
Date of Meeting: 25 June 2012
Subject Matter: Local Business Rates Retention
Originating Department: Resources

**LIST OF BACKGROUND PAPERS**

<table>
<thead>
<tr>
<th>Document No.</th>
<th>Date</th>
<th>Description of Document</th>
<th>Officer’s Reference</th>
<th>File Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cabinet</td>
<td>17th Oct</td>
<td>Response to Government Consultation on the Retention of Business Rates</td>
<td>AN</td>
<td></td>
</tr>
</tbody>
</table>
Business Rates Retention

A step-by-step guide
Exemplification of business rates retention scheme

This document provides a step-by-step guide on how the business rates retention scheme will be set up and will operate, including how the central and local share will operate and how levy and safety net payments will be calculated. This aims to clarify the statements of intent published in May, especially around the terminology used.

The summer consultation, which this document is published alongside, sets out the technical detail underpinning the business rates retention scheme ahead of the 2013-14 local government finance report. This consultation includes income definitions for the purpose of calculating the payments from billing authorities to their major precepting authorities, in respect of the central share and for the purposes of levy and safety net calculations. It also deals with the calculation and distribution of Revenue Support Grant, which is not discussed here.

The numbers used in this document are for illustrative purposes only and do not reflect actual sums of business rates at either aggregate or individual authority level. This exemplification illustrates how the scheme will operate in a two-tier area. Other major precepting authorities, such as single purpose fire and rescue authorities, can see how the scheme will operate for them by inputting their major precepting authority shares as necessary (steps 4, 7 and 8).

Set-up

1. **DCLG will first calculate the total business rates that will be collected by all English billing authorities in 2013-14 i.e. the estimated business rates aggregate.** This will be on the basis of an Office of Budget Responsibility UK forecast. The details of how this will be done are set out in the summer consultation.

   *Estimated business rates aggregate: £10bn*

2. **The central and local share percentages will then be applied to the estimated business rates aggregate.** The Statement of Intent, ‘Business Rates Retention Scheme: the central and local share of business rates’, set out the Government’s intention to set the local share at 50 per cent and the central share at 50 per cent.

   *Estimated business rates aggregate= £10bn*
   
   \[
   \begin{align*}
   \text{Central share @ 50\%} &= £5bn \\
   \text{Local share @ 50\%} &= £5bn \\
   \end{align*}
   \]

   The central share will be paid by billing authorities to central government. This will be used in its entirety to fund local government through Revenue Support Grant or other specific grants.

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Payment schedules will be set up on the basis of the estimated business rates aggregate but will be subject to a process of reconciliation to ensure payments represent 50 per cent of actual receipts.

3. **DCLG calculates a proportionate share for each billing authority** in order to work out a billing authority business rates baseline. It first works out a proportionate share percentage for each billing authority based on its historic business rates collection averaged over a number of years. The methodology for how proportionate shares will be calculated is set out in the summer consultation.

The proportionate share percentage is then applied to the local share of estimated business rate aggregate (as set out in step 2) to determine the billing authority business rates baseline.

<table>
<thead>
<tr>
<th>Local share: £5bn</th>
<th>Proportionate share percentage for billing authority A: 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Billing authority business rate baseline: £5bn x 0.01=$50m</td>
</tr>
</tbody>
</table>

4. **This billing authority business rate baseline is then split between the billing authority and its major precepting authorities (on the basis of major precepting authority shares) to determine individual authority business rate baselines.**

In December 2011, the Government set out that it intended to set the major precepting shares in two tier areas at 80 per cent for district councils and 20 per cent for county councils that have responsibility for fire and rescue services. The summer consultation proposes to set the percentage share for single purpose fire and rescue authorities at 2 per cent, and county councils in such areas would receive an 18 per cent share.

<table>
<thead>
<tr>
<th>Billing authority business rates baseline: £50m</th>
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</thead>
<tbody>
<tr>
<td>Individual authority business rate baseline (for billing authority A) @ 80%=$40m</td>
</tr>
<tr>
<td>Proportion of billing authority business rates baseline which is passed to major precepting authority B @ 20%=$10m</td>
</tr>
</tbody>
</table>

A major precepting authority’s individual authority business rate baseline will be formed from adding together the proportions they receive from the billing authorities in their area.

| Proportion from billing authority A: £10m |
| Proportion from billing authority C: £5m |
| Proportion from billing authority D: £7m |

| Individual authority business rate baseline (for major precepting authority B)=£22m |
5. For each authority, DCLG will then calculate the baseline funding level for the purpose of the business rates retention scheme. This is done by applying the 2012/13 formula grant process to the local share of the estimated business rates aggregate. Proposals for using updated datasets, making limited methodological updates and other technical adjustments are set out in the summer consultation.

| Billing authority A’s baseline funding level = £25m |

6. Tariffs and top-ups are then calculated. A local authority must pay a tariff if its individual authority business rate baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up if its baseline funding level is greater than its individual authority business rate baseline.

Tariffs and top-ups will be fixed until the business rates retention system is reset but will be uprated by RPI each year.

| Billing authority A’s individual authority baseline funding level: £25m |
| Billing authority A’s business rate baseline: £40m |

Billing authority A is a tariff authority as its individual authority business rate baseline is greater than its baseline funding level.

| Tariff: £40m - £25m = £15m |

Running the system: Major precepting shares

7. In setting up the system, major precepting shares will be used to determine individual authority business rates (see step 4). They will also be used once the system is running to determine how much of the business rates it collects a billing authority has to pay to central government and its major precepting authorities.

In December 2011, the Government set out that it intended to set the major precepting shares in two tier areas at 80 per cent for district councils and 20 per cent for county councils. After central share payments are taken into account, this percentage split becomes 40 per cent and 10 per cent respectively of the total rates collected. For single purpose fire and rescue authorities, this means they will receive 1 per cent of the business rates collected by the billing authority and a further 1 per cent would be paid to central government as a central share payment by the billing authority.

| Business rates collected by billing authority A in 2013-14: £120m |
| Central share payment of 50%: £60m |

| Payment to major precepting authority B @ 10% of rates collected= £12m |
| Retained income by billing authority A @ 40% of rates collected= £48m |
8. Major precepting authorities will receive business rate income from each of the billing authorities in their area. They will also receive Revenue Support Grant and are likely to receive a top-up payment because county councils in two tier areas are receiving 10 per cent, and single purpose fire and rescue authorities are receiving 1 per cent, of locally retained business rates.

<table>
<thead>
<tr>
<th>Authority</th>
<th>Business Rate Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authority A</td>
<td>£12m</td>
</tr>
<tr>
<td>Authority C</td>
<td>£8m</td>
</tr>
<tr>
<td>Authority D</td>
<td>£5m</td>
</tr>
</tbody>
</table>

Total business rate income of major precepting authority B = £25m

Running the system: operation of the levy and the safety net

9. A levy will be calculated for each local authority.

In the Statement of Intent, ‘Business rates retention scheme: the safety net and levy’, the Government stated that the levy would be a 1:1 proportionate levy. This means that for every 1 per cent increase in a local authority’s business rate income, the local authority would see no more than a corresponding 1 per cent increase in its baseline funding level.

This relationship is expressed in the levy rate, which is:

\[ 1 - \frac{\text{baseline funding level}}{\text{individual authority business rates baseline}} \]

If the calculation produces a negative levy rate, the local authority will not be levied.

Local authority A’s individual authority business rate baseline = £40m
Local authority A’s baseline funding level = £25m
Levy rate: 1 - (£25m/ £40m) = 0.375%
10. Calculating levy payments

At the end of a financial year, DCLG will calculate whether a levy payment was due from an authority. It will do this by comparing an authority’s pre-levy income under the business rates retention scheme with its baseline funding level.

\[
\text{Total business rates collected by billing authority A in 2013-14} = £120m \\
\text{Less:} \\
\text{Central share @ 50%: £60m} \\
\text{Payments to major precepting authority B @ 10%: £12m} \\
\begin{align*}
\text{= Billing authority A’s retained business rate income} &= £48m \\
\text{Less:} \\
\text{Tariff} &= £15m \\
\text{= Pre-levy income under rates retention scheme} &= £33m \\
\text{Baseline funding level} &= £25m \\
\text{Growth} &= £8m \\
\text{Levy rate of 0.375%} &= \text{Levy due of £3m} \\
\text{Growth Retained} &= £5m
\end{align*}
\]

For major precepting authorities, the levy ratio will be applied to the cumulative total of business rate payments from their billing authorities.

11. Calculating safety net entitlements

At the end of a financial year, DCLG will calculate whether a safety net payment should be paid. It will do this by comparing an authority’s pre-safety net income under the business rates retention scheme with its baseline funding level. For the purpose of these calculations, the baseline funding levels will be indexed to RPI.

Safety net payments will ensure that a local authority’s income does not drop below more than a set percentage of its baseline funding level uprated by RPI. In the Statement of Intent, ‘Business rates retention scheme: the safety net and levy’, the Government announced that the safety net threshold would be set at between 7.5 per cent and 10 per cent. The Government is consulting on the safety net threshold in the summer consultation, as well as the mechanism for providing in-year safety net payments.
Assuming a safety net threshold of 8.5%.

Total business rates collected by billing authority A in 2013-14= £80m
Less:
  - Central share @ 50%: £40m
  - Payments to major precepting authority B @ 10%: £8m

=Billing authority A’s retained business rate income= £32m
Less:
  - Tariff= £15m

=Pre-safety net income under rates retention scheme = £17m

Baseline funding level = £25m
Safety net level (@ 8.5% threshold) = £22.9m
= Safety net payment of £22.9m- £17m= £5.9m
REVIEW OF INWARD INVESTMENT

ONE PAGE STRATEGY

What is the broad topic area?
Inward Investment

What is the specific topic area?
The review will focus on the council’s policy in relation to the retention of business rates by local authorities, which is being proposed in the first phase of the Local Government Resource Review. It will consider:

- how the council might encourage economic growth in the borough to maximise income from non-domestic rates
- the council’s policy for providing relief to businesses in support of inward investment;
- the council’s policy for spending income earned from local business rates;
- the use of other income sources, such as the new homes bonus and the community infrastructure levy, to support economic growth.

Inward investment is about encouraging businesses to relocate and invest in the area. Local authorities can support local economic growth through the planning system, investment in local infrastructure, ensuring access to education and training, building strong relationships with businesses and through the way they exercise their regulatory powers in relation to local businesses. These are all areas the review may wish to consider in the context of encouraging economic growth in the borough to maximise income.

What is the ambition of the review?
Rugby will have a clear policy in relation to the retention of business rates and be successful in supporting economic growth to maximise the new income opportunities. Rugby will be effectively marketed as an attractive location for businesses and the Council will work well with partners to attract more businesses to the borough.

How well do we perform at the moment?
The task group will begin by considering:

- number of companies in the borough
- an analysis of the borough’s rateable value tax base, and recent trends
- comparative performance data against other Warwickshire authorities on inward investment
- details of recent planning decisions relating to new businesses.

Supporting documents for the task group to consider include:

Rugby Borough Council Core Strategy (chapter 8) – specifically land allocations for commercial uses
Economic Development Action Plan
Who shall we consult about the current service and about how we can improve it?
Coventry and Warwickshire Local Enterprise Partnership (Inward Investment task group lead)
Warwickshire Investment Partnership (arm of Warwickshire County Council)
Chamber of Commerce
Federation of Small Businesses
Local commercial agents
Jobcentre Plus
Rugby BID
Warwickshire County Council work-based learning and apprenticeship team

What other help do we need?
Support from the Head of Resources, Economic Development Officer, Revenues Manager and the Forward Planning team.

The task group will need to understand the Government’s proposals for business rate retention in the Local Government Resource Review.

The review may also make use of any relevant evidence gathered as part of Warwickshire County Council’s recent scrutiny review (August 2011) on supporting the local economy, and take into account the findings of Rugby Borough Council’s review of the town centre economy (2010).

How long should it take?
The review will commence in July 2012 and conclude by the end of the municipal year.

What will be the outcome?
- A draft council policy on the retention of local non-domestic rates
- Recommendations to Cabinet on measures to support increased local economic growth.