

Business Rates: A Sustainable Approach

Growing the Economy

Overview and Scrutiny Committee

Date: 30th November 2016

Author:	Director of Economy, Regeneration and Skills
Wards:	All
Locality Affected:	All
Parishes Affected:	All

1. Purpose and Reasons

- 1.1 This report is in response to a request from Growing the Economy Overview and Scrutiny Committee to report on the relationship between business rates and economic growth.
- 1.2 The report sets out to notify the Growing the Economy Overview and Scrutiny Committee of the different departmental perspectives on business rates growth through economic growth, and how this links to decisions taken within planning.

2. Recommendations

The Committee is recommended to:

- 2.1 Consider the relationship economic growth and business rates have, and how this has potential to affect council budgets, jobs, investment and the local community in the short and long term.

3. Detail

Context

- 3.1 Since the recession of 2007 successive governments have reduced the funding available to local government. Local projections based on national figures have been modelled to show Revenue Support Grant received by the Council (£28m) will be eroded by 2020. Alongside this, forecasts in cost pressures and council tax income suggest that the scale of funding gap, with no change in the way services are provided, will be between £45m and £50m over the next 3 years.
- 3.2 The Council is responsible for collecting 100% of business rates income, but only retains around 28% of this after a series of redistribution mechanisms are applied. By 2020 the Government plans to enable Local Government to retain 100% of business rates (although it is not clear how this may be redistributed between individual authorities), and this is expected to replace current grant arrangements, although the detail around this is not yet known.
- 3.3 The change in makeup of local government income and the emphasis on business rates generation creates greater political interest in new commercial developments and there may be choices between :

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- 3.3.1 The short term loss of income in waiting for the "ideal" development to be built, and which maximises in the longer term business rates, jobs and fulfils the optimum use allocated in the Local Plan and Economic Strategy.
 - 3.3.2 The long term opportunity cost of accepting any commercial development, on land with greater economic potential, to generate more immediate income for the Council in the short run, thus helping to minimise budgetary pressures.
 - 3.4 Economic growth creates both direct and indirect benefits to the local authority. Commercial growth creates additional income to the council through business rates, whilst associated jobs have the potential to add more money to the local economy through disposable income. Employment can improve health and wellbeing of residents which will reduce the dependency upon council services.
 - 3.5 Developable land in the borough is a finite resource, it is therefore imperative that there is a balanced view taken against all development between short term financial pressures and longer term goals.

Employment Land

- 3.6 The Swindon Employment Land Needs Assessment (2016-36), recently commissioned for the next iteration of the Local Plan and Economic Strategy, suggests that between 2016 and 2036, an additional 15,000 jobs are likely to be created in the borough. This will generate need for:
 - 3.6.1 40-50 hectares allocation of B2 (General industrial) and B8 (Storage or Distribution) stock above that already allocated in the 2012-26 Local Plan.
 - 3.6.2 10-20 hectares of land for office uses, in addition to the allocations made in the 2012-26 Local Plan and town centre Masterplan.
 - 3.6.3 Although not explicitly quantified in this study, 'other' employment uses are likely to require a significant new allocation (possibly up to 50 hectare allocation)
 - 3.6.4 Future need for retail space, associated with the increased population, will be met by the planned provision at new settlements (NEV and Wichelstowe), the Town Centre Masterplan and North Star; and will not require further future allocations of land.
- 3.7 Despite the commercial space shortages outlined in the report, employment land is still at risk. A number of sites risk conversion to residential including a 9.7 hectare site in Dorcan industrial estate where outline planning permission has been granted for 165no. dwellings. Further, changes to "permitted development rights" were introduced by the Government in 2013, which allow office buildings

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to be converted to residential without the need for a formal planning application. There continues to be a strong appetite for conversion of older stock to residential use as developers take advantage of the stronger economy, the relaxed planning regime and the forthcoming electrification of the mainline

- 3.8 This ability to convert from office to residential places the office stock in Swindon Town Centre at risk of being lost. Last year Alder King reported Swindon's lowest recorded level of office stock at just 64,000m². This low level of stock compromises new inward investment activity and expansion of existing Swindon companies and thus reduces potential business rate income to the council. A new 10,000m² B1 office development in the town centre would generate rates payable of £650K, of which £180K would be retained by the Council under current redistribution mechanisms.
- 3.9 Our current supply of industrial stock is dwindling with applicants across size ranges struggling to find suitable accommodation. As such identifying and delivering the supply of employment land is an essential activity for the Council in order to ensure the availability of premises and land for future investment and income generation as we head towards 100% business rate retention in 2020. See 3.14.1.

Strategy

- 3.10 A tool to estimate economic benefits (Business Rates and Jobs) from planned development is being developed. It is proposed that this tool be used to inform decision making on major planning applications coming before Planning Committee. It is proposed that Planning Committee reports would include a section explaining the economic benefits associated with the application and the original allocated use. This proposal will enable the Council to meet its obligations under the "Information about financial benefits" clause of the Housing and Planning Act when the clause is implemented through secondary legislation (expect early 2017).
- 3.10.1 The information in Appendix 1 provides estimates on Rateable Values, jobs and wages associated with different business use classes. In the future, detailed information can be provided based on specific developments.
- 3.11 The Local Plan to 2026 is used as a tool to ensure sustainable growth, with the power to allocate and safeguard employment land for particular uses to enable a growing economy. In addition to allocating land it has introduced a number of policies on sustainable development (see *appendix 2*)
- 3.11.1 Some land allocated for employment purposes is facing barriers to delivery. The council has the option in the next local plan to alter these

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allocations to ensure delivery of development is not stalled (housing or commercial).

- 3.11.2 Despite retail having the highest rateable values, *as shown in Appendix 1*, it can also have the greatest adverse effects to the town centre vitality if new retail is not in the town centre. The town centre first policy, which aims to strengthen retail (see *appendix 2*), discourages the acceptance of further retail outside of the central area. There is only a finite retail spend available in Swindon. Therefore increasing retail capacity outside of the Town Centre will reduce the available retail expenditure to support new redevelopment in the Town Centre. Further, a regenerated Town Centre has the potential to increase retail spend (and therefore business rate receipts) from shoppers that live outside of the Borough.
- 3.12 To maximise business rates income, and efficiency of land use, developments should be encouraged to enhance building densities on new sites, whilst adhering to good design principles.
- 3.13 Supported by the deployment of “Low Carbon Local Development Orders”, the Council has been able to help accelerate delivery of solar farms in the Borough. The income from business rates for this industry alone amounted to £647,739 from April to October. The Council will need to be prepared to pursue other ‘tactical’ opportunities to generate increased business rate receipts from key sectors, where they also deliver on other Council priorities.
- 3.14 It is not typical for a commercial application to be taken to planning committee (around 98% of applications are determined by delegated officers). When an application is called into Planning Committee there is not a single policy that can be universally applied, due to the number of factors highlighted in this paper that need to be considered. Officers will be able to present merits (Economic benefits, quality of development, financial implication, timescales etc) on a case by case basis for councillors to deliberate and make a balanced and informed decision.
- 3.15 In addition, the Economic Strategy will identify high value sectors such as advanced manufacturing and manufacturing of pharmaceuticals with whom the Council can work to develop local supply chains and deliver new floorspace which will in turn deliver business rates and promote employment opportunities.

4. Alternative Options

- 4.1 No alternative option is provided, as no decisions will be made as a direct consequence of this paper.

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5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

5.1 The report does not include any direct implications.

Legal and Human Rights Implications

5.2 The report does not include any direct implications.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 The report does not include any direct implications.

Diversity Impact Assessment

5.4 The report does not propose any change in policy or a new policy and so a diversity impact assessment has not been carried out.

Risk Management

5.5 The report is an analysis of the relationship between economic growth and business rates. It does not propose action requiring immediate risk assessment.

6. Consultees

6.1 The Board Director, Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

7.1 Swindon Borough Local Plan 2026 – Available from author

7.2 Employment Land Review – Not yet available for publication

8. Appendices

8.1 Economic benefits from business developments

8.2 Local Plan Employment Land Policies

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Appendix 1 : Economic benefits from business developments

- What businesses have the highest rateable values?
 - A1 (retail)
 - Town Centre up to £1000psm
 - Morrison's in Eldene £245psm
 - Orbital £250-350psm*Rateable values are from gov.uk*
- What businesses have the lowest rateable values?
 - B2
 - Cheney Manor £25-40psm
 - South Marston £40psm*Rateable values are from gov.uk*
- Value to the economy?
 - B1 - 285 jobs per hectare development land
 - B2 - 111 jobs per hectare dev land
 - B8 - 52 jobs per hectare dev land*Estimates are from gov.uk*
- Wages per building use
 - B1 - £354-725 per week (Sales and customer service occupations, Administrative and secretarial occupations, Associate professional and technical occupations, Professional occupations)
 - B2 - £467 per week (Process, plant and machine operatives) does not account for R&D work
 - B8- £467 per week (Process, plant and machine operatives)*Wages supplied are from ONS
Occupation definitions are from ONS*

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Appendix 2: Local Plan Employment Land Policies

- Town centre first policy
 - Policy SD1: Sustainable Development Principles
 - contribute to the retention of jobs and growth of the local economy and complement Town Centre regeneration;
 - Policy EC3: The Role of the Centres and Main Town Centre Uses
 - Policy SC1: Swindon's Central Area
 - More employees through high density offices, improves footfall in TC
- Protecting employment land
 - Policy EC1: Economic Growth through Existing Business and Inward Investment
 - Policy EC2: Employment Land and Premises