

## Promoting Local Economic Growth Scrutiny Committee

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### Scrutiny Review: Business Formation Rates

#### Committee Members

- Councillor Alan Johnson (Chairman)
- Councillor Duncan Goodfellow
- Councillor Julian Mott
- Councillor Julie Killoran
- Councillor Syed Hussain
- Councillor Sonia Andjelkovic
- Councillor Ray Faulkner

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## 1. Review Scoping Questions

The following questions were suggested by the Committee in order to provide a focus for this review. The Committee was not limited to answering only the questions below.

- 1) How business formation rate is measured (What is the statistic this is based on?)
- 2) Is there a better statistic to measure new businesses?
- 3) What was the impact of the Business Development Fund on businesses within East Staffordshire?
- 4) What does East Staffordshire Borough Council do towards encouraging and supporting new businesses?
- 5) What are other organisations within the Borough doing to support business formation?
- 6) Is there any duplication with Staffordshire County Council?
- 7) Is there a website for new businesses where all the information is available in one place?
- 8) What premises/facilities are available for new businesses within the Borough and how do costs compare to elsewhere?
- 9) How do business rates within East Staffordshire impact on new businesses? Is there any rate relief available?
- 10) Are there any variations around the Borough?

## 2. Background

- 2.1. Following a discussion at the Promoting Local Economic Growth Scrutiny meeting held on 16<sup>th</sup> June 2016 a decision was made to carry out a review of the Business Formation Rate in East Staffordshire.
- 2.2. This follows the scrutiny review of the “Benefits Realised from Membership of GBSLEP” which showed for 2014, East Staffordshire had a business formation rate of 12.15% which was slightly lower than the national business formation rate of 13.86%.
- 2.3. The GBSLEP review suggested that ESBC ranked 17<sup>th</sup> out of the total 31 authority areas benchmarked with for business formation rate, and 6<sup>th</sup> out of 14 when comparing Stoke and Staffordshire, GBSLEP and D2N2 areas prompting this follow up review.

## 3. Measurement of Business Formation and Closure Rates

- 3.1. When measuring the rate in which new businesses are formed, the Office for National Statistics measure the percentage of businesses that have registered for VAT within the last year to establish a business formation rate indicator.
- 3.2. Whilst business formation rate is the predominant indicator used to measure the formation of new businesses, closure and self-employment rates can also provide a useful insight on an area’s enterprise performance.
- 3.3. Data from April 2015 to March 2016 shows that 10% of East Staffordshire’s labour supply was self-employed. This compares to 8.8% in the West Midlands and 10.2% nationally, suggesting East Staffordshire is in-line with the national trend.
- 3.4. The business formation rate was the measurement indicator used in the GBSLEP scrutiny review to highlight business formation in East Staffordshire. In the review, East Staffordshire scored 12.5%, slightly below the national rate of 13.86%. East Staffordshire ranked 17<sup>th</sup> out of 31 local authorities in the GBSLEP, D2N2 and Stoke and Staffs LEPS.
- 3.5. Closure rate is measured by the number of businesses that have deregistered for VAT over a 12 month period. This measurement was used in the GBSLEP report and highlighted that East Staffordshire were the second best performing authority regarding business closure rates out of the areas benchmarked.
- 3.6. **Figure 1** compares the business closure rate ranking against the business formation rate ranking for the 31 authorities benchmarked in the GBSLEP review.
- 3.7. Where an authority is performing better on closure rates than on formation rates it is highlighted Green, and conversely where formation rates were lower performing they are highlighted red.
- 3.8. The data indicates that there is a correlation between low closure rate and low formation rate. It would suggest that areas that perform well on closure rate generally do not perform as well on formation rate, and vice versa.
- 3.9. This suggests that businesses are surviving for longer which may be a reason for the comparatively low formation rate presented in the GBSLEP review.

**Figure 1 – Comparison of Business Closure Rate and Business Formation Rate**

District	Region	Business closure rate % (2014)	Rank	Business formation rate % (2014)	Rank	Diff
Bolsover	Derbyshire	7.81	1	20.09	1	0
<b>East Staffordshire</b>	<b>Staffordshire</b>	<b>8.02</b>	<b>2</b>	<b>12.15</b>	<b>17</b>	<b>15</b>
Erewash	Derbyshire	8.02	3	12.36	12	9
North East Derbyshire	Derbyshire	8.27	4	10.17	30	26
Staffordshire Moorlands	Staffordshire	8.3	5	10.52	29	24
Derbyshire Dales	Derbyshire	8.39	6	8.51	31	25
Lichfield	Staffordshire	8.54	7	11.8	21	14
Redditch	Worcestershire	8.62	8	11.85	20	12
Amber Valley	Derbyshire	8.69	9	11.66	22	13
Newark and Sherwood	Nottinghamshire	8.72	10	11.17	25	15
Stafford	Staffordshire	8.74	11	12.24	13	2
Gedling	Nottinghamshire	8.85	12	12.92	7	-5
Rushcliffe	Nottinghamshire	8.87	13	12.21	15	2
Bromsgrove	Worcestershire	8.87	14	10.98	26	12
Newcastle-under-Lyme	Staffordshire	8.91	15	12.16	16	1
High Peak	Derbyshire	8.91	16	11.17	24	8
Solihull	Birmingham & Solihull	8.96	17	13.63	6	-11
South Staffordshire	Staffordshire	9.03	18	12.03	18	0
Tamworth	Staffordshire	9.07	19	10.55	28	9
Broxtowe	Nottinghamshire	9.09	20	12.73	9	-11
Bassetlaw	Nottinghamshire	9.2	21	12.72	10	-11
South Derbyshire	Derbyshire	9.4	22	12.78	8	-14
Wyre Forest	Worcestershire	9.52	23	10.64	27	4
Chesterfield	Derbyshire	9.7	24	12.01	19	-5
Ashfield	Nottinghamshire	10	25	12.24	14	-11
Mansfield	Nottinghamshire	10.14	26	13.77	5	-21
Derby City	Derbyshire	10.15	27	14.7	3	-24
Nottingham	Nottinghamshire	10.53	28	14.25	4	-24
Stoke on Trent	Staffordshire	10.97	29	12.47	11	-18
Birmingham	Birmingham & Solihull	11.59	30	15.63	2	-28
Cannock Chase	Staffordshire	12.55	31	11.32	23	-8

#### **4. Support for new and existing businesses within East Staffordshire.**

- 4.1.** East Staffordshire Borough Council offers both direct and indirect support to existing and new businesses within East Staffordshire. The Council has provided funding through its Business Development Fund and works closely with numerous partners to provide support and guidance to businesses within the borough.
- 4.2.** East Staffordshire Borough Council's Business Development Fund (BDF) was aimed at local small and medium sized businesses located in East Staffordshire wishing to grow and expand their business and local entrepreneurs needing financial support to make their business idea a reality. Eligible existing small and medium sized business meeting the entry criteria were able to apply for a grant of up to 50% of total eligible project costs with a maximum grant totalling £10,000
- 4.3.** An internal audit review of the BDF has recently been completed and the review found that "key controls have been adequately designed and are operating effectively to deliver the key objectives of the system."
- 4.4.** The BDF's end of project report highlighted that 50 businesses have received funding since its inception. In total, 143 jobs have been created and 19 jobs have been safeguarded as a result of the funding. The Council committed £150,000 in grants in 2013/14 and in 2014/15 committed £200,000.
- 4.5.** Not only did BDF funding deliver financial benefits to successful applications but businesses were almost unanimous in identifying that the process of applying for the BDF helped them grow as a business. The process of applying for funding included writing and refining their application form and business plan, through to the presentation at the panel.
- 4.6.** The Council is a partner of the Solihull Enterprise Programme which is aimed at new business start-ups. The programme was re-launched in October and aimed at potential entrepreneurs and new businesses. The programme is run across North Worcestershire, Southern Staffordshire (including the borough of East Staffordshire) and Solihull.
- 4.7.** The Council also works closely with Burton's Chamber of Commerce who offer support for new businesses in the form of workshops, events and training.
- 4.8.** Businesses in East Staffordshire can also take advantage of Business Enterprise Support – a not-for-profit social enterprise that works across the West Midlands offering advice and support to new business start-ups. Entrepreneurs looking for funding can apply for loans between £500 and £25,000 to finance their new business. Applicants will also receive support in developing their business plan and once their application for a loan is approved, they're provided with a mentor for 12 months.
- 4.9.** The Job Centre offers Enterprise Allowance which allows unemployed people who are considering starting their own business a weekly allowance, up to 26 weeks, and a business mentor. Successful applicants can access a loan to help with their start-up costs.
- 4.10.** Businesses in East Staffordshire are supported by two Growth Hubs, one for the GBSLEP and one for Staffordshire County Council. The Growth Hubs are designed so that businesses have one point of contact for advice and signposting.
- 4.11.** The head of the GBSLEP Growth Hub also built the Stoke and Staffs Growth Hub. Both Growth Hubs are working closely together to avoid duplication. Businesses can

access these Growth Hubs by going to <https://www.gbslepgrowthhub.co.uk/> or <http://www.stokestaffsgrowthhub.co.uk/>

## **5. What are other local authorities doing to support business formation?**

- 5.1.** A survey was issued to all 30 authorities that took part in the GBSLEP scrutiny review benchmarking exercise to determine what level of support is provided to new businesses. We received nine responses to the survey.
- 5.2.** All respondents have a business regeneration team or equivalent and promote funding schemes to new businesses start-ups using a variety of methods including website, face-to-face meeting, social media, press releases, networking events, monthly e-newsletters and annual funding events.
- 5.3.** Of these methods, face to face meetings, word of mouth and the internet were listed as most effective method of promotion.
- 5.4.** The eligibility criteria naturally changes for each funding scheme. Examples of the types of eligibility criterion can be found in appendix 1. Unfortunately, not all respondents collect data on the number of businesses that they have helped support.
- 5.5.** There is a variety in the type support offered to new businesses. The majority of Councils refer new businesses to other organisations who may be able to offer support.
- 5.6.** Examples include Rushcliffe Borough Council referring businesses to their Growth Hub and Wyre Forest, Bromsgrove and Redditch 'subcontract' to business advisors. Staffordshire Moorlands hold free weekly pre-application surgeries and host business support events on request.
- 5.7.** All councils work with a host of external organisations when providing support to businesses. Common organisations include the Chamber of Commerce, Growth Hub, Enterprise Support and LEPS.

## **6. What premises and facilities are available for new businesses within the borough**

- 6.1.** There are several privately run business parks across East Staffordshire which new businesses can use including Imex Business Park, Anglesey House and Cross Street Business Centre.
- 6.2.** The Council also owns 18 industrial units at Anderstaff Business Park, three at Canal Street Industrial Estate, 20 at Yeoman Industrial Estate and five at Centrum 100. The Council also owns units at Pennycroft Industrial Estate. Term length is flexible and rent is based on open market values.
- 6.3.** As of Friday 21<sup>st</sup> October, there were 1,312 properties in East Staffordshire paying empty property Non Domestic Rates. Of those, 1,086 of those properties are in Burton and the surrounding areas and 226 properties are based in Uttoxeter and the surrounding areas.
- 6.4.** A full ward breakdown of properties paying empty property Non Domestic Rates is available in appendix 2, which suggests there are opportunities for new businesses to establish premises in the borough.

## **7. Business Rates**

**7.1.** Business Rates are calculated in accordance with Government legislation. The Council has no discretion over how this is done or the figures that are used.

**7.2.** The Valuation Office Agency decides what the Rateable Value is for a commercial property and the Government decides what that value is multiplied by (the 'multiplier') to get the final rates figure that must be paid.

**7.3.** Rate relief is available and there are a number of reliefs that a business can apply for. Mandatory Relief is applied where the ratepayer satisfies particular criteria (such as charities) but that only covers 80% of the business rates bill. Ratepayers who do not get 100% relief can apply for Discretionary Rate Relief, where the Council will consider whether to allow them further relief to reduce the remaining amount payable. This discretionary relief is financed by council tax payers.

**7.4.** Small businesses can receive Small Businesses Rate Relief, and those small businesses where the rateable value is less than £12,000 will get 100% relief.

**7.5.** More details can be found at <http://www.eaststaffsbc.gov.uk/business-rates/relief>

## **8. Recommendations**

**8.1.** To be discussed at the meeting.