

URN:

Subject: Enterprise Zone – Update on Agreements and Pot B increase

Report to: Economic Development Committee – 13th September 2021

Report by: Michelle Burdett, Head of Inward Investment

SUBJECT MATTER / RECOMMENDATIONS

This report presents to Members of the Economic Development Committee an update on the Enterprise Zone Legal Agreement and recent increases in the financial return within Pot B.

This paper details the process taken in terms of the arrangements for the Enterprise Zone[s] covering the areas of Great Yarmouth and East Suffolk and the agreement to separate the two areas so East Suffolk can have their own agreement as can Great Yarmouth Borough Council. This therefore means that each area can manage their own commercial interests and the LEP will have two separate arrangements – one covering the Great Yarmouth Enterprise Zone[s] and one covering the East Suffolk Enterprise Zone.

Members are asked to:

- 1) Review the paper and note the contents of the report.**

1. BACKGROUND AND LEGAL AGREEMENT

- 1.1 The Council has two energy related Enterprise Zone sites at Beacon Park and South Denes in a suite of 6 across Great Yarmouth and Lowestoft currently all covered within one Legal Agreement.
- 1.2 The Department for Communities and Local Government (now MHCLG) made Local Enterprise Partnerships responsible for oversight of the Enterprise Zones and requires them to notify, and keep them informed of the arrangements which it agrees in principle for each of the areas within which they fall in their control.
- 1.3 The Members of the Councils [then] Cabinet received a report from the Director of Resources (Governance and Growth) on the 12th February 2014. This presented the progress made in the development of the Legal Agreement that built upon the Heads of Terms presented to Cabinet the previous year (September 2012). The contents of the reports informed the members of the benefits of the enterprise zone, how the funds would be delineated between the ‘pots’ (see section 2) and how the various organisations would work together to bring about inward investment to benefit Norfolk (Great Yarmouth) and Suffolk (then Waveney, now East Suffolk).

- 1.4 Members endorsed the recommendations of the paper which was that the agreement was signed by the Council's CEO; Gordon Mitchel under the constitution at the time. The Legal Agreement was thus circulated to all partners and fully signed in November 2014 by all remaining organisations (the Local Enterprise Partnership (LEP), Norfolk County Council, Suffolk County Council and Waveney District Council).
- 1.5 Due to the developments taking place in each District and Borough area and inward investment enquiries as a result, it is now apparent that each area needs its own separate Legal Agreement with the LEP. This will therefore protect any confidential discussions from commercial interests and the financial return to Pot B (as well as the other pots). Whilst the two areas are fully committed to working together as councils to benefit the sector (including but not limited to the profiling of the combined area using the GENERATE brand), and also in other major investment projects (such as the City of Culture 2025 bid), the sensitive discussions taking place across two areas has made it impractical to have an agreement that covers both areas.
- 1.6 In addition, Great Yarmouth Borough Council has renegotiated with the LEP the % income into Pot B to assist the financing of the O+M Campus and as such, it has been agreed to sever the old arrangement and put in place a back to back signing of a new Agreement between only Norfolk parties (and in line with Suffolk doing the same).

2 MOU FINANCES

- 2.1 In normal circumstances business rates are property taxes paid by the occupants of non-domestic properties, typically those occupying commercial and industrial premises. Local Authorities collect the business rates which are due in their area and pass the money over to central Government. A proportion of these funds are then redistributed back to local authorities in line with a population based formula. For this year (21/22) income from Business Rates is split 50% to Government, 40% to billing authority (GYBC) and 10% to County. This can change year to year, it is possible there may be the creation of a business rates pool again in future years which would see changes to this split.
- 2.2 However, when an area has a designated Enterprise Zone those business rates are returned to the Local Enterprise Partnership rather than it being returned to Government and apportioned to Local Authority partners via a separately agreed formula.
- 2.3 Within the legal agreement it states in the background section *"The policy of the UK Government states that all growth in business rates generated from enterprise zones should be **retained by local enterprise partnerships** to enable the partnerships to support their economic priorities for at least the next 25 years"*. As Local Authorities cannot be worse off than if there was no such Enterprise Zone, the partners (including the New Anglia LEP) discussed the proportion of the return of the business rate finances via 'Pots'.
- 2.4 Whilst the Legal Agreement and the Enterprise Zone Policy states that the growth in business rates generated by Enterprise zones should be retained by local enterprise partnerships, the Local Authority is the collecting Authority and is responsible for ensuring the rates are collected and paid to each of the partners in the % allocations stated below and when income is generated.
- 2.5 Schedule two of the 2014 Legal Agreement details the allocation of the Pots A, B and C, these were:

Pot A – GYBC for any use – (10%)

Pot B – GYBC for site development only – (35%)

Pot C – New Anglia LEP for wider investment to deliver the Strategic Economic Plan – (55%)

- 2.6 Norfolk partners including officers from Great Yarmouth Borough Council and Norfolk County Council are working on the O+M campus project. This is a project that has been approved as part of the Town Deal Town Investment Plan and has all match funding confirmed. The costs for this project are estimated at a value of £18M which includes a healthy contingency. Part of the match funding package includes £6M from Government under the Getting Building Fund and an allocation provided from borrowing against Pot B projected income.
- 2.7 Careful analysis of the Pot B projected income undertaken by both the Borough Councils and County Councils S151 Officers (which is to be used on the basis to borrow the funds and pay back the borrowing once the business rates are returned to the Council) indicated that the 35% Pot B allocation was not sufficient to close the financial gap within the match funding package. As such, renegotiations have taken place to enable an increase of the Pot B income from 35% to 45% thereby projecting a sufficient return to enable the borrowing to take place.
- 2.8 As a result, the Pot allocations are now detailed within schedule 2 of the new Legal Agreement as:

Pot A1 – GYBC for any use – 20% for financial years 17/18 to 21/22 and then 16.9% for financial years 22/23 to 41/42

Pot A2 – NCC for any use – 5% for financial years 17/18 to 21/22 and then 4.2% for financial years 22/23 to 41/42

Pot B – GYBC for site development only – 35% for financial years 17/18 to 21/22 and then 45% for financial years 22/23 to 41/42

Pot C – New Anglia LEP for wider investment to deliver the Strategic Economic Plan – 40% for financial years 17/18 to 21/22 and then 33.9% for financial years 22/23 to 41/42

3 NEXT STEPS

- 3.1 Following a granular review of the Agreement, the aligned Memorandums of Understanding for each project and a renegotiation of the return of the business rates within the 'Pots', the Council is now in a position to agree to terminate the previous agreement and re-sign the new one. The two fundamental changes are that the Suffolk Authorities (Suffolk County and East Suffolk – previously Waveney District Council) have been removed as they will have their own new agreement, and the changes in future financial % allocations / returns in the pots (see section 2 above). This will be signed by the S151 Officer and then passed to the LEP to circulate to the remaining partners for counter signing. Once completed the Agreement will be sealed and stored in the usual way.

4 FINANCIAL IMPLICATIONS

- 4.1 As detailed in section 2, the Pot A-C returns have been revised to take into account a need to increase the income of the Pot B funds. Given the Return on Investment (ROI) of the O+M campus and the need for financial borrowing to see the project come to fruition a revised financial allocation of the Pots looks like the below:

Pot	Financial years 17/18 to 21/22	Financial years 22/23 to 41/42
Pot A1 – GYBC for any use	20%	16.9%
Pot A2 – NCC for any use	5%	4.2%
Pot B – GYBC for site development only	35%	45%
Pot C – New Anglia LEP for wider investment to deliver the Strategic Economic Plan	40%	33.9%

- 4.2 Finance officers overseeing the Pot B projects and MoU commitments have confirmed that should all the MoUs be delivered as planned, there will be no further surplus to commit any Pot B to any new projects without a provision of a commercial return. Or in other words, no new projects can be developed without a clear understanding of what Pot B will generate as a result.

5 LEGAL IMPLICATIONS

- 5.1 NPLaw have provided advice on the arrangements for severing the old Legal Agreement and the signing of the new one and as such have approved the wording of these and agree these are ready to be signed off. NPLaw have also been embedded throughout the development of the O+M campus project and have provided support for the financial agreements in terms of the ongoing borrowing / repayment terms for the project. The outcomes for this are linked to this paper, but do not form part of it.

6 RISK IMPLICATIONS

- 6.1 The greatest source of risk continues to be the potential for fluctuating income returned via the business rates under Pot B. Following substantial levels of forensic analysis of the various projects underway utilising Pot B projected income this risk is being carefully mitigated. In addition, the S151 officer oversees the financial elements of the large capital projects (such as the O+M campus and other port side developments) to ensure commitments are within the available Pot B threshold.
- 6.2 In addition to this, there will now be two separate Enterprise Zone Working Group meetings (One for Norfolk sites and one for Suffolk sites) that will oversee the delivery of the projects and has robust governance arrangements, ensuring that there is a checking off system of Enterprise Zone spend against the agreed commitments to prevent any over commitments. This will remain an open risk as any over commitments could mean the Council will be liable for any expenditure committed without a financial return. To mitigate this – the capital projects accountant plus other senior officers will sit on the new EZWG (Norfolk) overseeing spend and will escalate any matters to the S151 and monitoring officer via ELT.

7 SUMMARY

- 7.1 This report presents to Members of the Economic Development Committee an update on the Enterprise Zone Legal Agreement and recent increases in the economic return within Pot B.
- 7.2 This paper details the process taken in terms of the arrangements for the Enterprise Zone[s] covering the areas of Great Yarmouth and East Suffolk and the agreement to separate the two

areas so East Suffolk can have their own agreement as can Great Yarmouth Borough Council. This therefore means that each area can manage their own commercial interests and the LEP will have two separate arrangements – one covering the Great Yarmouth Enterprise Zone[s] and one covering the East Suffolk Enterprise Zone.

RECOMMENDATIONS

Members are asked to:

- 1) Review the paper and note the contents of the report.

Area for consideration	Comment
Monitoring Officer Consultation:	Consultation embedded as part of this paper and agrees with the final proposals
Section 151 Officer Consultation:	As part of ELT MoU review / sign off and throughout the management of the EZ with the finance team
Existing Council Policies:	Corporate Plan, Annual Action Plan, Economic Growth Strategy, Pathway to Recovery Plan
Financial Implications:	As outlined in the paper
Legal Implications (including human rights):	As outlined in the paper
Risk Implications:	As outlined in the paper
Equality Issues/EQIA:	N/A
Crime & Disorder:	N/A
Every Child Matters:	N/A