Waveney District Council

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CABINET

Wednesday, 11 April 2018

AMENDMENT TO DISCRETIONARY BUSINESS RATE RELIEF POLICY (REP1845)

EXECUTIVE SUMMARY

1. This report seeks Cabinet approval to make amendments to the Local Discretionary Rate Relief policy in order to accommodate an extension to the Enterprise Zone business rate discount scheme beyond the current deadline of 31 March 2018. This follows confirmation from the Ministry of Housing, Communities and Local Government's (formerly the Department for Communities and Local Government) that they are not countenancing any extension to the Enterprise Zone funding regime from central Government sources, but have suggested that the Local Authorities use their own resources and mechanisms from the current rating system to do this.

2. This report sets out the rationale for why a limited extension to the business rate discount scheme is important to the delivery of the Enterprise Zone and Council's economic growth objectives as set out within the East Suffolk Business Plan and the East Suffolk Economic Growth Plan. It also sets out the parameters of the discount, how it will be financed, and the process for implementing the scheme within the existing Local Discretionary Rate Relief (LDRR) policy.

Is the report Open or Exempt?	Open

Wards Affected:	Oulton (Mobbs), Kirkley (Riverside), Kessingland (SLIE), Wainford and Worlingham (Ellough).

Cabinet Member:	Councillor Michael Ladd Cabinet Member for Tourism and Economic Development

Supporting Officer:	Paul Wood Head of Economic Development & Regeneration 01394 444249 paul.wood@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 The Great Yarmouth and Lowestoft Enterprise Zone was created in April 2012 and is part of the Government's long term economic plan to support businesses to grow.

1.2 Enterprise Zone status came with a number of incentives to encourage business growth and to fast track development. These incentives included:

- 100% business rate discount over a five year period up to state aid de minimis levels (c£275,000) for businesses that move into an Enterprise Zone on or before 31 March 2018
- the retention of 100% business rates growth within the zone for a period of at least 25 years (starting from April 2013) by the Local Authorities and the Local Enterprise Partnership to support the delivery of economic priorities to be agreed by the partners involved, including re-investment into the EZ sites to speed up development.

1.3 The Great Yarmouth and Lowestoft Enterprise Zone (EZ) is allocated over six sites (two in Great Yarmouth and four in Lowestoft) covering 121 hectares of land and acts as a powerful tool to grow the local economy. The area was selected due to its strategic importance to the energy sector, which has significant inward investment and job creation potential for UK plc.

1.4 Whilst delivery of the EZ to date has progressed reasonably steadily, there have been delays with the build out of some sites, coupled with delays and uncertainty in the development of the offshore wind farms. This has led the New Anglia Local Enterprise Partnership (NALEP) on behalf of the EZ Partnership (Waveney District Council, Great Yarmouth Borough Council, Suffolk and Norfolk County Councils) to request the Government to consider an extension to the rate discount beyond 31 March 2018.

1.5 In April 2017 local MPs Peter Aldous and the Rt Hon Brandon Lewis, also wrote to Sajid Javid (Secretary of State for Communities and Local Government) to support the Partners' request for an extension. Their letter cited that the towns' ports are central to the operation and construction for the East Anglia One and Galloper offshore renewable energy projects, but that the announcements of these were effected by delays in the Government's Contracts For Difference regime. As such the projects only commenced in 2017, which means they have come slightly too late for the supply chain companies attached to these developments to access the business rate discount offered by the EZ.

1.6 Throughout discussions in 2017 the EZ Partnership team were led to believe that some form of extension *might* be offered. However, without confirmation this made marketing of the sites difficult and land owners frustrated, especially those that are likely to only just miss the cut-off date, such as the Phoenix Enterprise Park owned by Suffolk County Council, and the most recent units being constructed on Mobbs Way.

1.7 In November 2017 the Government decided that an extension to the business rate discount would not be funded by central Government, but that the Partnership should consider funding this through their own EZ business rate income and by using their existing powers under Section 69 of the Localism Act 2011.

1.8 The Partners are not obliged to mirror the existing scheme, and after consideration it is proposed that the Lowestoft EZ site provide a reduced offer of three rather than five years business rate discount, up to state aid deminimis levels. This will only apply to new businesses that enter a new EZ property on or before 31 March 2019.

1.9 This will still offer an incentive which agents can use to market the sites; supporting those that will just miss the current cut off through no fault of their own, but allowing for a tapering off of the business rate discount scheme.

2 BUSINESS RATE DISCOUNT AND ENTERPRISE ZONES IN MORE DETAIL

2.1 The Localism Act 2011 gives Local Authorities the necessary power to grant business rates discounts. This allows the billing authorities to grant business rate discounts as they see fit, and these are funded by themselves.

2.2 However, to date in the case of Enterprise Zones central Government has reimbursed the cost of the discount given to businesses in the zone, provided the business entered the Enterprise Zone by 31 March 2018.

2.3 In addition the EZ Partnership gets to retain 100% of business rates growth within the zone for a period of 25 years starting from 2013/14 to use on their economic priorities.

2.4 The business rates are divided three ways:

- **Pot A:** Funding which is passed to district/borough authorities and county council to compensate for income lost and to support the administration and management of the scheme. This was originally 10% of the income, but was increased in 2017 to 25%. 20% retained by Waveney District Council and 5% retained by Suffolk County Council
- **Pot B:** Funding used to invest in infrastructure in the EZ sites in order to accelerate its development. The use of this pot must be agreed by the local authorities and the LEP partners. This is currently 35% of the income, but could be negotiated to a higher percentage if needed.
- **Pot C:** Funding which is allocated to the LEP and is utilised to support the delivery of the LEP's Strategic Economic Plan. This is currently 40% of the rates income (reduced from 55%) and its use is determined by the LEP Board.

2.5 It is worth noting that going forward the EZ rate retention will not be effected by the Suffolk Business Rate Pilot as the Government has confirmed that Enterprise Zones and other designated areas will continue to operate separately as previously set out. Therefore, any income above current baselines in Enterprise Zones will be disregarded for the purposes of calculating "cost neutrality" when devolving new responsibilities to local government and for the purposes of working out tariffs and top-ups.

3 PROGRESS TO DATE

3.1 Since its commencement in 2013, the Waveney sites have yielded 17 new businesses, employing 850 jobs and supporting 220 construction jobs. 6.3Ha of land has been developed which constitutes approximately 13% of the total available land. NALEP have calculated that £37.1million of investment has occurred (£26.4m Private and 10.7m Public). To date, £875k in business rate income has been generated through the Enterprise Zone project which will raise to £1.3million once the 17/18 NNDR3 figures have been confirmed.

4 PROCESS

4.1 Subject to approval, qualifying applicants would submit details to the Non Domestic Rate Team for assessment of the level of relief they are eligible to receive. Please see Appendix B for full details.

5 STATE AID CONSIDERATIONS

5.1 EU state aid rules generally prohibit government subsidies to businesses. Providing discretionary relief to ratepayers can in some cases be deemed to be State Aid.

5.2 There is, however, a general exception to the state aid rule where the aid is below a "de minimis" level. The De Minimis Regulations allow a business to currently receive up to €200,000 of De Minimis aid (€100,000 in the road freight transport sector) in a rolling three year period (consisting of the current financial year and the two previous financial years). The De Minimis Regulation and limit is subject to update and changes in legislation.

5.3 To administer De Minimis it is necessary for the Council to establish that the award of aid will not result in the business having received more than €200,000 of De Minimis aid. The Council will ensure compliance with the legal requirements and any permitted exemptions. Each case will be considered based on the organisation's individual circumstances in full consideration of the state aid rules.

6 HOW DOES THIS RELATE TO EAST SUFFOLK BUSINESS PLAN?

6.1 The Council's overall Vison, as set out in East Suffolk Business Plan is to 'Maintain and substantially improve the quality of life for everyone growing up in, living in, working in and visiting East Suffolk.' The proposed EZ rate relief scheme will contribute substantially to this goal and to the specific challenges identified in the East Suffolk Business Plan by both supporting the Government's national priority for long-term economic growth and improved productivity, and by supporting a strong local economy that is essential for the creation of a vibrant local community in Lowestoft. It also supports the financial self-sufficiency of the Council through increased business rates in the longer term that can be reinvested to support economic growth.

6.2 The 'critical success factors' for delivery of the Business Plan that relate to the HAZ include: Economic Development & Tourism - A strong, sustainable, and dynamic local economy offering our communities more stable, high quality and high value jobs, with increased opportunities for all.

7 FINANCIAL AND GOVERNANCE IMPLICATIONS

7.1 The awarding of LDRR in part or in full will have a short-term impact on EZ business rate receipts; however in the medium to long-term it will grow the business rates base through the attraction of additional business investment within the district. Furthermore it will support developers in encouraging them to further invest in the EZ sites.

7.2 The ED&R Team anticipate 25 to 30 new units to be constructed within the Enterprise Zones between now and the proposed 2019 cut-off. This figure includes 16 units already under construction with the remaining sites having achieved planning consent.

7.3 There are a number of factors to consider when estimating the business rate projections including size, use and small business rate relief (SBRR) considerations. Whilst the Valuation Office Agency (VOA) undertakes assessments to determine the rateable value, based on similar units within the enterprise zones, we do not expect the total rate relief allocated to exceed £300,000.

7.4 It is worth noting that if the £300,000 mark was reached; those businesses would go on to generate a further £1.2million in rates over the term of the project (37/38).

8 OTHER KEY ISSUES

8.1 This report has been prepared having taken into account the results of an Equality Impact Assessment, a Sustainability Impact Assessment and a Partnership Impact Assessment.

9 CONSULTATION

9.1 The Enterprise Zones are being delivered in partnership with New Anglia LEP, Suffolk County Council, Norfolk County Council and Great Yarmouth Borough Council. Representatives from these organisations form an EZ Working Group which is fully engaged in these proposals to support a replacement rate relief scheme.

9.2 Developers and agents (including Suffolk County Council as landowner at SLIE) have been engaged to understand what challenges the market faces when attracting investment to each site. In many cases the disparity between existing industrial land values and the cost of new build has been difficult to bridge the financial gaps without further incentive.

9.3 DCLG advice has been sought following the decision to not extend the treasury funded rate relief incentives. They have been supportive of a scheme that utilises funds generated through EZ Business Rates.

9.4 Anglia Revenues Partnership and colleagues from the finance team were consulted to ensure the proposals for the rate relief scheme adhered to existing legislation and were procedurally possible.

10 OTHER OPTIONS CONSIDERED

10.1 Four other options have been considered:

10.2 **Do nothing:** Without the necessary incentives for developers to attract investment, it is likely that appetite for further investment will fade, and we are likely to be left with a number of speculative build work spaces on the market that will take longer to fill, and have an impact on the longer term income for the EZ. There is also a reputational risk here that we may not be able to achieve our output targets for job and business creation.

10.3 **Option 2- Like for like replacement scheme:** We could extend the existing parameters for to facilitate units which are currently under construction. This would offer five years' worth of rate relief with a 'cut-off' of the end of March 2019 to qualify. However, a five year proposal would have a greater impact in the EZ income projections, which have a negative impact on the Council's ability to invest in infrastructure in the longer term.

10.4 **Option 3 - Use the existing Local Discretionary Rate Relief:** Allow businesses to apply for the current scheme. This would be assessed on a case by cases basis with set criteria measuring the assistance provided. The criteria would line up against the aims and objectives of the project, prioritising businesses that offered a greater return on jobs. This however, is not likely to offer the security to developers who want to market their sites offering the incentives that the EZ provides.

10.5 **Option 4 - Lobby central Government:** Make a case that central Government extends the existing scheme to bring it in line with other tax incentives offered in the EZs (ie to March 2020). This was the preferred option and was supported at a local political level, but has been rejected by central Government.

11 REASON FOR RECOMMENDATION

11.1 Our recommendation to extend the existing rate relief incentives within the enterprise zones by a further 3 years represents the most cost effective way of providing businesses the confidence they need to invest in these key sites. The income generated through these investments over the longer term will assist in unlocking future growth and allow partners to overcome barriers to the remaining undeveloped land.

RECOMMENDATION

That Cabinet approves the proposed LDRR Policy amendments to include a 3 year extension to the current rate relief incentives offered by Enterprise Zone status.

APPENDICES	
Appendix A	Local Discretionary Rate Relief Policy
Appendix B	Flow Diagram for Rate Relief Qualification

BACKGROUND PAPERS – None