

BUDGET SCRUTINY PANEL

1ST DECEMBER 2020

Briefing note of the s151 Officer

ITEM 9 ENTERPRISE ZONE & TOWN DEAL – PROCESS

On 29th September 2020, the Budget Scrutiny Panel requested further information regarding the Enterprise Zone and Town Deal:

- Information providing a breakdown of the benefits, assessment of profit, risks and liabilities and its impact on council tax rates in relation to the Enterprise Zone and Town Deal

1. Enterprise Zone – Forward Funding

A total of £15m has been allocated for forward funding opportunities within the two EZ sites within Charnwood (Charnwood Campus and the Loughborough University Science & Enterprise Park).

Each funding agreement has its own characteristics (loan amount, repayment term, associated risk profile, etc) and hence each will be considered on a case by case. A Cabinet report will be prepared for each EZ Forward Funding proposal.

To date one forward funding proposal (for Charnwood Campus) has been submitted to Cabinet as attached (see attached report of 15 October 2020).

In terms of specifics:

- The forward funding arrangements generally, and this one specifically, is designed to bring jobs and contribute to economic development in the Borough
- This particular forward funding arrangement is considered very low risk, principally due to existing business rate generation from the site
- The loan the Council will take out to cover the forward funding will amount to £2m
- Loan repayment is scheduled on an annuity (repayment) basis over four years
- There will be a 1% mark-up charged by the Council above the prevailing PWLB rate; this will generate ~ £20k pa margin (profit)

There will be no direct impact on council tax rates, although the margin generated will contribute towards bridging the existing financial gap set out within the MTFs and draft 2021/22 budget.

2. Town Deal

The £15m Town Deal fund is conceptually similar to that for EZ Forward Funding. The principal objective is around economic development, benefitting the wider Borough. Each prospective investment will be the subject of a Cabinet report on a case by case basis.

No specific opportunities have yet arisen but it is envisaged that any investment would be net revenue neutral (or better); hence any investment should not increase the financial challenges faced by the Council.

It is obviously not possible to comment on any specific investment risks at this point in time.

Appendix: Cabinet Report – Enterprise Zone Forward Funding – 15th October 2020

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CABINET - 15TH OCTOBER 2020**Report of the Strategic Director of Corporate Services****Lead Member: Councillor Barkley****Part A****ITEM CHARNWOOD ENTERPRISE ZONE – REQUEST FOR FORWARD FUNDING****Purpose of Report**

This report outlines the process through which infrastructure and buildings within the Enterprise Zone area may be financed using future business rate receipts and requests a specific approval for forward funding in respect of the Charnwood Campus site.

Recommendations

1. That Cabinet approve the governance process and funding mechanism proposed in respect of the forward funding of infrastructure and buildings within the Enterprise Zone area.
2. That Cabinet approve a loan to the Leicester & Leicestershire Economic Partnership for an amount of up to £3.5m.
3. That Cabinet give delegated authority to the Strategic Director of Corporate Services, in conjunction with the Lead Member for Finance, to finalise details of the loan agreement and other agreements associated with this transaction.

Reasons

1. To enable the Council to act as the funder of forward funding arrangements.
2. To facilitate the development of the Charnwood Campus site within the Enterprise Zone.
3. To facilitate efficient and timely completion of the loan arrangements.

Policy Justification and Previous Decisions

The Enterprise Zone for Charnwood was designated with effect from 1 April 2017.

The legal agreement between the Council, the Leicester & Leicestershire Economic Partnership (LLEP) and Leicester City Council (as Accountable Body of the LLEP), which sets out the distribution of business rates generated from within the Enterprise Zone and outlines the forward funding mechanism, was approved in draft by Cabinet

following an exempt report presented at the Cabinet meeting of 9 July 2020 (Minute 20E refers).

Generally, the recommendations of this report can be justified under the Corporate Plan heading of ‘A thriving economy’.

Implementation Timetable including Future Decisions and Scrutiny

Implementation of the recommendations in this report require that the Revised Capital Plan 2020 – 2023 and Capital Strategy 2020/21 are approved at the Council meeting scheduled for 9 November 2020. Formal signature of the agreed ‘Enterprise Zone Business Rates Retention Agreement’ by parties to this agreement (including the Council) will also be required.

Scrutiny Commission have the opportunity to scrutinise this report in line with usual arrangements at the meeting of 12 October 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

If loan repayments from business rates generated within the Charnwood Campus site proceed as planned, then this this will result in a small contribution to the General Fund over the term of the loan.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Overall Risk</i>	<i>Risk Management actions planned</i>
Business rate generation at the EZ site prove insufficient to repay the loan	Remote (1)	Major (3)	Low (3)	<ul style="list-style-type: none"> • Due diligence on project • Site sponsor is required to underwrite the loan • Pre-existing business rates can be diverted to repay loan

Key Decision: Yes

Background Papers:

Exempt cabinet report of 9 July 2020 - Enterprise
Zone Update

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Part B

Background

1. The Enterprise Zone (formally, the Loughborough and Leicester Science and Innovation Enterprise Zone, or 'LLEZ') was designated with effect from 1 April 2017. The LLEZ consists of three sites:
 - (i). Charnwood Campus site ('Campus'), the site previously owned by Astra Zeneca in Loughborough
 - (ii). The Loughborough University Science & Enterprise Park ('LUSEP'), also in Loughborough
 - (iii). 'Waterside', an area within Leicester City
2. Generally, the advantages of an Enterprise Zone include:
 - The ability to offer businesses locating (or re-locating) to an Enterprise Zone within five years of designation a five-year business rates holiday (subject to state aid rules and other conditions)
 - Retention of all business rates generated from an Enterprise Zone within the local area (rather than a substantial proportion being remitted to the Government)
3. Local arrangements apply to Enterprise Zones in respect of the distribution of retained business rates, re-investment of business rates within the EZ, identification of investment schemes and the governance arrangements associated with these matters.
4. Local arrangements in respect of the LLEZ are set out in the 'Enterprise Zone Business Rates Retention Agreement' which was approved in final draft form by Cabinet at the meeting of 9 July 2020 in exempt session (minute reference 20E refers). At time of drafting this report the agreement was due for signature by all parties imminently; a verbal update on this matter may be offered at the Cabinet meeting.

Principal elements of the Enterprise Zone Business Rates Retention Agreement

5. The Agreement is between Charnwood Borough Council (billing authority), Leicester Leicestershire Enterprise Partnership ('LLEP') and Leicester City Council (as the LLEP Accountable Body).
6. The Agreement is for a period of ten years with a review of the Agreement due by September 2029. This will provide assurance in relation to the business rates agreement in order to support investor confidence but also provides an opportunity to review the Agreement in the event of changes over time.

7. The Agreement sets out a split of the retained rates as negotiated by the parties as follows:

- Charnwood Borough Council 12%
- Leicestershire County Council 2.7%
- Leicestershire Fire & Rescue Service 0.3%

8. In terms of the selection of investment schemes it may be noted that Schedule 3 of the draft Agreement sets out that each Charnwood site will have an Implementation Group that will be chaired by the Chief Executive (or designated officer) of Charnwood Borough Council. The functions of the Implementation Groups are:

- To plan, oversee and advise the LLEP Board on the implementation of the LLEZ sites in Charnwood
- To develop, maintain and implement Implementation Plans for the LLEZ sites in Charnwood
- To recommend the priority and suitability of bids to the LLEP Board for the use of the LLEP retained business rates in accordance with the implementation plans
- To prioritise bids and make recommendations by application of the following criteria:
 - strategic fit – sequential approach referenced to implementation plan, planning and highway considerations
 - generation of retained business rates – amount, risk and speed of return
 - intervention rate and high level value for money, with the bid to be underwritten by the bidder (basically either the Campus or LUSEP)
 - third party funding – match or time critical issues.
 - such other criteria as shall be agreed by the LLEP and the Council in conjunction with the other parties to the Implementation Groups
- To shortlist Bids for recommendation to the LLEP Board

9. The above elements of the Agreement are designed to ensure that Charnwood Borough Council has influence on the direction of the LLEZ while recognising the role of the LLEP and other partners.

10. Once schemes have been through the LLEP approval process there will be the option for Charnwood Borough Council to forward fund projects via a separate and bespoke loan Agreement.

Forward Funding Mechanism

11. The way that forward funding arrangements will be set is as follows:
 - I. The LLEP approves the business case for an investment scheme with the site sponsor (which could be either the Campus or LUSEP) in line with the governance processes outlined above.
 - II. The funding body – which would usually be the Council – will provide funding to the LLEP enabling the LLEP to make a grant to the site sponsor for the agreed amount
 - III. The funding body will be repaid using the 85% LLEP share of business rates generated from the LLEZ site; where the funding body is also the billing authority (as is likely to be the case in practice) loan repayments can be deducted from amounts that would otherwise be remitted to the LLEP
12. The above mechanism is designed to avoid complex accounting arrangements within Accountable Body for the LLEP.
13. In order to allow the Council to act as funding body it is necessary that funds and the associated loans required to provide that funding are reflected in the extant Capital Plan and Capital Strategy. Updated versions of these documents are scheduled for approval at the Council meeting of 9 November 2020, following which (and assuming these are approved) £15m will become available in 2020/21 to provide forward funding for the LLEZ.
14. Typically, it may be expected that the Council will need to take out a loan (which may be via 'internal' or external borrowing) to provide the forward funding. Any loan entered into will reflect the likely profile and timing of cash flows from future business rates, previous funding arrangements relating to the site and projections of total business rates generated by the site over the 25-year life of the LLEZ.
15. Other features of the loan:
 - Where future business rate cash flows permit, the loan will be repaid on a repayment basis; this allows a charge in respect of Minimum Revenue Provision to be avoided
 - A margin will be created between interest rate charges borne by the Council and repayments from business rates generated; this margin will vary on a case by case basis and depend on the risk associated with the loan in terms of the receipt of future business rates projected in the investment scheme business case, and other pre-existing loans relating to that LLEZ site

Forward funding opportunity – Charnwood Campus investment scheme

16. The investment scheme is titled the 'Charnwood Campus Medicinal and Synthetic Chemistry Research Centre'. The business case for this scheme has been approved by the Campus Implementation Group and the LLEP Board in line with the governance arrangements set out previously in this report.
17. The principal objective of the scheme is to reactivate a currently unoccupied world-class chemistry laboratory building to attract strategically important local spin-out company for retention in Leicestershire. The project will upgrade existing research building (B42) to comply with modern regulatory requirements providing specialised laboratories and building the community in the Campus Life Sciences Opportunity Zone.
18. It is also envisaged that the scheme will (extracts from the scheme Business Case):
 - Make available 10,348sqm of highly specialised but unused medicinal chemistry laboratory space that will support the development and growth of pharmaceutical, biotechnology, high-technology, medical technology businesses
 - Generate £336,500 pa in business rates for the LLEZ
 - Ensure that an existing local thriving company does not re-locate outside the region, and in so doing consolidate 60 existing members of staff currently scattered across the region under one roof to improve productivity
 - Create 150 high value jobs within the first 12 months and a total of 312 within 3 – 5 years
 - Create a further 1,500 jobs in the supply chain (based on a 1:5 industry standard ratio where one high value job creates five low value jobs in the supply chain)
 - Achieve growth in the next 3-5 years.
19. It is understood that the Campus have identified a first tenant for the refurbished building.
20. The budgeted cost of the scheme per the approved business case – against which the grant will be awarded – is £3.4m.

Loan arrangements

21. The indicative arrangements in respect of the forward funding arrangements are as follows:
 - The loan (actually a conditional grant) to be made by the Council to the LLEP (or strictly the Accountable Body) would be ~£2m, with the

balance of the grant to the Campus being met from historical business rate generation from the Campus site

- The loan to be repaid over four years, on an annuitised (essentially a repayment) basis
 - The interest rate to be the PWLB certainty rate for a four-year annuity loan, plus a risk premium of ~1%
22. As the loan would be a repayment type arrangement no Minimum Revenue Provision charges would arise.
23. The loan would be supported by:
- Grant agreement – essentially an agreement between the LLEP and the Campus
 - Underwriting letter, or equivalent, setting out details of the Campus's commitment to underwriting the loan; the Council will be party to this document and must find the covenant set out within the letter as acceptable
 - Loan agreement between the Council and the LLEP (or strictly the Accountable Body)
24. Draft versions of these documents are being prepared by Leicester City Council in its role as LLEP Accountable Body; a verbal update on progress may be offered at the Cabinet meeting.

Risk assessment and due diligence

25. Generally, this loan can be considered as a low risk proposition since:
- The Campus site is already generating business rates of around £1.1m per annum that would be attributable to the LLEP to service forward funding arrangements; business rates generated by this Charnwood Campus investment scheme would be over and above this amount
 - The Campus business case for the scheme states that the first tenant for the refurbished building has been identified; further, in comparison to other prospective LLEZ investments (such as infrastructure) the timeframe for project delivery is relatively short at eight to ten months
 - The loan will be underwritten by Charnwood Campus; in legal terms this will be by a Jayplas group holding company; Jayplas are a locally well-known and perceived as a financially substantial organisation
26. Due diligence will be undertaken to ensure that covenants set out within the underwriting letter can be met by parties representing the campus ownership.

Appendices

None