

**Cabinet**

**13 December 2017**



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**Enterprise Zone: Business Rate Growth  
Income Pooling Agreement**

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**Report of Corporate Management Team**

**John Hewitt, Corporate Director of Resources**

**Ian Thompson, Corporate Director of Regeneration and Local  
Services**

**Councillor Alan Napier, Portfolio Holder for Finance**

**Councillor Carl Marshall, Cabinet Portfolio Holder for Economic  
Regeneration**

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**Purpose of the Report**

- 1 To seek approval to enter into the overarching Enterprise Zone Pooled Business Rate Income Agreement with the North East LEP and its accountable body NECA.

**Background**

- 2 There are 20 Enterprise Zone (EZ) sites approved in the North East Local Enterprise Zone (North East LEP) area, with at least one site in each local authority area, as listed in Appendix 2. Ten Round 1 sites became operational in April 2013; nine Round 2 sites became operational in April 2017; and one will become operational in April 2018. The Council has one enterprise zone based at Jade Park Seaham (formerly Hawthorn).
- 3 The granting of Enterprise Zone status to these employment sites by the Government, means that businesses who occupy the sites can receive benefits of either discounted business rates or enterprise capital allowances for a limited period and within European state aid rules. The Government also allows 100% of Business Rate Growth Income (BRGI) to be kept to fund infrastructure and intervention costs needed to develop the sites over a 25 year period. Enterprise Zone bids have to be submitted to, and supported by, the Local Enterprise Partnership (LEP) to attract 100% business rates retention and other capital allowance incentives. Retained business rates are paid to the North East LEP as opposed to being retained by the local councils across the north east.
- 4 In most cases, infrastructure costs occur at the start of the period and this will require borrowing to fund the works. The North East LEP will approve the capital and financing costs to be funded from pooled Business Rates Growth

Income (BRGI) and determine the use of any BRGI surplus after costs have been met.

### **Current Position**

- 5 Each of the seven Local Authorities in the North East LEP area have been asked to enter into an overarching agreement in order to provide a transparent and consistent approach for:
  - (a) the treatment of pooled BRGI across the North East LEP area;
  - (b) the financing of site intervention costs;
  - (c) the funding of eligible revenue costs;
  - (d) the operation of a performance incentive arrangement aimed at accelerating development, and maximising BRGI;
  - (e) the treatment of any net surplus after all costs have been funded;
  - (f) the treatment of any borrowing costs that cannot be funded from the BRGI pool in the unlikely event of a shortfall in total pooled income resulting in a net deficit.
  
- 6 This report seeks approval to enter into an overarching BRGI Pooling Agreement with the North East Combined Authority (NECA) in its current role as the accountable body of the North East Local Enterprise Partnership (North East LEP). This BRGI Pooling Agreement sets out the BRGI pooling arrangements for Enterprise Zones in the NELEP area over the 25 year BRGI period for each site, with a final date of the agreement running to 31 March 2043. It is anticipated that this overarching agreement will enable the individual funding agreements required to implement each approval of funding to be simplified and thereby accelerate the process of approval and subsequent development of the sites.

### **Use of any EZ Surplus and Incentivising Performance to Accelerate Development**

- 7 The North East LEP will determine how any net surplus on the Enterprise Zone account is to be allocated. In consideration of the use of the North East LEPs NEIF and LGF funds and to help provide a secure medium term plan position for the LEP Core team, the North East LEP Board agreed in 2015 that if necessary up to £500k a year could be used to support the costs of the team. This would be subject to approval on a rolling three year basis provide that a net surplus on the Enterprise Zone account was still projected to occur.
  
- 8 In May 2017 the North East LEP Board considered and approved a proposal that Councils be eligible to use a ring-fenced element of their surplus as a performance reward incentive - as a result of achieving jobs and higher levels of BRGI on their sites. This would give a clear financial incentive to councils

to accelerate development and income generation in their own Enterprise Zones. They would be able to apply this ring-fenced surplus to finance significant economic projects (that are in line with guidance to be issued by the LEP) that help with the achievement of the Strategic Economic Plan objectives.

- 9 The incentive would allow Local Authorities to determine the use of 50% of any income in excess of a Baseline Income Target and 25% of income generated between 80% and 100% of a Baseline Income Target. This would include a 10% incentive to deliver the agreed outputs (e.g. jobs and developed floor space) in the Enterprise Zone areas. The Baseline Income Target will be set out in the individual funding agreements and will be based upon a prudent estimate of income from each site after deducting a 10% contingency from Round 1 site BRGI already being received and a 15% contingency from BRGI from potential new buildings on the sites.

### **The need for an Overarching Legal Agreement**

- 10 The current approach of completing a detailed legal agreement for each site funding application has resulted in several agreements which vary in their terms, content and format and have taken considerable time and effort from the North East LEP and each council to complete. There is now a need to complete another 15 funding agreements for Round 1 and 2 sites. An overarching Business Rate Pooling Agreement, with simpler site-specific funding agreements would help provide a level of consistency and equity across all councils and should help accelerate the completion of the new funding agreements and help accelerate development.
- 11 The Enterprise Zone funding principles and arrangements have been developed since 2012 and have been subject to change over the last few years for a variety of reason. There is now a need for transparency, consistency; and greater certainty about the treatment of income and expenditure and the financing of infrastructure works and the treatment of any surplus in the short, medium and long term for up to 25 years into the future.
- 12 With the potential for councils to be carrying out significant prudential borrowing over the next few years in order to fund infrastructure works, it is necessary to be clear exactly how the borrowing is to be funded and exactly where the risk of repaying the borrowing falls in the event of income from a particular site being less than that needed to cover the costs relating to that site. The proposed approach to manage and minimise this borrowing risk is to extend the principle of pooling income across all Round 1 and 2 Enterprise Zone sites to cover borrowing costs.
- 13 A formal agreement is needed between the North East LEP; its accountable body NECA and each of the local authorities that can be operated over the whole life of the agreement by council officers over the next 25 years and is capable of dealing with any changes to the parties to the agreement over time through novation and residual body arrangements.

## **Key Elements of the Agreement**

- 14 The Business Rates Pooling Agreement covers the following key elements:
- (a) Clarification of the arrangement for the payment of pooled Business Rate Income each year to the North East LEP or its accountable body, including the calculation of income to be paid and the timing of the payment in May after the year end;
  - (b) The process for the approval of new interventions;
  - (c) The treatment of existing funding arrangements for Round 1 sites;
  - (d) The treatment of borrowing and the funding of borrowing costs;
  - (e) Arrangement for utilising the pooled BRGI;
  - (f) The treatment of any BRGI deficit, which will fall to be met proportionately by those councils that have not generated their expected income and have a deficit on their own account, in the event of any net deficit remaining over the whole period;
  - (g) Reporting arrangements;
  - (h) Standard terms to be included in the funding agreements that will sit below the pooled BRFGI agreement.

## **Recommendations and Reasons**

- 15 It is recommended that Cabinet:
- (a) agrees to enter into the overarching Enterprise Zone Pooled Business Rate Income Agreement with the North East LEP and its accountable body NECA;
  - (b) delegate authority to the Corporate Director of Resources in consultation with the Portfolio Holder for Finance to complete the necessary legal documentation.

## **Background Papers**

Enterprise Zone Reports to the LEP and NECA Boards.

The draft Legal agreement.

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**Contact: Jeff Garfoot Tel: 03000 261946**

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## **Appendix 1: Implications**

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### **Finance –**

The business rates from the EZ will be paid over to the LEP. The income generated will cover the cost of any prudential borrowing the council is required to carry out. The council may benefit from any incentive recovery from the EZ business rates or from any long term LEP surplus on the Round 1 and Round 2 EZ's. This arrangement enables 100% of business rates to be retained to fund infrastructure costs for round 1 and 2 sites.

### **Staffing –**

No impact

**Risk -** The Business Rates Pooling Agreement aims to minimise the risks associated with the ability to fund the borrowing costs on individual sites through a pooling of income from all Round 1 and 2 Enterprise sites.

### **Equality and Diversity / Public Sector Equality Duty -**

There are no equalities and diversity implications directly arising from this report

### **Accommodation –**

No impact

### **Crime and Disorder -**

There are no crime and disorder implications directly arising from this report.

### **Human Rights -**

There are no human rights implications directly arising from this report.

### **Consultation -**

The seven constituent local Councils of the North East LEP were consulted about the opportunity to identify enterprise zones in their area and the recent proposed changes. No additional community and business engagement is expected to be necessary.

### **Procurement –**

No Impact

### **Disability Issues –**

No impact

### **Legal Implications –**

The proposed Agreement will establish arrangements for the use of Business Rates Growth Income and will simplify the documentation required to cover future funding agreements.

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## Appendix 2 – Enterprise Zone Sites

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### Round 1 Enterprise Zone Sites

Local Authority	Enterprise Zone Site	Existing Funding Agreement to be replaced	New Funding Agreement
Newcastle	North Bank of Tyne	Yes	Yes
North Tyneside	North Bank of Tyne : Swans North Bank of Tyne : Port of Tyne site	Yes	Possibly Yes
Northumberland	Bates Commissioners Quay Dunn Cow East Sleekburn	Yes Yes Yes	Yes
Sunderland	A19 Corridor sites 1,2 and 3	Yes	

### Round 2 Enterprise Zone Sites

Local Authority	Enterprise Zone Site	New Funding Agreement
Durham	Jade (originally Hawthorn)	Yes
Gateshead	Follingsby	Yes
Newcastle	North Bank of Tyne – Extension Newcastle International Airport	Yes Yes
Northumberland	Ashwood, Ashington Fairmoor, Morpeth Ramparts, Berwick	Yes Yes Yes
South Tyneside	Holborn Riverside – Phase 1 Holborn Riverside – Phase 1 IAMP (jointly with Sunderland)	Yes Yes Yes
Sunderland	Port of Sunderland IAMP (jointly with South Tyneside)	Yes Yes