

Cabinet



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Enterprise Zones: Infrastructure Investment	
Report No:	CAB/SE/17/018	
Report to and dates:	Cabinet	28 March 2017
Portfolio holder:	Alaric Pugh Portfolio Holder for Planning and Growth Tel: 07930 460899 Email: alaric.pugh@stedsbc.gov.uk	
Lead officer:	Andrea Mayley Service Manager (Economic Development and Growth) Tel: 01284 757343 Email: andrea.mayley@westsuffolk.gov.uk	
Purpose of report:	<p>Cabinet has previously been given delegated authority by Council to approve business cases and investment to support on-site infrastructure in Enterprise Zones (EZ) within the Borough – Report No: COU/SE/16/002 refers.</p> <p>This report seeks Cabinet’s support towards an investment facility of up to £4m towards infrastructure costs that will support accelerated growth on the Enterprise Zone at Suffolk Park (Suffolk Business Park extension).</p>	
Recommendations:	<p><u>It is RECOMMENDED</u> that Cabinet:</p> <p>(1) agrees to a £4m revolving investment loan facility, as set out in Report No: CAB/SE/17/018, for infrastructure and associated works for Suffolk Park; and</p> <p>(2) subject to the satisfaction of the Section 151 and Monitoring Officers that appropriate security is in place to protect the Council’s investment and due diligence highlighting no significant risks to the Council has been completed, delegated authority be given to the Chief Executive in consultation with the Portfolio Holder for Planning and Growth to enter into a loan agreement(s) with the developer.</p>	

<p>Key Decision:</p> <p><i>(Check the appropriate box and delete all those that do not apply.)</i></p>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input checked="" type="checkbox"/></p> <p>No, it is not a Key Decision - <input type="checkbox"/></p> <p>A General Exception Notice has been published in relation to this intended decision.</p>
<p>Consultation:</p>	<p>With regard to this report and its recommendations consultation has been undertaken with the developer/promoters, the land owners, the New Anglia and Greater Cambridge Greater Peterborough Local Enterprise Partnerships (LEPs) and advisors.</p>
<p>Alternative options:</p>	<p>The alternative option is to not enter into a loan arrangement for the site and require the upfront infrastructure costs to be funded privately. This option was discounted for three reasons:</p> <p>Firstly to speed up the provision of on-site infrastructure which could result in the earlier occupation of the EZ than would otherwise be achieved, resulting in additional business rate income for the Council;</p> <p>Secondly, the Council has entered agreements with the LEPs and Department of Communities and Local Government (DCLG) to support the Enterprise Zones. This investment demonstrates our ongoing commitment which helps to encourage further inward investment into the borough.</p> <p>Thirdly, this option presents the opportunity to earn additional revenue income for the Council through interest receipts.</p>
<p>Implications:</p>	
<p>Are there any financial implications? <i>If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> As detailed in the report
<p>Are there any staffing implications? <i>If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> Time and resources of existing staff to enable the project to progress
<p>Are there any ICT implications? <i>If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none">
<p>Are there any legal and/or policy implications? <i>If yes, please give details</i></p>	<p>Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> As detailed in the report
<p>Are there any equality implications? <i>If yes, please give details</i></p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p>

Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
That the loan isn't repaid	Low	The loan agreement will seek appropriate assurances and security	Low
That the £4m is insufficient to enable the upfront infrastructure to be completed.	Medium	Detailed cost plans are prepared to enable a thorough understanding of the required funding level.	Low
St Edmundsbury Borough Council (SEBC) is challenged on a point of law	Medium	There is always a risk that SEBC will be challenged however, the risk of that challenge(s) being successful is low through our due diligence processes.	Low
The EZs remain undeveloped.	Low	Sustained and increased marketing and promotion activity to highlight the benefit of the EZs will reduce this risk. The site development and infrastructure plans will aid the management and delivery of the EZs.	Low
State Aid challenge	Medium	Financial support will only be considered when State Aid compliant.	Low
Ward(s) affected:		All Wards	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		<p>Reports:</p> <p>CAB/SE/15/064 to Cabinet: 20 October 2015</p> <p>COU/SE/16/002 to Council (SE/16/006): 23 February (9 February) 2016 – Enterprise Zones, Update</p> <p>F97 to Cabinet: 2 September 2014 – Eastern Relief Road, Bury St Edmunds</p> <p>F120 Cabinet referral to Council: 23 September 2014 – Eastern Relief Road, Bury St Edmunds</p> <p>CAB/SE/15/016 and CAB/SE/15/017 to Cabinet and Council 24 February 2015 – Suffolk Business Park Land Assembly</p> <p>CAB/SE/15/021 and CAB/SE/15/022 to Cabinet 24 March 2015 – Eastern Relief Road, Bury St Edmunds and Transfer of Land, Moreton Hall</p> <p>COU/SE/15/015; COU/SE/15/016; to Council 25 March 2015 – Suffolk Business Park Land Assembly and Eastern Relief Road</p> <p>Suffolk Business Park Masterplan dated June 2010.</p>	
Documents attached:		None	

Key issues and reasons for recommendation(s)

1. Background

- 1.1 On 1 April 2016 Enterprise Zone (EZ) status was awarded to 8 hectares of land at Haverhill Research Park (HRP) as one of five sites within the 'Cambridge Compass' EZ with Greater Cambridge Greater Peterborough Enterprise Partnership (GCGP), and 14 hectares of land at Suffolk Business Park (SBP) as one of ten sites within the 'Space to Innovate' EZ with New Anglia Local Enterprise Partnership (NALEP).
- 1.2 Established in 2012, Enterprise Zones (EZs) are at the heart of the Government's long term economic plan, supporting businesses to grow. EZs are designated areas of land that offer incentives to businesses, which in turn increase the likelihood of bringing forward commercial development sooner than would otherwise be achieved. This delivers wider benefits to the local area, such as attracting new employers, enabling local employers to grow, and creating more jobs.
- 1.3 EZ status is granted for an initial 25 year period and councils must work with Local Enterprise Partnerships (LEPs) to deliver EZs.
- 1.4 All business rates growth generated by the Enterprise Zone over the 25 year period is returned to the Local Billing Authority and local sharing agreements are now in place with local partners (including the LAs).
- 1.5 Whilst EZ status is awarded for 25 years, the main business incentives are only available for businesses locating on to the site within the first five years. Accelerating investment programmes within the borough's Enterprise Zones helps to ensure businesses can take advantage of these incentives and are more likely to locate to the area.
- 1.6 On 23 February 2016 (Report No: [COU/SE/16/002](#) and minute 131 (A) 3 refer) Council gave delegated authority to Cabinet to for a number of elements related to bringing the Enterprise Zones forward including:

"the allocation of the Enterprise Zones be accepted for implementation in April 2016 and delegated authority be given to Cabinet to negotiate and agree the details and precise terms of the Enterprise Zones (including entering into any legal agreements), subject to the inclusion of a clause that requires discussions and, if necessary, renegotiation of the terms around the possible changes that come with Business Rates Retention in 2020;" and

"delegated authority also be given to Cabinet to approve business cases for investment in on-site infrastructure to support the development of the EZs as and when these come forward and before any works can commence"

2. Current Situation

Suffolk Business Park

- 2.1 Significant progress has been made by the developer/promoter with regard to bringing forward the EZ at Suffolk Park. An outline planning application has

been submitted covering the EZ (and beyond). It is anticipated that this will be determined by the Development Control Committee on 6 April 2017.

- 2.2 In addition, an Infrastructure Development Plan has been submitted which details the timing for the construction of the spine road and the associated services. The completion of this work will enable the developer/promoter to market the EZ as "fully serviced", a significant incentive for businesses to locate quickly to the site. The Plan indicates a timeline for the all of the interrelated consents and procurement procedures, culminating with a contractor being able to be mobilised at the end of May 2017, hence the need for this report to be considered at this stage. If the Council does not decide to invest, and private funding is not secured by May, this could result in a delay whilst a new delivery plan is developed.
- 2.3 A Draft Feasibility Cost Estimate report has been received from the developer/promoter which was prepared to identify the potential costs of the proposed Phase 1 infrastructure works (Enterprise Zone). This report indicates that there is a large upfront cost requirement to enable phase 1 (the EZ) to be serviced. Further due diligence will be undertaken with regards the cost estimates to ensure that they are robust to support delivery of the road.
- 2.4 The developer/promoter at Suffolk Park has secured the sale of 10 acres of the Enterprise Zone to the company Treatt Plc to enable the retention and expansion of this key Bury St Edmunds based company. The developer/promoter proposes the use of the capital receipt from this sale to contribute towards the costs of the spine road and services.
- 2.5 However, based on the cost estimates received, it is clear that the capital receipt from the sale of the land to Treatt will be insufficient to cover the costs of the spine road and services. Therefore a loan request has been received from the developer/promoter of the Enterprise Zone at Suffolk Park to cover the gap (temporary until further land sales come forward) in funding. It is worth noting that if the landowner was not agreeable to the use of capital receipts from the sale of the land to Treatt Plc the loan request amount would be higher.
- 2.6 At this point in time, the request for a loan is only to enable the phase 1 spine road and services to be constructed/completed. However, it is likely that there will be further requests in the future for support towards upfront infrastructure costs for which the details are unknown, for example internal roads within the Enterprise Zone and on the wider business park extension. Therefore, a revolving investment facility is required so that requests for loans relating to future phases of the EZ can be considered. The benefit of such a facility would be to enable funding decisions to be made (subject to the appropriate checks and balances) on a quicker timeframe, thereby ultimately resulting in the faster occupation of the EZ.
- 2.7 The sum requested to be allocated as a revolving investment facility is up to £4 million. If the developer can demonstrate to the satisfaction of officers that further work can be undertaken within the Enterprise Zone that will ultimately deliver economic benefit further lending can be undertaken up to the £4m threshold.

- 2.8 Subject to the agreement of Cabinet in accordance with this report, it would be possible to then use the £4m investment facility to enter into a loan agreement(s) with the developer/promoter at Suffolk Park for the phase 1 infrastructure provided that the relevant part of the loan policy is satisfied from the due diligence process.

3. Financial implications

- 3.1 The Council's loans policy (Cabinet Report No: [E102](#)) seeks to place appropriate safeguards in place where the Council is providing finance to external organisation. Each loan has to be judged on its own merits, and ensure that the loan contributes to achieving Council objectives, the organisation is financially sound, and/or there is appropriate security in place. Consideration will be given to the loan policy as part of the due diligence and exercising of the delegations proposed.
- 3.2 The merits of the loan are set out above, and primarily relate to the opportunity to accelerate growth on the Business Park, allowing the benefits of growth to come forward. In providing a loan (which will be at a commercial interest rate) the Council benefits from interest income, at higher rates than the Council presently receives on its financial investments. It is envisaged that this loan will be funded by internal borrowing through use of existing balances, however in line with our Medium Term Financial Strategy if external borrowing is required in the life time of the loan the interest rate proposed will cover any external borrowing costs.
- 3.3 In addition, the Enterprise Zone scheme will mean that 100% of any new business rates created on Suffolk Business Park Enterprise Zone will be retained by the Council and the LEP, to support council services and further economic development. As such, the Council will receive additional business rate income faster than it would otherwise have done through making this investment.
- 3.4 As is highlighted at paragraph 4.1 below, negotiations are already taking place to ensure the appropriate security is in place to protect the Council's investment, and in addition, further due diligence will be undertaken on the viability of the company/site. It is expected that the first drawdown of the loan facility will take place in May 2017 and will be a short term loan, depending on future land sales.
- 3.5 It is expected that this investment can be accommodated within the Council's approved Prudential Indicators on the management of external debt, as a result of the timescales associated with approval of the Growth Investment Fund not matching the profiling in the existing capital programme. The Council's S151 Officer will report to the next available Council if these indicators are expected to be exceeded.
- 3.6 Separately on this agenda, Cabinet is being requested to support the mechanisms to accelerate investments that support growth in the borough. This specific proposal is being considered at this stage due to the timing of the decision required but demonstrates how undertaking such investment can bring forward job creation and business expansion to the benefit of communities and the Council in the future.

4. Legal implications

- 4.1 The Council has received copies of agreements between the landowners and the developer / promoter. These set out the terms under which the land can be developed and sold, and provide, for example, step in rights for land funders in the event of insolvency. However, clearly the Council will need to ensure there is appropriate security in place for any loan provided to the developer. The nature of the security provisions are currently being discussed. The proposed delegated authority to enter into an agreement will only be exercised once appropriate security has been confirmed.
- 4.2 As this is a loan on commercial terms, officers are satisfied that there are no immediate state aid implications with respect this funding proposal.

5. Haverhill Research Park (HRP)

- 5.1 The EZ at HRP is presently further advanced than Suffolk Park; it already has an outline planning consent and the spine road and services are already in place, having been funded, in a similar way to the current proposal, through a loan from SEBC (supplemented by funding from the LEP's) which was used to enable the spine road and services to be constructed. Repayment was delivered in full.
- 5.2 Officers are working alongside site owners / developers to continue to explore potential funding and delivery opportunities in the HRP EZ and may refer any emergent proposals to Cabinet in due course.

6. Conclusion

- 6.1 Upfront infrastructure costs are often the biggest challenge to bringing forward development (particularly commercial development). The ability of a developer/promoter to be able to let a contract for infrastructure works as early as possible improves the marketability/saleability of commercial land. SEBC has entered into an agreement with Department of Communities and Local Government and the local enterprise partnerships to support the development of the Enterprise Zones at Haverhill Research Park and Suffolk Park.
- 6.2 The approval of this revolving investment facility will enable SEBC to consider/provide loans for infrastructure during the phased development of the site that will ultimately result in the ability to attract companies sooner. The location of businesses in the EZs has a two fold advantage, firstly in support of the local economy and secondly in terms of receipts from the EZ business rates incentive.
- 6.3 The proposed phase 1 loan would enable the developer/promoter to let a contract by the end of April enabling the spine road to be completed by the end of 2017. The provision of the spine road will give incoming businesses/investors the comfort that development is advancing and that they will be able to access individual plots at the earliest opportunity.
- 6.4 Aside from the local economic advantages, this also provides some clear benefits to St Edmundsbury that subject to the appropriate due diligence and security being in place, the Council can receive a higher rate of income on its investment and potential additional business rates as soon as possible.