	<p>REPORT TO CABINET</p> <p>TO BE HELD ON 16 FEBRUARY 2016</p>	
	<p>Key Decision</p>	<p>YES</p>
<p>Corporate Priority: Safe and Healthy Prosperous Inclusive and Vibrant Quality Environments</p>	<p>Cabinet Portfolio Holder</p>	<p>Cllr J Plant</p>

REPORT OF THE DIRECTOR (TW) – 16/40

WARDS AFFECTED: ALL

SUBJECT: Scarborough and Whitby Business Development Zones and Local Discretionary Business Rate Reliefs

RECOMMENDATION (S):

For Cabinet to recommend that Council:

- 1) approve the establishment of two Business Development Zones in Scarborough Borough, at Scarborough and Whitby Business Parks, to help maximise inward investment with a particular focus on the potash, offshore wind and manufacturing and engineering supply chains, and to deliver new employment opportunities for local people.

- 2) approve the Local Discretionary National Non Domestic Rates (NNDR) Relief Policy for the Business Development Zones, which will target the above industry types and offer qualifying businesses with NNDR reliefs equivalent to those offered by Government approved Enterprise Zones;

- 3) approve the General Local Discretionary NNDR Relief Policy, which will provide an opportunity to grant NNDR reliefs for exceptional applications that will result in tangible benefits to local residents and, in particular, the attraction of businesses, investment, jobs or amenities to the Borough;

- 4) delegate authority to approve the above NNDR reliefs to the Council's Section 151 Officer in consultation with the Portfolio Holder for Finance, Procurement and Legal.

REASON FOR RECOMMENDATION (S):

To incentivise business growth within the Borough and maximise future inward investment and job creation.

To increase the Council's future share of retained NNDR income, which will become the Council's primary source of core Local Government Finance Settlement funding by 2020.

HIGHLIGHTED RISKS

A detailed Risk Matrix is attached at Appendix A

1. INTRODUCTION

- 1.1 The concept of "enterprise zones" has been used widely by governments all around the world as a mechanism for stimulating investment and the creation of jobs.
- 1.2 Enterprise Zones are at the heart of this government's long term economic plan, supporting businesses to grow. In May 2011, the Government launched a competition to establish 24 enterprise zones across the country.
- 1.3 Since their inception in April 2012, enterprise zones have laid down the foundations for success for 540 businesses, attracting over £2.2 billion pounds of private sector investment, building world class business facilities and transport links and attracting 19,000 jobs. Momentum is now building across the programme and many existing zones are looking to expand.
- 1.4 Enterprise Zones have established themselves as the driving force of local economies as they unlock key development sites, consolidate infrastructure, attract business and create jobs.
- 1.5 Enterprise Zones are helping to attract more foreign investment into the country, and are bringing jobs and businesses across England. They are about delivering long term, sustainable growth based on cutting-edge technology and enterprise. Businesses are clustering around centres of excellence in key sectors such as financial services, bio-sciences, digital and creative industries, advanced engineering, automotive, and renewable energy.

2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN

2.1 The proposals contained within this report will underpin all of the Council's Corporate Plan aims:

- Aim 1: Safe and Healthy
- Aim 2: Prosperous
- Aim 3: Inclusive and Vibrant
- Aim 4: Quality Environments

3. BACKGROUND AND ISSUES

3.1 Earlier this year, the Government invited applications for a further round of Enterprise Zones. The invitation document set out that those sites successful in attaining Enterprise Zone status could offer the following range of incentives for investors and those businesses basing themselves in the Enterprise Zones:

- Up to 100% business rate discount worth up to £275,000 per business over a 5 year period
- Simplified local authority planning, for example, through Local Development Orders that grant automatic planning permission for certain development (such as new industrial buildings or changing how existing buildings are used) within specified areas
- Government support to ensure that superfast broadband is rolled out throughout the zone, and, if necessary, public funding
- 100% enhanced capital allowances (tax relief) to businesses making large investments in plant and machinery on 8 Zones in Assisted Areas.

3.2 Scarborough Borough is not an Assisted Area so the fourth incentive would not be applicable to any Enterprise Zone created within it.

3.3 Similarly to the previous bidding round, Local Enterprise Partnerships (LEP) were asked to choose 1 proposed Enterprise Zone site to be submitted to the national competition. The York and North Yorkshire LEP had 3 applications to choose from;

- A Yorkshire Coast Enterprise Zone bid submitted by SBC and the East Riding of Yorkshire Council.
- A York Central bid
- A York and North Yorkshire Growth Corridor bid.

3.4 The LEP nominated the York site and that bid has been successful. Nevertheless, the Council recognises that the Enterprise Zone model can play a major role in driving business growth, and thereby business rates growth which forms an increasingly important source of core funding for the Council.

- 3.5 The Borough Council submitted an unsuccessful Enterprise Zone bid for Scarborough Business Park in the last bidding round. The bid was based on maximizing the opportunities to exploit the potash and offshore supply chains to create local jobs. The “unofficial” feedback was that the Hull Green Port bid had been selected as, at that stage, they were more confident that it would deliver the desired outputs and outcomes.
- 3.6 Since that time, the proposed new potash mine has secured planning permission and the Council has agreed heads of terms to develop the Yorkshire Coast’s first Offshore Wind Service Centre in Whitby. It is believed that the time is now right to explore the delivery of an “enterprise zone” type approach to encourage and maximize investment in the Borough.
- 3.7 Regeneration Services and Finance have been exploring the potential of developing our own “Enterprise Zones” within the Borough using our ability to offer pro-actively targeted discretionary business rate relief and a prioritised, simplified, and speeded up planning process delivered by the negotiation of Planning Performance Agreements with developers/investors.
- 3.8 As Members are aware, Scarborough Borough has moved from an economy based on tourism, fishing and agriculture for its employment base in the 1960s to the place it has reached now; a vibrant business location by the sea with a diversified economy comprising a solid manufacturing base, strong health and social care and retail sectors, a burgeoning creative and digital sector and a tourism base which is competitive and prosperous.
- 3.9 The Borough is entering an era of opportunity with some of the most significant growth potential in the north of England. Over the next five years there is set to be unprecedented investment in Scarborough Borough, potentially in excess of £2billion, in the following key sectors:
- Potash Mining – The York Potash project is a proposal to develop a new high-tech potash mine in Scarborough Borough. It has the potential to make the area a world leader in high value potash production, creating up to 4,000 new jobs. Planning permission was secured this year and start on site is anticipated Q4 2016.
 - Offshore Wind - Whitby is the nearest port to Dogger Bank where the world’s biggest wind farm is to be constructed. A new Offshore Wind Service Centre is being built in Whitby and the sector is expected to create up to 2,000 operations and maintenance jobs along the Yorkshire Coast.
 - Leisure – two major projects, Scarborough Water Park and the Sports Village, will lever in private sector investment of circa £25m over the next three years.

- Coventry University has recently moved into Scarborough and the new campus, located next to the Sports Village, will see an investment of £14m and will open in September 2016.
 - £10m is also being invested in a new Scarborough University Technical College, also co-located with Coventry University Scarborough Campus. This investment will provide a skilled and motivated engineering workforce for the future.
 - Major expansion of GCHQ Scarborough.
- 3.10 In addition, the Borough Council is committed to very significant demographic growth with planned housing investment at its highest levels since the Victorian era. Currently there are 3,000 new houses with planning permission across the Borough. The Council and development partners have started on site at Middle Deepdale with 1,350 new houses under construction; one of the biggest housing developments in the Yorkshire region. Of even greater significance is the commitment to facilitate further housebuilding with the allocation of a substantial number of housing sites across the Borough. This will aim to take the level of housebuilding to circa 10,000 new homes across the Borough by 2032. This includes the proposed Strategic Growth site south of Cayton which lies adjacent to the Scarborough Business Park. This would result in the creation of 2,500 homes and other associated facilities [school(s), local services, community facilities, etc.]
- 3.11 The totality of this investment is forecast to create up to 6,000 new full time jobs and in the region of 4,000 construction jobs. The prospect of these new sectors is a genuine growth opportunity and a once in a generation chance to transform the local economy.
- 3.12 To maximize the opportunities this economic growth could bring the Council is proposing to establish Business Development Zones covering the Scarborough and Whitby Business Park areas, which will offer similar benefits to government approved Enterprise Zones and have the specific remit of supporting these investments.
- 3.13 The creation of the Business Development Zones will provide the Borough's business parks with a commercial and marketable competitive advantage over similar sites in other authorities with no such equivalent policy and, as far as possible, will match those benefits offered by government approved Enterprise Zones. In turn this will form a key driver in attracting investors and business to the Borough.

4.0 CONSULTATION

- 4.1 Extensive consultation has been undertaken in developing the Enterprise Zone approach specifically with the main land owners/developers;

Feedback from Caddick Developments

“It is essential to Scarborough and Scarborough Business Park that it secures EZ status. The Business Park has stalled after the worst global recession and has been slow to recover compared to other parts of the Yorkshire region.

Scarborough Business Park needs a new status and branding to attract inward investment from outside Scarborough and to support the graduates and trainees emerging from the new university into local sustainable jobs. In turn this will see a higher retention rate of graduates from the universities and colleges remaining in the Borough, which will in turn create the demand for more houses and support a general economic up turn in the Borough.

*We need a “tool” to **financially attract inward investors** who would otherwise consider York or Malton to locate in and to highlight the lower land values and business rates relief at Scarborough Business Park. That tool is EZ status. Job creation is key and is the root to long term economic growth and sustainability.*

I trust this helps our argument for EZ status”.

- 4.2 Consultation has also been undertaken with the Scarborough Business Ambassadors and representatives of local businesses.

5.0 ASSESSMENT

- 5.1 Section 47 of the Local Government Finance Act 1988 (amended by section 69 of the Localism Act 2011) provides local authorities with the power to establish their own local discretionary NNDR relief scheme(s). The Business Development Zone relief falls within this criteria.
- 5.2 The proposed Business Development Zone NNDR Relief Policy is attached at Appendix B and the key details can be summarised as follows:
- Businesses qualifying for the relief will be awarded 100% NNDR relief of up to £275k (the current maximum State Aid de-minimis threshold), over a 5 year period;
 - The policy will cover new developments locating on one of the defined business park areas in Whitby or Scarborough (edged red on the attached maps);
 - The new property must become operational between the period 1 April 2016 and 31 March 2021;
 - The business must be in one of the following qualifying sectors:
 - Offshore Wind supply chain
 - York Potash supply chain

- Office and industrial development
 - Manufacturing
 - Advanced engineering
 - Renewable energy
- Both existing Scarborough Borough companies and those from further afield will be entitled to apply for the relief, although existing Scarborough Borough companies will be required to demonstrate that they are growing to avoid displacement of companies within the area;
 - The following businesses will not be eligible to apply under the scheme:
 - Hotels
 - Retail
 - Car Showrooms
 - Restaurants
 - The business occupying the property will be required to identify a minimum long term increase in job creation within the Borough;
 - The relief will initially be awarded for 5 years but will be subject to annual monitoring to ensure the company occupying the property is still eligible for the relief. The Council's powers to cease the relief will however be limited to circumstances where the business has moved into a non-qualifying sector, state aid thresholds have been breached, or where a false declaration of details was made;
 - The applications for the relief will be considered by Regeneration Services and approved by the Council's Section 151 Officer.

5.3 In addition to the Business Development Zone NNDR Relief Policy Appendix B contains a General Local Discretionary Relief Policy. This policy will provide the Council with the opportunity to consider other exceptional applications for local NNDR discounts from organisations, based on their own individual merits. The Policy sets out that the principal consideration in awarding this relief will be a satisfaction that it will result in tangible benefits to local residents and, in particular, the attraction of businesses, investment, jobs or amenities to the local area.

5.4 The localised business rates scheme came into effect in 1 April 2013 and provides the Council with the opportunity to retain a share of business rates growth generated across the Borough. Under the scheme the Council must partly bear the cost of any discretionary rate reliefs it awards therefore the financial implications associated with the approval of the Local Discretionary NNDR Relief Policies must be a key consideration in the decision making process.

- 5.5 The business rates (NNDR) income retained through the localised scheme forms an increasingly important element of the Council's core funding, particularly in light of the eradication of Revenue Support Grant over the current parliamentary period and the Government's aim to move towards a 100% rates retention scheme for local authorities by 2020.
- 5.6 In December 2015 the Government announced the provisional finance settlement for 2016/17 alongside indicative figures for the following 3 years up to 2019/20. The Council's baseline core funding for 2016/17 and indicative funding for 2019/20 is shown in the table below:

	2016/17		2019/20	
	£'000	%	£'000	%
Revenue Support Grant	2,128	14	49	0
Baseline share of NNDR	3,921	26	4,243	32
New Homes Bonus	1,288	8	733	5
Council Tax	7,960	52	8,680	63
	15,297		13,705	

- 5.7 The figures show the increasing importance of business rates as a source of income for the Council over the period to 2020. As the Council retains a proportion of net growth in business rates income emphasis should be placed on maximising this income as far as is reasonably practicable.
- 5.8 Although the awarding of Discretionary Rate Reliefs could cost the Council in the initial short term period this cost should be more than outweighed by the longer term business rate income derived from any new developments, as well as the financial and non-financial benefits derived by the Borough through job creation and a more buoyant economy.

6. IMPLICATIONS

6.1 Policy – the Local Discretionary Business Rates Discount Policy will be a new policy for the Council.

6.2 Financial

6.2.1 Under the localised business rates scheme the Council currently retains a 40% share of the net benefit derived from any business rates uplift and is liable to pay a 50% levy on any share of income which exceeds a baseline amount. The Council's current share of business rates income already exceeds baseline therefore the Council will pay a levy on any additional income generated.

6.2.2 The Local Discretionary Rate Reliefs proposed within this report would not be eligible for inclusion within the levy calculation therefore the levy would be payable on the gross business rates uplift generated from new developments rather than the net discounted amount after reliefs. This reflects that the

Council has used its discretionary powers to award the relief therefore picks up a higher proportion of its cost.

- 6.2.3 The table below sets out some examples showing the in-year cost or benefit to the Council of awarding Local Discretionary Reliefs for properties with a range of Rateable Values.

	£'000	£'000	£'000
Rates payable	100	700	1,000
Discretionary NNDR Relief	(100)	(275)	(275)
Net Business Rate Growth	-	425	725
SBC's 40% share of retained business rates growth	-	170	290
Levy payable on SBC's 40% share of gross rates payable	(20)	(140)	(200)
Net in year benefit / (cost) to SBC	(20)	30	90

- 6.2.4 The business rates pooling regime allows pools to retain levies rather than pay them over to Central Government. Pools then distribute the levies in line with their own pooling arrangements. The North Yorkshire Business Rates pool redistributes levies back to its constituent authorities therefore under the existing arrangements the Council retains a share of any levies payable. The example above assumes that the maximum 50% levy is paid on business rate growth and does not account for the benefit that could be derived from any redistribution of levies back from the pool.
- 6.2.5 It is not possible at this stage to estimate the types and sizes of businesses that will be attracted to the Business Park areas, therefore the financial impact of awarding the Local Business Development Zone relief cannot be quantified. It is however anticipated that a growth in properties on the Business Parks should automatically attract ancillary businesses such as hotels and restaurants. These will not be eligible for the Business Development Zone relief therefore the share of growth in business rates associated with these developments will be available to offset, and could indeed far outweigh, the costs of awarding the discretionary relief.
- 6.2.6 The main benefit of establishing a locally funded Business Development Zone is that following the initial 5 year period of relief, or the awarding of relief up to the maximum de-minimis threshold, the Council will retain its share of any additional business rate growth in its entirety. This should become an even greater benefit when 100% business rates retention comes into effect in 2020.
- 6.3 Legal** – the power to grant Discretionary Rate relief is contained within Section 47 of the Local Government Finance Act 1988 (amended by section 69 of the Localism Act 2011). The policy to grant the relief must be robust to ensure it targets the intended business development and can withstand legal challenge. The Policy will require a formal application, adjudication and appeal process and this will be developed by officers in the coming months within the remit of the proposals contained within this report.


6.4 Planning

- 6.4.1 In order to support the delivery of investment and development it is proposed that the Planning Service prioritise schemes in these areas. This would involve the promotion of the Council's pre-application process (and where appropriate the negotiation of planning performance agreements to set out agreed timelines for the preparation and submission of information, and their consideration and determination of applications). Discussions will also be held with key stakeholders (in particular the Environment Agency and Yorkshire Water) to seek to agree ways of engagement that ensures that issues that will be central to the planning application process are identified as early in the overall life of a project as possible.
- 6.4.2 This can be achieved to some extent within existing resources, but if the number of relevant applications was to increase significantly the delivery of the prioritised planning process may require the Council to invest in additional capacity. This could be funded by the likely associated increases in Planning fee income.

6.5 Others

I have considered whether the following implications arise from this report and am satisfied that there are no adverse identified implications that will arise from this decision for the Council. ;

Equalities and Diversity, Crime and Disorder, Health and Safety.



Trevor Watson
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Background Papers:

IF YOU HAVE ANY QUERIES ABOUT THIS REPORT OR WISH TO INSPECT ANY OF THE BACKGROUND PAPERS, PLEASE CONTACT DAVID KELLY ON 01723 232321 or e-mail david.kelly@scarborough.gov.uk

APPENDIX A

Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	Jan 16	Council does not approve the Business Development Zone Policy and loses the opportunity to lever in business investment through the offer of financial incentives	<ul style="list-style-type: none"> ▪ Supply chain businesses for Wind and Potash locate within nearby Business Parks with Enterprise Zone status ▪ The Borough's Business Parks offer no competitive advantage over similar business parks in neighbouring authorities ▪ Economic and job creation opportunities within the Borough are not maximised 		B4	B4	Economic Development Manager	
2	Jan 16	The cost of granting the reliefs exceeds expectation	<ul style="list-style-type: none"> ▪ Increased revenue budget costs ▪ Reductions in Council services 	<ul style="list-style-type: none"> ▪ Monitoring the costs of reliefs and the Council's NDR income ▪ Reliefs are capped at de-minimis levels ▪ Long term financial benefits from growth in NNDR income 	A2	A2	Corporate Finance Manager	
3	Jan 16	New legislation will come into effect to facilitate 100% Rates Retention by 2020 poses uncertainty regarding the future awarding and funding of Local Discretionary Rate Reliefs.	<ul style="list-style-type: none"> ▪ Uncertainty regarding future funding and awarding of Discretionary Rates Relief. ▪ The Council may have committed to providing up to five years relief under the Business Development Zone Policy and this may result in additional costs under the new localised scheme 	<ul style="list-style-type: none"> ▪ Review of technical consultation documents when they are issued (expected summer 15) ▪ Provide responses to the consultation document ▪ Review Business Development Zone Policy against the proposals 	E1 B3	E1 B3	Corporate Finance Manager	Review technical consultation documents for 100% Business Rates Retention and provide feed back

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
4	Jan 16	Legal challenge from the business community against the application of the Discretionary Rate Policy	Financial costs and resource to contest the challenge	Appeals process to be included within the policy	B4	A4	Corporate Finance Manager	Document an appeals process for the Council's NNDR relief policies and obtain external advice on the robustness of that policy

Glossary of Terms

Risk	An event which may prevent the Council achieving its objectives
Consequences	The outcome if the risk materialised
Mitigation	The processes and procedures that are in place to reduce the risk
Current Risk Score	The likelihood and impact score with the current mitigation measures in place
Corporate Objectives	An assessment of the Corporate Objectives that are affected by the risk identified.
Target Risk Score	The likelihood and impact score that the Council is aiming to achieve
Service Unit Manager	The Service Unit or Officer responsible for managing the risk
Action Plan	The proposed actions to be implemented in order to reduce the risk to the target score

Risk Scoring

Impact	5						
	4						

	3					
	2					
	1					
		A	B	C	D	E
		Likelihood				

Likelihood:

A = Very Low

B = Not Likely

C = Likely

D = Very Likely

E = Almost Certain

Impact

1 = Low

2 = Minor

3 = Medium

4 = Major

5 = Disaster