

Report to: Cabinet



Date of Meeting 10 October 2023

Document classification: Part A Public Document

Exemption applied: None

Review date for release N/A

Enterprise Zone

Report summary:

This report provides an update on the operation and performance of the Exeter and East Devon Enterprise Zone designation. This includes a review of what has been delivered to date since the beginning of the designation in 2017. The assessment focuses particularly on the capacity for investment in specific projects, funded through borrowing against ring-fenced business rate income. This provides important wider context for specific investment proposals that will be reported to Cabinet over the coming months.

Is the proposed decision in accordance with:

Budget Yes ☐ No ☒

Policy Framework Yes ☒ No ☐

Recommendation:

That Cabinet;

- Notes the progress with the delivery of the Enterprise Zone designation to date.
- Notes the current position regarding borrowing against retained business rate income and the capacity to support further strategic investment.
- Recommends to Council that up to £250k is borrowed against future ring-fenced business rate income to support the ongoing progression of the Interconnector Project.

Reason for recommendation:

To ensure that Cabinet is aware of the progress to date with the Enterprise Zone designation.

To provide context for further investment decisions that will be reported to Cabinet in the coming months.

To support the ongoing development of the Interconnector Project.

Officer: Naomi Harnett, Delivery Manager, email: nharnett@eastdevon.gov.uk, Andy Wood, Assistant Director, email: adwood@eastdevon.gov.uk

Portfolio(s) (check which apply):

- ☒ Climate Action and Emergency Response
- ☒ Coast, Country and Environment
- ☒ Council and Corporate Co-ordination
- ☒ Communications and Democracy
- ☒ Economy
- ☒ Finance and Assets
- ☒ Strategic Planning

- ☒ Sustainable Homes and Communities
- ☒ Culture, Leisure, Sport and Tourism

Equalities impact Low Impact

Climate change High Impact. A core purpose of the Enterprise Zone designation is to support the delivery of clean growth. The Interconnector Project will deliver up to 17,200 tonnes of carbon savings per year. This is significant both locally and nationally. Delivering large scale zero carbon development in the West End is a key objective in the Council's Climate Change Action Plan. The Devon Carbon Plan makes it clear that in 2019 burning of fossil fuels for heat accounted for 19% of Devon's greenhouse gas emissions. It states that 'we must consider district heating for new developments where the distribution pipes and energy centre can be designed in from the outset, particularly in locations where waste heat is available from industrial processes

Risk: Medium Risk;

Links to background information [Guidance for Local Enterprise Partnerships \(LEPs\) and local and combined authorities: integration of LEP functions into local democratic institutions - GOV.UK \(www.gov.uk\)](#)

Link to [Council Plan](#)

Priorities (check which apply)

- ☒ Better homes and communities for all
 - ☒ A greener East Devon
 - ☒ A resilient economy
-

Background and context

1.1 The Exeter and East Devon Enterprise Zone is a statutory designation that commenced in 2017 and runs until 2042. It covers four sites in the West End of the District as follows;

- Exeter Science Park
- Skypark
- Power Park (formerly known as Airpark)
- Cranbrook Town Centre

1.2 The designation is intended to accelerate the delivery of new commercial space and support employment creation. There is potential for up to 10,000 jobs to be accommodated across the four sites at full build out.

1.3 An advisory Board, which is chaired by EDDC and includes representation from the County Council, Local Enterprise Partnership and four site owners, provides oversight of the delivery of the programme. The District Council is the accountable body for the designation and an Implementation Plan sets out key priorities.

1.4 A key feature of the designation is that business rate income is ring-fenced and 100% retained locally for the 25-year duration of the designation. This makes it our most strategic and powerful tool for promoting sustainable economic development. Whilst the business rate income steps up over time it is also possible to borrow against this income stream in order to instigate projects that have the effect of accelerating the rate at which new business rate income accrues. All borrowing decisions are considered by Cabinet and recommended to Council.

1.5 A period of HMT funded rate relief ran for the first five years of the designation. Further incentives include a simplified planning regime in the form of Local Development Orders. These are now in place for the Power Park site and to facilitate the roll out of district heating networks. Further work is underway to support the development of an LDO for Skypark.

1.6 The Enterprise Zone was rebranded in September 2023 with the benefit of a new logo and marketing material. The vision is to deliver a world-class, low-carbon environment for business success. This recognises the emphasis being placed on achieving clean growth and supporting the transition to a low carbon economy.

What has been delivered to date?

2.1 The initial focus of the programme has been on addressing barriers to delivery and bringing forward projects that have a catalytic impact in terms of encouraging further investment. Through borrowing against future ring-fenced business rate income, the following projects have been delivered;

Project	Cost
Park and change facility at Exeter Science Park	£1.1m
Ada Lovelace Building, Exeter Science Park	£660k
Enhanced Bus Service	£450k
Land acquisition, Cranbrook town Centre	£5.117m
Long Lane enhancement	£4.52m
Total	£11,847,000

2.2 Overall circa 400,000 sq. ft of new floorspace has come forward since 2017. The largest building is the new 200k sq. ft facility for Stovax at Skypark. The following are also currently under development;

- Cranbrook Town Centre – Morrisons supermarket, parade of shops and nursery
- Science Park – Zeal hotel

Overall, the four sites have the potential to accommodate up to 2,500,000 sq. ft of floorspace.



Fig 1: The Stovax building at Skypark completed in May 2023. A local development order for the site is currently under development to reflect structural changes in the commercial property market. (credit: Still Imaging)



Fig 2: Development of Cranbrook town centre commenced in August 2022. This followed extensive negotiations which led to the Council acquiring 4 acres of land. This is needed to safeguard the development of the town centre and ensure that it can ultimately support a population of around 20,000 people (credit: Still Imaging)



Fig 3: The Long Lane scheme was needed to unlock the development of the Power Park site. Widening the lane to 6.5m allows two HGVs to pass safely. Alongside this a Local Development Order has also been adopted to provide a flexible regime through which future buildings can come forward.



Fig 4: The Ada Lovelace building completed in 2021 with a £660k contribution from the EZ programme.

Future Borrowing capacity


3.1 At the outset of designation assumptions were made about the potential development of floor space over time and the likely resulting uplift in business rate income in the period to 2042. These were used to inform future borrowing potential. The assumptions made were deliberately conservative so as to ensure that all borrowing would be covered from ring-fenced income. Unlike

outside of the EZ designation, there is no rebasing of business rate income which serves to reduce the level of associated risk.

3.2 Nonetheless there are still inherent risks when trying to predict future business rate income over such a long time period, not least because the initial modelling preceded the Covid-19 pandemic. The main risk factors are;

- 1) The form of development – the impact of the pandemic and shift to hybrid working has meant that the proportion of future office development, particularly at Skypark, is likely to be significantly smaller than originally anticipated.
- 2) The type of occupier – certain occupiers, such as the University, benefit from up to 80% rate relief.
- 3) Wider economic conditions – the impact of high interest rates coupled with the threat of a potential recession has had a significant impact on the commercial property market including dampening potential occupier demand. The Power Park site in particular has been slower to start construction than originally anticipated despite the substantial investment in enabling infrastructure and the adoption of a LDO.
- 4) Governance changes – the government recently confirmed that it will no longer provide core funding for Local Enterprise Partnerships beyond the end of March 2024 with the expectation that the functions are transferred to the upper tier authorities. With the emerging devolution proposals also proposing the establishment of a Combined County Authority there was a risk that control of retained business rates would be elevated to this body. This now seems unlikely given that the relevant guidance states that arrangements should be agreed locally.

3.3 In the context of potentially very significant calls on the EZ programme coming forward to Cabinet in the near future, including in relation to the district heating project and the potential for further land acquisition, it is important to stress that all potential borrowing is 100% covered business rates arising from existing or under construction buildings. In other words there is no gearing in the sense that all borrowing is covered by secure income. This is illustrated in the graph below which also shows that initial estimates have been substantially exceeded.

 This image cannot currently be displayed.

3.4 There is still available headroom of circa £14M in terms of current borrowing relative to secure income. This is without making any allowance for new rateable development that has yet to commence construction.

Interconnector Project

4.1 One of the unusual features of the Enterprise Zone area is the presence of two district heating networks. This was part of a deliberate strategy to underpin the large-scale delivery of low and zero carbon development. This strategy has largely avoided the need for gas boilers to be installed in individual homes and commercial buildings.

4.2 Cabinet has received a series of reports on the decarbonisation of the networks. This will be achieved through harnessing recoverable heat from the Hill Barton Business Park and transmitting it to connect with the two networks through the installation of a new heat main. This is known as the Interconnector Project and extensive work on technical, legal and financial aspects of this has been undertaken to date.

4.3 In November 2022 Cabinet approved a draft business case document for the project and endorsed proceeding to procurement. The procurement was launched in February 2023 and the procurement is now at an advanced stage. It is anticipated that the project will be reported to Cabinet in January to make a final investment decision.

4.4 The progression of the interconnector project to date has been supported by the Heat Network Investment Programme by both capital (grant/loan) and revenue funding, Heat Network Development Unit grant and match funding from the Enterprise Zone programme to support commercialisation. This is set out below:

Overview of revenue funding (September 2021-present)	
Heat Network Investment Programme	£500,000
Heat Network Development Unit	£365,000
Enterprise Zone	£250,000
	£1,115,000

4.5 This funding has been utilised to develop the project and produce the following:

- Full business case,
- Procurement documentation – involving completion of draft technical design, draft legal agreements, etc.
- Progress commercial negotiations with E.On and Stuart Partners, including heat supply and offtake agreements
- Development of route, including negotiations on easement
- Preparing and submitting planning applications.

4.6 Over 75% of the revenue costs incurred to date have been met from government grants.

4.7 Additional funding is required to:

- Conclude the procurement process
- Finalise easements for the preferred route
- Conclude commercial negotiations
- Finalise RIBA stage 3 design

4.8 The project team are seeking additional Heat Network Development Unit (HNDU) funding to progress the project to final investment decision but to date no formal decision has been made on these applications. To ensure that the project can continue to progress a request is made for up to £250k (in addition to the £250k match funding provided by the Enterprise Zone programme in 2022) towards the consultant costs associated with the project and for this to be funded by borrowing against ring-fenced business rate income. If external grant funding is awarded (from HNDU), this budget will be utilised as match funding and the EZ

Board advised of the budget saving. Without additional funding the Council will not be able to progress this project.

Conclusion

5.1 The Enterprise Zone is a powerful, long-term designation. Good progress is being made across the four sites which is ultimately helping to bring forward a wide range of new employment opportunities. The analysis demonstrates that a prudent approach has been taken in relation to retained business rate income and that headroom exists to support further strategic investment.

Financial implications:

The financial details are contained in the report and sufficient funds are available within the EZ retained business rates income to meet this request. Treasury Management principles will determine whether actual Council borrowing is required but the request is that a budget is granted of £250k and this is met from EZ income.

Legal implications:

As this report is a progress report, there are no substantive legal issues directly arising. In terms of the additional funding for the interconnector project, Full Council approval is required. As is indicated in the financial comments, sufficient funds are available within the EZ retained business rates.