

**Report to:** Cabinet  
**Date of Meeting:** 30 September 2020  
**Public Document:** Yes  
**Exemption:** None  
**Review date for release:** None



**Subject:**

## Exeter & East Devon Enterprise Zone

**Purpose of report:** To provide an update on the financial position with regard to the Enterprise Zone (EZ) programme and seek approval for additional borrowing against future ring-fenced business rate income. The additional borrowing will allow further investment in enabling delivery of new commercial space and jobs in the Enterprise Zone, supporting recovery from Covid 19 and providing opportunities for clean and inclusive growth.

**Recommendation:**

### It is recommended that Cabinet:

1. Notes the progress made within the Enterprise Zone designation
2. Agrees the principle of increasing borrowing up to £20m against ring fenced business rate income to fund the delivery of capital projects and makes this recommendation to Council
3. Agrees the principle of a £1m fund to enable the continuation of an Enterprise Zone Business Rate Relief programme
4. Receives further papers setting out detailed investment proposals

**Reason for recommendation:**

Cabinet last received a paper on the financial position of the EZ in March 2019. During the intervening period, work has focused on gaining approval for projects that support the delivery of the EZ, in terms of overcoming identified barriers and bringing forward catalytic investments that can increase the pace of delivery for new commercial space and jobs.

**Officer:**

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**Portfolio Holder:**

Portfolio Holder Economy and Assets

**Financial implications:**

The financial details are outlined in the report. Sensitivity scenarios have been considered with the projected income and the £20m borrowing is still viable under a 50% reduction in rate income. It should be noted that although the EZ business rates income is ring-fenced to meet the costs involved and the rate income does come to the District Council the liability of the loan repayments is with EDDC.

**Legal implications:**

What is proposed is permissible within the framework of the Enterprise Zone. There are no other legal implications requiring comment.

**Equalities impact:**

Low Impact

	Potential impacts on equality will be managed through the Implementation Plan for the Zone.
<b>Climate change:</b>	Medium Impact The Enterprise Zone has focused on sustainability from the inception of the designation. The zone supports the delivery of district heating (DH) with the recent adoption of the Local Development Order and the existing DH network serving three of the four designated sites. New commercial buildings within the zone are built to high sustainability standards, with recently constructed new buildings meeting BREEAM excellent ratings. The development of the designation, supported by additional funding, will support green recovery and clean inclusive growth.
<b>Risk:</b>	Medium Risk This paper seeks approval for additional borrowing against future ring-fenced business rate income to invest in enabling projects. Further papers will be reported to Cabinet on specific projects with financial appraisals before funding is drawn down. The risks associated with project delivery will be mitigated through robust project management procedures.
<b>Links to background information:</b>	<a href="#">Cabinet Paper – March 2019</a> <a href="#">Cabinet Paper – April 2018</a>
<b>Link to <u>Council Plan</u>:</b>	. Outstanding Economic Growth, Productivity, and Prosperity
<b>Report in full</b>	
<b>1. Introduction</b>	
1.1.	Cabinet has received a series of papers on the Enterprise Zone (EZ) from when the designation became operational in April 2017. During the intervening period there has been steady progress made in the delivery of new commercial floor space on Science Park and Sky Park.
1.2.	The Covid-19 pandemic has had immediate and significant economic and social impacts, with widespread business closures and redundancies. The East Devon economy has suffered from these impacts, particularly with Flybe going into administration. More widely modelling work undertaken for the County Council highlights that the Devon economy is not likely to return to pre Covid-19 levels of performance until 2027 and employment rates will not recover until 2030 without significant investment between local partners and Government.
1.3.	The EZ sites have been resilient so far with no job losses reported to date. The pandemic has though impacted the delivery of existing construction projects, with work ceasing on the Ada Lovelace Building and Park & Change facility at the Science Park during the lockdown period. More strategically there are outstanding questions as to whether the impact of the pandemic will prompt structural changes to future working practices. This could significantly reduce the demand for new office space going forward.

1.4. In the short term there are encouraging prospects for recovery with a positive pipeline of projects. The Science Park has been awarded £5m from the government 'Getting Building' fund to support the delivery of a 'Grow-out Building'. Burrington Estates has submitted a planning application for 35 commercial units on Sky Park. There has also been commercial enquiries for significant commercial occupiers to locate on both Sky Park and Science Park with negotiations ongoing. The delivery of the Long Lane enhancements will unlock development on the Air Park site. The options for the development of Cranbrook town centre are also currently being considered.

1.5. The focus of the EZ programme to date has been on addressing barriers to delivery and bringing forward catalytic investment. In the current circumstances there is an important opportunity to consider what package of support the Enterprise Zone programme can provide to help sustain economic recovery and achieve longer term objectives. This includes confronting structural challenges to the High Street and commercial property market. There is also a pressing need to support a green recovery and the achievement of clean growth as well as to secure productivity improvements. More prosaically the role of public investment in helping to build wider business confidence and stimulate occupier demand should not be forgotten. This includes preparing for the potential end of current HM Treasury funded business rate incentives in March 2022.

1.6. The Covid-19 Economy and Business Recovery Prospectus sets out Devon's shared vision for economic recovery over the next three years. Developed in partnership by local authorities, key public sector agencies and business and community stakeholders, the plan provides a single economic programme for the County to respond to the crisis and build our economy back stronger and more resilient. The EZ programme can play a leading role in helping to realise the objectives of this Prospectus.

## 2. Enterprise Zone Programme

2.1. The EZ covers four sites in the West End of the District and is a 25 year designation which commenced in April 2017. The designation enables the local authority to borrow against ring-fenced business rate income over the term of the designation. In turn this opens up the potential to invest in projects, particularly where these can increase the speed with which new commercial space is brought which in turn increases the overall value of designation.

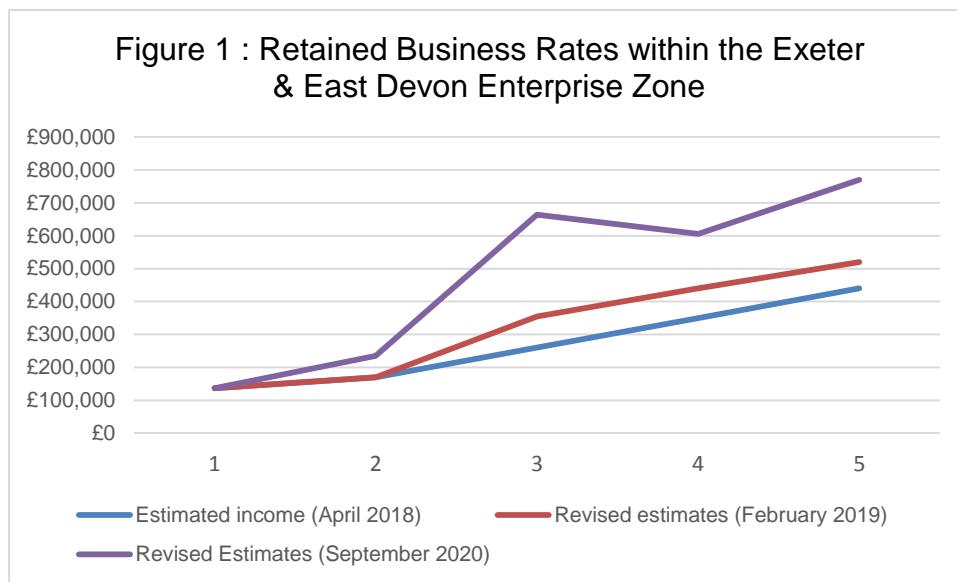
2.2. The Implementation Plan for the EZ identifies enabling interventions designed to accelerate delivery of new commercial space and support job creation. These focus on two main categories:

- Overcoming barriers to delivery
- Bringing forward catalytic investments

2.3. In April 2018, EDDC Cabinet approved borrowing of up to £8m to support the EZ programme. Of the £8m programme, £6.813m of funding has been committed to specific projects as follows:

- Subsidised bus service (funding for 3 years) - £528,000
- Park & Change - £1,385,000
- Long Lane Enhancement - £2,550,000 (& £1,100,000 subject to the additional borrowing approval by EDDC)
- Open Innovation Building - £1,100,000
- Cranbrook GP Surgery - £150,000

2.4. The EZ financial position has been reviewed in light of the Covid-19 pandemic and subsequent economic recession. It is estimated that levels of income will prove to be resilient relative to original assumptions which were deliberately conservative. To date business rate income has exceeded original estimates as set out below;



2.5. The reasons for this improved financial position are:

- Delivery of development on site has been quicker than estimated – the timescale for delivery of buildings on site included slippage, whereas most of the buildings have been completed on time.
- Rateable values are higher than estimated – initial estimates were based upon limited information due to small number of buildings within the EZ sites

2.6. To support the continued development of the EZ there is scope to increase the level of borrowing. This approach would bring the following benefits:

- Provide support to deliver new commercial floor space and jobs during economic recession;
- Support the EZ designation in the longer term, as the business rate income is back loaded and the more that can be done to bring forward commercial floor space in the early years of the designation, the greater the overall value of the designation.

### **3. Proposal**

3.1. To support the continued delivery of the EZ programme it is recommended that the current level of borrowing is increased from £8m to £20m to support the delivery of capital projects. In addition to this it is proposed that a £1m fund is established to support a Business Rate Relief programme

3.2. Table 1 provides an overview of the increased level of borrowing that the EZ designation could support. These figures have been tested by the finance officers of both DCC and EDDC. More detailed budgets are set out in Appendix 1.

Table 1 – Revised Enterprise Zone Budget to support increased borrowing						
Year	Total EZ income	Programme Management (including LDOs)	Revenue Budget	Business Rate Relief Programme (not HMT funded)	Revenue Budget to support borrowing	Total borrowing available
2017/18	£136,305	£26,455	£109,850	£0	£0	£0
2018/19	£235,280	£27,675	£60,000	£0	£147,605	£7,380,250
2019/20	£664,234	£89,216	£100,000	£0	£150,018	£7,500,900
2020/21	£605,717	£93,677	£100,000	£52,000	£157,040	£7,852,000
2021/22	£770,000	£98,361	£100,000	£411,639	£160,000	£8,000,000
2022/23	£970,000	£67,644	£100,000	£536,361	£219,300	£10,965,000
2023/24	£1,250,000	£68,996	£100,000	£0	£360,000	£18,000,000
2024/25	£1,500,000	£70,376	£100,000	£0	£400,000	£20,000,000
2025/26	£1,700,000	£71,784	£100,000	£0	£400,000	£20,000,000
2026/27	£1,850,000	£73,220	£100,000	£0	£400,000	£20,000,000
2027/28	£2,125,793	£74,684	£100,000	£0	£400,000	£20,000,000
2028/29	£2,508,643	£76,178	£100,000	£0	£400,000	£20,000,000
2029/30	£2,905,171	£77,702	£75,000	£0	£400,000	£20,000,000
2030/31	£3,655,171	£152,749	£78,750	£0	£400,001	£20,000,047
2031/32	£4,405,171	£158,786	£82,688	£0	£400,001	£20,000,032
2032/33	£5,155,171	£165,076	£86,822	£0	£400,001	£20,000,033
2033/34	£2,905,171	£87,454	£91,163	£0	£300,000	£14,999,987

3.3. The increased level of borrowing would be used to support three areas of work:

- Addressing structural challenges
- Supporting green recovery and clean growth
- Overcoming barriers and accelerating delivery

3.4. It is considered that these themes are likely to make a substantial contribution to the objectives of the EZ designation. Whilst specific projects have not been fully developed, potential candidates are set out below.

3.5. The increased level of borrowing set out does not commit the Council to funding specific projects, but increases the scale of investment that might be possible. Each project will need to be carefully appraised including management of the associated risks. Specific proposals will then be brought back to Cabinet for decision with the benefit of the advice of the Enterprise Zone Board. .

3.6. The funding programme has been developed to support the timely delivery of infrastructure. The programme provides opportunities for grant and loan provision. To minimise risk to EDDC provision is made within the budget for the EZ to support full capital repayment of funded schemes.

### Cranbrook Town Centre

3.7. The ongoing challenge of delivering a 21st century town centre at Cranbrook is well known, with the EZ designation deliberately including the town centre area to provide support to delivery of commercial floor space and local job creation.

3.8. EDDC's Strategic Planning Committee will consider options for delivering the town centre at Cranbrook in Autumn 2020. The Committee will consider a commercially-led proposal from East Devon New Community Partners (EDNCp), which would be predominantly privately funded but would see a significant proportion of the town centre dedicated to residential development. Figure 2 provides a layout plan of the town centre with commercial and community uses focus in parcels TC2 and TC4a to TC4d. The second option is to support the development of a Supplementary Planning Document (SPD) which

guide the delivery of a wider mix of uses but would require concerted financial support. Figure 3 provides a layout plan for a mixed use town centre, with a greater range of commercial units and floor space available.

3.9. The two options will have an impact on the EZ, with the reduced floor space in the EDNCp impacting upon retained business rate income and delivery of new jobs. Subject to the consideration of the Strategic Planning Committee, The availability of EZ funding would support the delivery of the SPD, which could include enabling EDDC to deliver commercial floor space within the town centre.

**Figure 2 Composite layout of EDNCp indicative housing layout. Composite produced by EDDC.**



**Figure 3 SPD Layout**



## **Exeter Airport**

- 3.8 The demise of Flybe resulted in both significant job losses and a substantial reduction in the number of scheduled services. This was before the full impact of the lockdown was felt. Recovery for the aviation sector is likely to be protracted and Exeter Airport is no exception to this.
- 3.9 Whilst the Airport site is outside of the formal EZ designation, there is an opportunity to support the recovery and development of the site and its important role as an economic driver. This includes through bringing forward the Long Lane enhancement for example.
- 3.10 Additional funding from the EZ could support opportunities for additional investment to improve the site and secure wider economic benefits. This includes the development of a sustainable aviation cluster which would help to position the Airport as a test bed for supporting the decarbonisation of aviation. This work aligns with the Local Industrial Strategy for the Heart of the South West, and the Government's Future Flight Strategy and would contribute to wider clean growth objectives. Cabinet is considering a separate paper on the Airport.

## **Overcoming barriers and creating catalysts**

- 3.11 The availability of funding to support projects within the EZ designation has proven to be beneficial to the delivery of new commercial floor space and new jobs. This has included the EZ providing financial contributions to support access to grant funding, such as the Ada Lovelace building on the Science Park.
- 3.12 Increasing the headroom for borrowing will enable the EZ to support future requests for grant funding where there is a demonstrable investment case. Specific projects would need to be fully developed and appraised.

## **Business Rate Relief Programme**

- 3.13 From the commencement of the designation in April 2017 the EZ has managed a successful business rate relief programme. This HM Treasury funding programme has supported new and existing businesses to move into premises within the EZ. Many of the SMEs operating within the EZ have been eligible for 100% of their business rates.
- 3.14 The HMT funding Business Rate relief programme is scheduled to end in March 2022. Extending this programme would be beneficial, particular as we work to recover from the impact of the pandemic which has served to dampen occupier demand.
- 3.15 The Local Enterprise Partnership has requested an extension to the current HM Treasury funded rate relief measures through their submission to the Comprehensive Spending Review. However there is a risk that this support is not forthcoming. Furthermore if it were to be successful it would be limited to the confines of the EZ sites. Subsequently it is recommended that a £1m fund is established to provide support for new occupiers of the EZ and immediately adjacent sites, with rate relief up to the State Aid *de minimis* allowance.

## **4. Conclusion**

- 3.1 The Enterprise Zone is a powerful, long term designation which supports the delivery of new commercial space and employment opportunities. Its significance is even more pronounced in the context of the impact of the Covid-19 pandemic and subsequent recession.
- 3.2 The initial EZ programme of £8m has had a positive impact, with accelerated delivery of commercial floor space and jobs, along with enhancements to transport to enable access to the newly created jobs in the wider area. To ensure the continued success of the EZ

programme and to secure wider clean and inclusive growth objectives a sustained programme of investment is required. This paper puts forward recommendations as to how this can be achieved with additional borrowing against ring-fenced business rate income.

## Appendix 1 – Enterprise Zone Financial Position – September 2020

Year	Total Business Rate Income <sup>1</sup>	Programme Mgmt <sup>2</sup>	LDO Mgmt <sup>3</sup>	Revenue Budget (studies etc) <sup>4</sup>	Business Rate Relief Programme <sup>5</sup>	Revenue budget to support borrowing	Total borrowing available (cumulative)	Balance (before repayment of borrowing)
2017/18	£136,305	£26,455	£0	£109,850	£0	£0	£0	£0
2018/19	£235,280	£27,675	£0	£60,000	£0	£147,605	£7,380,250	£0
2019/20	£664,234	£29,216	£60,000	£100,000	£0	£150,018	£7,500,900	£325,000
2020/21	£605,717	£30,677	£63,000	£100,000	£52,000	£157,040	£7,852,000	£203,000
2021/22	£770,000	£32,211	£66,150	£100,000	£411,639	£160,000	£8,000,000	£0
2022/23	£970,000	£67,644	£0	£100,000	£536,361	£219,300	£10,965,000	£46,695
2023/24	£1,250,000	£68,996	£0	£100,000	£0	£360,000	£18,000,000	£721,004
2024/25	£1,500,000	£70,376	£0	£100,000	£0	£400,000	£20,000,000	£929,624
2025/26	£1,700,000	£71,784	£0	£100,000	£0	£400,000	£20,000,000	£1,128,216
2026/27	£1,850,000	£73,220	£0	£100,000	£0	£400,000	£20,000,000	£1,276,780
2027/28	£2,125,793	£74,684	£0	£100,000	£0	£400,000	£20,000,000	£1,551,109
2028/29	£2,508,643	£76,178	£0	£100,000	£0	£400,000	£20,000,000	£1,932,465
2029/30	£2,905,171	£77,702	£0	£75,000	£0	£400,000	£20,000,000	£2,352,469
2030/31	£3,655,171	£80,033	£72,716	£78,750	£0	£400,001	£20,000,047	£3,023,671
2031/32	£4,405,171	£82,434	£76,352	£82,688	£0	£400,001	£20,000,032	£3,763,697
2032/33	£5,155,171	£84,907	£80,169	£86,822	£0	£400,001	£20,000,033	£4,503,272
2033/34	£6,055,171	£87,454	£0	£91,163	£0	£300,000	£14,999,987	£5,576,554

<sup>1</sup> Business Rate income is based upon actual figures for 2017/18 – 2019/20. From 2020/21 business rate income is estimated, with assumptions being regularly reviewed.

<sup>2</sup> Programme Management costs based upon 0.5FTE Programme Manager until 2021/22, with post becoming 1 FTE from 2022/23.

<sup>3</sup> LDO Management costs are based upon fixed term FTE post holder from 2019/20 – 2021/22. Additional budget allowed for a further fixed term FTE post holder 2030/31 until 2032/33 to review the LDOs for the EZ sites.

<sup>4</sup> The revenue budget to support the programme had been estimated to support the programme being developed and then maintained from 2029/30.

<sup>5</sup> The proposed Business Rate Relief Programme will operate from 2022/23 for a 3 year period. The budget allowance is made from 2020/21 to create a revenue budget to cover the costs of this programme without borrowing.

<b>Year</b>	<b>Balance (before repayment of borrowing)</b>	<b>Budget for repayment of revenue grant borrowing</b>	<b>Budget for repayment of principal (capital borrowing)</b>	<b>Repayment of loan by third parties (developers etc.)</b>	<b>Borrowing Repaid</b>	<b>Balance (after repayment of borrowing)</b>
2017/18	£0	£0	£0	£0	£0	£0
2018/19	£0	£0	£0	£0	£0	£0
2019/20	£325,000	£325,000	£0	£0	£325,000	£0
2020/21	£203,000	£203,000	£0	£0	£203,000	£0
2021/22	£0	£0	£0	£0	£0	£0
2022/23	£46,695	£0	£46,695	£500,000	£546,695	£500,000
2023/24	£721,004	£0	£721,004	£0	£721,004	£0
2024/25	£929,624	£0	£929,624	£500,000	£1,429,624	£500,000
2025/26	£1,128,216	£0	£1,128,216	£0	£1,128,216	£0
2026/27	£1,276,780	£0	£1,276,780	£0	£1,276,780	£0
2027/28	£1,551,109	£0	£1,551,109	£0	£1,551,109	£0
2028/29	£1,932,465	£0	£1,932,465	£0	£1,932,465	£0
2029/30	£2,352,469	£0	£2,352,469	£0	£2,352,469	£0
2030/31	£3,023,671	£0	£3,023,671	£0	£3,023,671	£0
2031/32	£3,763,697	£0	£3,763,697	£0	£3,763,697	£0
2032/33	£4,503,272	£0	£3,274,270	£0	£3,274,270	£1,229,002
2033/34	£5,576,554	£0	£0	£0	£0	£5,576,554