

Decision maker:	Cabinet member finance, housing and corporate services
Decision date:	Monday, 18 December 2017
Title of report:	Extension to Hereford Enterprise Zone business rate reliefs
Report by:	Head of corporate finance

Classification

Open

Decision type

Non-key

Wards affected

Dinedor Hill;

Purpose and summary

To approve an extension to business rate reliefs available to new businesses locating on Hereford enterprise zone during 2018/19 and 2019/20. This is to be provided using discretionary locality business rate discount powers and the relief is to be limited to the value of business rate growth generated by the zone.

Recommendation(s)

That:

- (a) discretionary business rate relief be made available to provide relief to new businesses locating on Hereford enterprise zone (HEZ) during 2018/19 and 2019/20, funded from HEZ business rate growth achieved, on a first come first served annual basis;**
- (b) the discount be awarded in line with the existing award criteria as detailed in paragraph 13.**

Alternative options

1. Do nothing. This is not recommended because although no additional cost would be incurred by the council, it would result in the slow down and possible loss of private sector investment in Hereford Enterprise Zone (HEZ) from companies looking to buy land and build new units on the site. The full potential of the HEZ could not be realised in terms of built floor space and jobs created. This would result in a loss of capital receipts and a reduction of business rates received.
2. To provide access to unrestricted HEZ business rate discount. This is not recommended as the recommendation limits the discount awarded to a self-funded basis avoiding any call on council resources. The eligibility criteria also ensures that any discount awarded is granted in line with the intention of the enterprise zone status.

Key considerations

3. Businesses that locate on a government approved enterprise zone can access a number of benefits including up to 100% business rate discount worth up to £275k per business over a 5 year period, £55k per annum.
4. Hereford enterprise zone (HEZ) is a first round zone which has seen 11 mainly local businesses purchase land and build units on HEZ. A further 10 businesses occupy council developed rental units on HEZ. In total 21 businesses have relocated to the site, creating and safeguarding 750 jobs and resulting in 28,000 sqm of new floor space and £13m of private sector investment. There are currently another 9 investors in various stages of negotiation in the pipeline.
5. The current business rate discount period is coming to an end on 31 March 2018. This means that businesses that occupy the zone ahead of 31 March 2018 will be entitled to enterprise zone business rate relief (if applicable) until 31 March 2023.
6. This report recommends a locally funded discretionary extension to business rate discounts for businesses that locate on the zone during 2018/19 and 2019/20 to attract businesses to the site.

Existing Scheme

7. The existing HEZ business rate discount scheme means that businesses on the zone have received enterprise zone business rate relief of £310k in 2016/17 with £66k being classified as growth, a summary of the 2016/17 entries as shared with central government is provided in the table below:

	£000
Gross rates chargeable to HEZ in 2016/17	655
Mandatory business rates discounts applied	(42)
Total enterprise zone business rates relief*	<u>(310)</u>
Net rates payable by HEZ businesses	303
<i>Less: Baseline agreed with central government</i>	237
<i>Gives: Total business rate growth post all reliefs on HEZ</i>	66

**certain properties, such as precepting authority properties, do not qualify for enterprise zone business rate relief*

8. Enterprise zone status means that growth is retained by the council for a period of 25 years; the mechanism for this post implantation of full rate retention is yet to be clarified by the Department Communities and Local Government (DCLG). Growth currently totals £66k since commencement of the zone.
9. The use of this growth fund is proposed to fund the award of locally funded business rate discounts to businesses locating into the zone in 2018/19 and 2019/20 on a first come first awarded discount, where applicable, basis. By doing this, additional growth will be deferred until the discount awarded expires.
10. If demand is particularly high as and when additional funding is sourced a further decision may need to be taken to extend the scheme if required based on evidence of need and an alternative funding source being identified.

Proposal from 1 April 2018

11. The power to grant locally funded discounts, post the central government funded enterprise zone discount, rests with the billing authority (as amended in the Localism Act, Part 4, section 69). Ultimately it is up to the council to decide how and to who local discount should be given. The intention is to use the power to provide discounts to help attract firms, investment and jobs to HEZ, subject to the local discretionary rate relief policy restrictions. As the funding of any discount is to be linked to the rates generated on the zone this is considered a reasonable approach to granting discretionary rate relief.
12. The council is required to meet the cost of any discount from local resources and it may be decided that the immediate cost of the discount is outweighed by the long-term benefit of attracting growth and jobs to the area. The intention is to use the business rates income growth generated on the zone to fund discounts, this would mean that growth income retained by the council would be delayed until the discount awarded expires. The Marches LEP committee have approved that business rates generated by the enterprise zone be used to fund the additional investment required, this report supports this decision.

13. In the event that the recommendation is approved then the award of this business rate relief will be included in the council's policy on Discretionary Rate Relief using the eligibility criteria below.

Eligibility Criteria

14. In order to be eligible for the discretionary Business Rates Discount, the following criteria must be satisfied by applicants, applications will be reviewed by the HEZ board:
- a) The business will be located within HEZ, and;
 - b) Will be in occupation of their premises by 31 March 2020, and;
 - c) All businesses coming into HEZ must be in one of the business sectors specified within the HEZ Placement Statement including Defence and Security, Food and Drink, Advanced Engineering, Sustainable Technologies and Professional Services and Creative Industries and;
 - d) Any business already located in Herefordshire must be in one of these sectors and also be able to demonstrate 30% employee growth over three years from occupation, and;
 - e) The business will be contributing to the Local Ratings List as opposed to the National Ratings List, meaning that the business rate charge will be retained locally, and either;
 - f) The premises are built and occupied, or are vacant but are in the ownership of a landowner of the Site.
 - g) Business Rates Discounts will be, having regard to prior state aid granted to the applicant, below state aid de minimis thresholds when considering any 3 year period, and below any relevant cap introduced by Central Government (currently £275k over 5 years).
 - h) Following consultation with the ward member a further eligibility criteria is to be considered to recognise that applicants will be able to afford the anticipated business rate charge following the end of the discount period, the HEZ board will determine this in reference to the applicant's business plans.
15. Reasons for these criteria are set out below:
- a) To ensure that the scheme complies with regulations/legal requirements and economic activity maintains a spatial focus.
 - b) To ensure that the activity incentivised aligns with the strategic economic objectives for the Site.
 - c) To maximise development activity on site which will in turn generate a greater business rates uplift in the Enterprise Zone's lifetime.
 - d) To ensure that incentives deliver additionality and minimise displacement and cost to the public purse which does not deliver overarching economic benefits.

- e) To ensure that the scheme facilitates economic development and regeneration, and does not reward unrelated activity.

Community impact

- 16. The continuation of business rate discounts are intended to attract businesses to locate to the zone supporting the corporate plan objective of growing the local economy. The failure to proceed with the recommended option could mean the loss of investment and new local job opportunities

Equality duty

Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 17. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Resource implications

- 18. The granting of business rate relief be funded by the business rate growth secured in prior years. HEZ business rate growth is retained 100% by the council so by using this to award business rate relief the financial impact would be the loss of new monies until the relief granted expires. There implication of this being that by diverting these funds to fund relief reduces the funding that would otherwise be available to fund other services and local economic growth. The MTFS includes the enterprise zone as a standalone budget and therefore this recommendation supports the current MTFS determination.
- 19. To date business rate growth totals £66k, this is forecast to increase to a cumulative growth total of £113k up to 31 March 2018. Assuming growth is as forecast then £113k will be the pot available to award as business rate relief without a cash cost being incurred. The actual pot size will equal the actual value of growth realised. This would mean that the pot of monies to fund any relief in a particular year would be based upon confirmed growth in the preceding year.
- 20. The award of the relief will have two stages. First will be a determination of eligibility – applicants will have to check eligibility by completing a Determination of Eligibility Form then on occupation of the completed property the applicant will then have to complete a

full application form. The award of annual relief will be granted following confirmation of funding being available. This process will require resourcing and is anticipated to not require additional resource above those already available.

21. This is a discretionary scheme and there will be no right of appeal on any decision made. Herefordshire Council also reserves the right to amend this discretionary scheme and its associated eligibility criteria at any time.

Legal implications

22. Section 47 of the Local Government Finance Act 1988 (as amended by the Localism Act 2011) enables the council as billing authority to grant discretionary rate relief. A decision to grant relief, can only be taken if it would be reasonable to do so, having regard to the interests of persons liable to pay council tax.

Risk management

23. Businesses looking to locate on HEZ are indicating that unless business rate relief is available to them they will not make their investment therefore this report recommends providing relief to minimise this risk.
24. Unforeseen demand not already in the existing pipeline could emerge, resulting in a higher take up than anticipated. This is unlikely as sales take 6 to 9 months to negotiate and agree, and developments a minimum 9 to 12 months to complete. However as the relief is purely discretionary awarded on a first come first served basis until the funded pot is depleted this removes the risk of unfunded expenditure.

Consultees

25. HEZ Executive Board strongly supports the recommended approach to avoid the potential loss of momentum and progress
26. Following consultation with the ward member the criteria for discount award will be expanded to ensure that businesses work towards building business rate costs into future financial planning to ensure affordability when the discount period ceases. The ward member is supportive of the recommendations in this report.

Appendices

None

Background papers

None