

WIRRAL COUNCIL

CABINET

5 November 2015

SUBJECT:	Wirral Waters Enterprise Zone – Investment Fund
WARDS AFFECTED:	All
REPORT OF:	David Armstrong – Assistant Chief Executive
RESPONSIBLE PORTFOLIO HOLDER:	Cllr Phil Davies
KEY DECISION	Yes

1.0 EXECUTIVE SUMMARY

- 1.1 This report seeks Member approval to establish a Wirral Waters Enterprise Zone (EZ) Investment Fund. Government arrangements for EZs allows for any business rates growth within the Zone to be re-invested to stimulate further development. Wirral Council will therefore be able to use this growth to access and fund borrowing to increase investment within the Zone in order to bring forward development more quickly and to promote further growth.
- 1.2 An Investment Plan has been produced which sets out an integrated economic and financial impact model together with governance and management arrangements to underpin the operation of the Fund.
- 1.3 A due diligence process has been carried out on the Investment Plan and this is outlined in the report. If the Investment Fund is approved by Members individual project proposals will be brought back on a case by case basis.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 On 12 March 2015 Cabinet agreed to the development of the Enterprise Zone Investment Fund (min 156 refers) and that an assessment of the economic model and proposals for the implementation of the Fund should be brought back to Cabinet.
- 2.2 The decision to develop the Investment Fund is based on Government policy and legislation for EZs. This provides for any uplift in business rates within the zone after 1st April 2012 to be re-invested for a period of up to 25 years (ie up to 1st April 2037) with the aim of stimulating further development and growth. It was previously noted that Government policy is that the business rate uplift is controlled by the Local Enterprise Partnership (LEP), but in 2012 the Liverpool City Region (LCR) LEP agreed that up until the 31st March 2015 any uplift

would be split between the LEP and the collecting authority. No uplift was generated in that period and the collecting authority is now able to re-invest the entirety of any uplift into the zone and initiatives within its own boundary.

- 2.3 Developments are now being delivered within the EZ - the Tower Wharf office development and new Wirral Metropolitan College campus – and other projects are planned. However it is recognised that there are a number of barriers to development, in particular that end values are far less than the actual cost of development. There is now the opportunity to use the business rate uplift to create an Investment Fund to address those barriers and bring forward further developments and jobs. This approach reflects the Business pledges within the Wirral Plan: Vision 2020 as accelerating development will bring forward investment and jobs within the Borough.
- 2.4 In March 2015 Peel Holdings commissioned Amion Consulting (with a joint duty of care to Peel, Wirral Council and the LCR LEP) to develop an Investment model based upon the potential uplift of business rates within Wirral Waters EZ. This investment model is similar to that developed within other EZs and projects the level of business rate uplift that could be expected to be achieved up to 2037 based on the current EZ project pipeline. Details within the Investment Plan are based on commercially sensitive information and the Plan is therefore contained within Exempt Annex 1. The Investment Fund would be created by using these uplifted business rates, and/or prudential borrowing against future business rates, to invest in infrastructure and other projects to generate growth and therefore further business rates income.
- 2.5 If approved, Wirral Council would be the accountable body for the Fund and therefore specialist support was procured to undertake a due diligence exercise on Amion's proposals. Lambert Smith Hampton (LSH) were appointed to assess the proposals, but also the assumptions underpinning the model, including a review of the key cost and value assumptions, whether the inputs and outputs derived from the financial models are reasonable and whether the proposed commercial structure is permissible by the Council from both a technical and policy perspective.
- 2.6 A summary of the key due diligence findings of the Investment Plan is set out below. The Investment Plan details are based on commercially sensitive information and the due diligence findings are therefore contained within Exempt Annex 2 to this report.

The Investment Model

- 2.7 The model is based on an assessment of the sites within the EZ, the number and types of projects that could be expected to come forward and the level of business rates that could be generated. This has been based on the Peel business plan and specific market reports. Scenario testing has been done at a baseline position. This shows that without a programme of support the current barriers will continue to act as a major constraint to development. Alternative scenarios have been modelled based on intervention through the Investment Fund.

- 2.8 LSH conclude that the development phasing and profiling within the model is a valid methodology, but that further testing should be done on a case by case basis in respect of applications for the use of the Fund.
- 2.9 In respect of business rate assessment, LSH view the general modelling methodology as sound, that it allows for voids, reliefs and non-payments and that it reflects best practice. However, they caution that the business rate uplift calculation has been based primarily on rental values which if not achieved would impact on the business rates currently modelled. LSH therefore recommend that a 15% top slice of the business rate growth is used as a contingency reserve to fund any negative cash flows generated following movement of forecast business rates income.
- 2.10 LSH conclude that the Investment model produced by Amion Consulting is fundamentally sound in its approach and the assumptions that underpin it. However, in order to address the points made above, they propose the following:
- Projects are considered on a case by case basis and will be subject to state aid tests, in addition to a full due diligence exercise.
 - A phased approval approach is taken so that funding is specifically linked (preferably through a contract) to delivery of business rates
 - A 15% contingency is established from top slicing the business rates uplift

The Business Case

- 2.11 To address the barriers to development on site the Investment Plan proposes five measures described as investment priorities:
- Development viability support for commercial development schemes.
 - Land remediation and servicing
 - Environmental improvements
 - Infrastructure investment
 - High quality communities – enhancing amenity to enliven the area
- 2.12 The Investment Plan sets out a two phased approach to implementing the Fund with Phase 1 running to 2020. The Fund would then be reviewed and it could potentially be renewed to run up until 2037. The investment plan currently assumes that all of the capital expenditure incurred to support site development is funded by prudential borrowing incurred by the Council; this in turn is repaid over the life of the Enterprise Zone from business rates income. However it is important to note that the Council may seek to minimise its borrowing by using other sources of funding such as capital grants. The optimal financing route will be assessed on a business case by business case basis. The potential scope of development arising from investment in the above priorities is set out in Table 1 below.

Table 1

	Phase 1 Investment Fund - 2020	Potential Full Investment Fund – 2037 (Following review of Phase 1)
Total Investment (with inflation)	£16.1m	£47m
Business rate growth	£49.5m	£113.2m
Commercial floorspace	105,000 sq m	230,000 sq m
New Homes	1,000	3,300
Gross employment	3,700	10,000

- 2.13 It should, however, be noted that the level of public investment identified within both Phase 1 and the Full Investment Fund is only an indication of the **potential** size of the Investment Fund and that this is a notional allocation that may never be fully realised. The proposals in 2.10 above set out that projects will be approved on a case by case basis and that funding will be phased and specifically linked to business rates. This means that investment will only be approved as business rates are secured.
- 2.14 The use of the Investment Fund would incur borrowing costs which have to be met from the business rates generated and/or potential future business rates and it is this debt repayment that would be fully considered prior to the release of any funding. However, the Investment Plan identifies that if all the potential investment were to be made and the additional floorspace delivered within Phase 1 then there would be an increase in business rates receipts of £49.5m over the life of the EZ. The Full Investment Plan, if delivered in line with the Amion methodology, is anticipated to generate increased business rates income in excess of £10m per annum at 2037. This figure allows for a risk adjustment and therefore the annual business rate income could be higher.
- 2.15 LSH conclude that overall if the Investment Plan is delivered it would create a positive return to the council in the form of additional business rates, however it is important to note that the programme generates some early years revenue pressures that will require careful management and mitigation. Officers will therefore undertake further work to ensure that robust financial policies are in place to underpin the operation of the Investment Fund and these policies will be reviewed on an annual basis.

Governance

- 2.16 It is proposed that the Fund will be operated on the following principles:
- Any revenue generated through the uplift in business rates to be placed into a ring fenced reserve until borrowing is required;
 - Investment to be primarily within Wirral Waters but projects just out of the EZ which contribute to the development of the zone could be considered;
 - All projects to be subject to rigorous due diligence prior to formal approval and must demonstrate value for money based on the HM Treasury's Green Book;
 - Investments can be made in capital or revenue projects and in principle be available to any suitable corporate entity;
 - Clear governance and reporting arrangements will align with the requirements of Wirral Council in its capacity as Accountable Body. This will include an

Investment Panel to oversee the operation of the Fund as set out in 2.17 below.

2.17 The Investment Fund will have robust governance arrangements that build on existing and proven structures and processes. The decision making and assessment process is summarised below:

- Wirral Cabinet – all project investment decisions will be brought to Cabinet, informed by a report from the Investment Fund Panel;
- Investment Fund Panel – this will include representatives from the Council, the Liverpool City Region LEP and key partners drawn from the Investment Strategy Board. The Terms of Reference for the panel will set out the range of duties including overseeing the Fund and making recommendations on individual schemes including due diligence on each project;
- Investment Fund Management Group – project development and appraisal including specialist advice relating to commercial property, rateable value, state aid, procurement.

2.18 The Fund makes provision for reasonable administrative costs incurred by Wirral Council to be met from the Investment Fund and this will ensure that specialist expertise is available to inform a comprehensive appraisal process. Each proposal for funding will be considered against specific criteria that reflect the agreed financial policies. The business case supporting the project application will include clear evidence of need for the project and for Investment Fund support, that it represents value for money, complies with necessary regulations including state aid and has financial sustainability.

Conclusion

2.19 As a result of the due diligence process the LSH recommendations set out in 2.10 above have now been reflected by Amion Consulting in a revised Investment Plan.

2.20 LSH conclude that the financial model produced by Amion Consulting is sound in its approach and in the assumptions that underpin it, however further work is required to develop sound financial policies that underpin the Fund. This will ensure that the draw-down of funding is both compliant but also demonstrates value for money and that any borrowing costs can be funded. This will be in place before any request for funding is brought forward to Cabinet.

2.21 Governance and managerial arrangements will be put in place as set out in 2.17 above to ensure that the Fund is well managed, risk identified and mitigated and that the business case supporting each application for funding is fully assessed against the agreed principles and criteria.

3.0 RELEVANT RISKS

3.1 An analysis of the key risks associated with the Investment Fund is set out in Exempt Annex 2. These risks include:

- a) Market demand for the developments stall and this impacts on the return on investment due to a decrease in the expected level of business rates. If the council has borrowed prudentially, capitalising the annual business rate income

from the uplift, then this borrowing would need to be serviced. The development of financial policies to underpin the Fund and the phased approval approach to the release of funding linked to business rate generation, reduces the risk to the Council. In addition the Investment model now includes a 15% contingency top sliced from the gross business rate uplift to provide a buffer.

- b) The completed developments remain void or development does not progress in the agreed timescales thus delaying income from the business rate uplift. A Memorandum of Understanding will be agreed with Peel Holdings (as the landowner), Wirral Council and the LEP, in advance of any schemes coming forward for funding. This will outline key principles such as obligations to complete projects on time, covering the cost of borrowing if the property is vacant and clawback of funding if a change of use in the development leads to a fall in the predicted business rates. These principles will then be included as contractual obligations for each funding application approved.
- c) The assumptions in relation to interest rates are incorrect resulting in higher borrowing costs. LSH have confirmed that the current modelled interest rates are prudent to minimise risk exposure. However, it is proposed that these assumptions are reviewed annually.
- d) Government policy enables the business rate uplift to be re-invested back into growth projects within the EZ. The risk of not implementing the Investment Fund is that Wirral Waters would not attract the resources needed to catalyse the long term growth, regeneration and job creation potential of the EZ.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 Officers will continue to look to secure external funds wherever possible to address the barriers to development to bring forward investment.
- 4.2 The Chancellor has recently announced the Government's intention for Local Authorities to be able to retain 100% of all business rates from 2020. The establishment of the Investment Fund within the EZ will, however, enable the business rate uplift to be focused to accelerate investment, growth and jobs within the EZ over the period to 2020. This will ensure that the benefits associated with the EZ, such as business rate relief, are captured in order to maximise the generation of additional private sector investment.

5.0 CONSULTATION

- 5.1 This report is consistent with the principles of Wirral Council's Investment Strategy which provides the framework for securing investment and growth within the Borough. This has been reviewed after extensive consultation with partners and has also been informed by consultation which has taken place with a number of private sector partners and local businesses through Wirral Chamber's Business Forum.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

- 6.1 This report responds to recommendation 13.1 in the EZ – Re-investment of Business Rate Uplift Cabinet report of the 12th March 2015 in that it sets out the proposed Investment Plan.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 7.1 None as a direct result of this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 8.1 As the Accountable Body for the Enterprise Zone, it is the intention that Wirral Council would undertake prudential borrowing that would fund projects that meet the objectives agreed through the Investment Plan. The borrowing would be supported by the revenue resources provided by the uplift in business rates within the EZ. This reflects the intention to adopt a phased approach to the Fund and that applications for funding will be considered on a case by case basis.
- 8.2 Officers will ensure that the Investment Fund is underpinned by robust financial principles which limit the extent of borrowing and manage the risks accordingly to ensure that the EZ does not adversely impact on the Councils overall financial position.
- 8.3 However, it is recognised that implementation of the Investment Fund will require specialist support. Officers will seek and secure best practice advice from other Local Authorities currently delivering such schemes, but it is likely that specialist legal, finance and commercial property specialists would need to be procured as appropriate. It is intended that the costs incurred in managing the Investment Fund will be met from the business rate uplift and provision for cost recovery has been included in the model at 3.5% of capital expenditure.
- 8.4 Any revenue generated by the uplift will be placed in a reserve until any borrowing is required.
- 8.5 A Memorandum of Understanding will be agreed with Peel Holdings (as the landowner), Wirral Council and the LEP, in advance of any schemes coming forward for funding as set out in 3.1 (b) above.
- 8.6 The Fund has the potential to be able to enable investment of £16m by 2020 and £47m by 2037 to support the development of Wirral Waters and the regeneration of the local area in delivering the Vision 2020. The Full Investment Plan, if delivered in line with the Amion methodology, is anticipated to generate increased business rates income in excess of £10m per annum at 2037. This figure allows for a risk adjustment and therefore the annual business rate income could be higher.

9.0 LEGAL IMPLICATIONS

- 9.1 The creation of an Investment Fund to re-invest the business rate uplift generated within the Wirral Waters EZ will reflect the Council's ability to:

- a) acquire land by agreement for the benefit, improvement or development of their area pursuant to section 120 of the Local Government Act 1972;
 - b) borrow money for the purposes of the prudent management of its financial affairs pursuant to section 1 of the Local Government Act 2003; and
 - c) invest for the purposes of the prudent management of its financial affairs pursuant to section 12 of the Local Government Act 2003.
- 9.2 The Council intends to ensure the operation of the Investment Fund complies with:
- a) the application of the legal requirements set out in paragraph 9.1 above;
 - b) the application of the Public Contracts Regulations 2015;
 - c) State Aid requirements;
 - d) the Council's constitution;
 - e) such other legal requirements relating to the project under consideration.
- 9.3 The report requesting Cabinet approval for each project will set out how the legal requirements have been and/or will be satisfied.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(a) Yes and impact review is attached –

This links to the existing EIA conducted for Wirral's Investment Strategy

<http://www.wirral.gov.uk/my-services/community-and-living/equality-diversity-cohesion/equality-impact-assessments/eias-2010-0>

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 None arising directly from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 All projects funded from the Investment Fund would require all statutory permissions to be in place.

13.0 RECOMMENDATIONS

13.1 Members approve the creation and operation of the Wirral Waters Enterprise Zone Investment Fund as detailed in this report.

13.2 That the investment potential for Phase 1 of £16m by 2020, funded through borrowing and repaid over the life of the Enterprise Zone from increased business rates income, be incorporated within the Capital Programme.

13.3 The Council will act as accountable body for the Wirral Waters Enterprise Zone Investment Fund

13.4 Each proposal to draw down funding will be subject to project specific business cases coming forward for approval that address any delivery and affordability

constraints and brought back to Cabinet on a case by case basis.

13.5 Members agree to the operating principles as set out in paragraph 2.16 of this report.

13.6 Members agree to the governance and management structure and processes as set out in paragraph 2.17 of this report.

13.7 An annual report on the performance of the scheme be prepared and presented to Members.

14.0 REASONS FOR RECOMMENDATIONS

14.1 To respond to recommendation 13.1 in the EZ – Re-investment of Business Rate Uplift Cabinet report of the 12th March 2015 requesting officers to develop an Investment Fund and to bring this back to Cabinet.

14.2 This report sets out the basis upon which a sustainable Investment Fund for the re-investment of business rate uplift within the Wirral Waters EZ would be established.

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ANNEX

Annex 1 Investment Plan – Exempt under Schedule 12A of the Local Government Act 1972

Annex 2 Due Diligence Report – Exempt under Schedule 12A of the Local Government Act 1972

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Cabinet – Enterprise Zone: Re-investment of Business rate Uplift	12 March 2015
Cabinet – Enterprise Zone: Business Rates Discounts	2 February 2012