**USING THE INCOME FROM THE ENTERPRISE ZONE**

**Executive Summary**

* The LEP will be holding just over £1.1m in its EZ account at the end of the current financial year. After taking account of EZ income being used to cover EZ and LEP running costs, a further £600k will be received on average each year, and so by the end of 2022/23 the LEP will hold £3m in its EZ account. Under the terms of the MoU with government, the income generated is to be invested back into the EZ, and into other economic development priorities across the sub-region. The LEP has been considering a range of options for doing that.
* One option would be to use the income to generate a fund to provide inducements to potential investors in the region. However, from experience on the EZ the LEP is typically having to offer grants of £3m to secure development. This would mean to deploy the income in this way, just one scheme could be underwritten over the next 5 years.
* Another option would be to strengthen the Growing Places Loan Fund (GPF). C&W received £12m, although a substantial proportion has never been used. While discussions are currently taking place around several proposals which may call on this fund, given the relatively small scale of receipts, even devoting all of the EZ income to GPF would only deliver an increase of £3m by 2023, which is unlikely to make a significant impact.
* A further option would be to fund the development of business cases. Government has been using competitions to distribute funding with relatively short bid deadlines over recent year’s. This has seen areas with off-the shelf schemes doing significantly better than those without. We have already identified a range of potential studies in the Strategic Transport Plan which could immediately benefit from this approach. Studies typically cost around £100k each, so £400,000 deployed each year in this way could potentially unlock significant additional funding from Government and, if partners were prepared to co-fund, could support at least six cases a year in areas such as transport, housing and digital.
* The LEP has submitted a bid to the ERDF programme to add a further £20 million to the Evergreen loan fund which has previously been used to provide loans to assist development at Alderley Park, City Place Chester and Protos etc. MHCLG’s approval of the fund requires the LEP to cover the fund’s running costs of around £200k over 3 years, until the fund is self-sufficient. Using the EZ income in this way to unlock significant additional development funding, again would sit well with the principles of the MoU.
* The Board has previously asked the LEP to strengthen its marketing including 'place' marketing, and £200k has been allocated in the 2019/20 budget to cover this. The EZ income provides an opportunity to develop an inward investment programme for the sub-region over the summer for agreement by the Board and the LA leaders in the Autumn. If the Strategy is agreed around £100k pa would provide a meaningful programme over the next few years, in addition to the existing marketing budget.
* The Board is asked to consider the options for deploying EZ income to support:
* Business Case Development                £400k
* Evergreen – over 3 years                      £200k
* Inward Investment Marketing            £100k

Background

1. The LEP has been receiving income from business rates from the Enterprise Zone sites since 2016/17. At the end of 2018/19 the LEP expects to be holding just over £1.1 million in its EZ account at Cheshire East, and then expects to receive a further £2.1 million over the four years 2019/20 – 22/23. This paper considers how that income could be deployed.

EZ Income

1. The LEP is entitled to retain business rate income from the EZ over and above the baseline level of income determined when the Zone was established in 2016. By the end of 2018/19, after taking account of the EZ income being used to cover EZ and LEP running costs, £1.1 million will have accumulated in the EZ fund, with an average of a further £600k per annum being generated thereafter.
2. Under the terms of the MOU with MHCLG signed when the EZ was established, the income generated from the Zone has, in the first instance, to be invested back into the EZ, and after that into other economic development priorities across the sub-region.

Options for Using the Income

*Additional Incentives on the EZ*

1. At present, the LEP has a strong forward programme of potential investments in the EZ covering the next two years. All of these can be funded either through the loan facility that the LEP is arranging with the LAs, or further such arrangements as the need arises. Alongside this, new tenants on the EZ can continue to qualify for Government funded business rate discounts or Enhanced Capital Allowances until March 2021. At least for the next two years, it does not seem that any further incentives are required on the EZ.

*Investment Incentives Outside the EZ*

1. Potential investors into C&W regularly argue that other areas of the UK are offering them significant financial incentives to invest in their areas. Although, for State Aid and other reasons, it is questionable whether these incentives are really being offered, it is worth considering whether EZ revenue should be used to generate a fund that could be used as a means of attracting investors into the area, as well as funding dedicated place-marketing/inward investment activity .
2. Although attractive in principle, experience from the EZ is that to secure new developments on the EZ, the LEP is typically having to offer grants of around £3 million. Given that the income expected to be generated by the EZ is only likely to total £3 million by the end of 2022/3, using EZ income to create investment incentives outside the Zone would probably enable the sub-region to underwrite only one scheme over the next five years.

*Initial Running Costs for Evergreen II*

1. The LEP has submitted a bid to the ERDF programme to add a further £20 million to the Evergreen loan fund. The existing Evergreen programme has been used to provide loans to assist development at, for example, Alderley Park, City Place Chester and Protos, but is hitting the limits of its financial capacity. Unfortunately, even though, in practice the new money will simply “top-up” the existing fund, ERDF regulations mean that it needs to be established as a standalone legal entity, and places restrictions on the ability of the new fund to use income from Evergreen I to cover running costs.
2. MHCLG’s approval of the fund requires the LEP to cover the fund’s running costs until it is generating sufficient income of its own. The LEP therefore needs to commit **around £200k over three years** until the fund is self sufficient. Using the EZ income in this way would sit comfortably with the underlying objective of the EZ as the LEP would be using the funds it has generated to unlock significant additional development funding to spend across the sub-region.

*Strengthening Growing Places Fund (GPF)*

1. All LEPs were given GPF allocations in 2013 to be used to lend to businesses that were struggling to obtain finance in the market. C&W received £12 million of capital. Although a substantial proportion of this allocation has never been used, there are a number of active conversations underway with firms interested in borrowing from GPF, including Vauxhall, and Muse Developments who are interested in using it to help fund City Place 2..
2. If all these conversations were to crystallise, C&W’s GPF would be exhausted, and there are arguments for considering using EZ income to top up GPF. Again, however, the relatively small scale of receipts likely to be generated by the Zone between now and 2022/3 may rule this out as even devoting all of the net funds generated by the EZ would only increase the fund by £3 million by 2022/3.

*Funding Business Cases*

1. There has been a trend over the past few years towards Government distributing money to localities using competitions with relatively short bid deadlines. This makes it difficult to submit successful bids unless a considerable amount of preparatory work has been done prior to the announcement of the competition. Officials in the Cities and Local Growth Unit acknowledge this issue and, as a consequence, one of the indicators they use to assess the performance of LEPs is the strength of the pipeline of projects which can be taken “off the shelf” in response to bidding invitations.
2. The Strategic Transport Plan (STP) adopted by the LTB at the end of 2018, proposed a series of studies focussed on making the case to TfN and DfT of the economic and other benefits of improvements to corridors such as the A49, the A51, Chester to Broughton etc. Many of these studies cover routes that are on Major Route Network for which DfT have already said they will be inviting bids for improvement projects at a later date. There are eight studies listed in the STP, each of which are likely to cost £100k each to get to pre-Strategic Outline Business Case (SOBC) stage.
3. In addition to the transport studies, the LEP’s digital strategy suggests that work should be undertaken on a digital / 5G connectivity strategy, whilst feasibility / business case work could be undertaken on other potential investments such as those which the Government is looking to fund through the Future High Streets Fund or on urban housing schemes targeted at young skilled people which might be eligible for funding through Homes England. Again £100k per project could deliver a pre-SOBC level studies.
4. **Deploying £400,000 of EZ income to fund business case** work of this type would ensure the sub-region was well placed to take advantage of future funding opportunities and, if partners were prepared to co-fund, could deliver at least six pieces of work each year ie a project every other month, each of which would have the potential to unlock significant additional funding from Government in areas such as housing, transport and digital.

*Place Marketing & Inward Investment Activity*

1. There is an opportunity to develop and deliver a sub-regional place marketing and inward investment strategy. This would look to further develop the sub-regions value propositions and working closely with local partners, to agree a targeted investment strategy which could be marketed as a regional proposition to potential investors. This would also deliver on the Board’s desire to see greater external engagement.
2. Discussion around a sub-regional place marketing approach began last year, but was put on hold while the Local Industrial Strategy (LIS) was being developed. The publication of the LIS will present an opportunity to refocus the place marketing work and the appointment of Catherine Walker will ensure we have dedicated resource to co-ordinate and lead this work. The LEP would also propose developing an inward investment strategy with our LA partners and would like to bring a strategy to the Board in the Autumn.
3. While the LEP has looked to increase its marketing and communications budget for the coming year to £200,000, this will already have to deliver the Local Industrial Strategy engagement, the Growth Hub outreach activity, the Enterprise Zone promotion, as well as delivering a new website and funding attendance at MIPIM (£80,000 gross alone).
4. **If £100,000 of EZ income** was set aside in support of such activity, the LEP could work with LA partners to bring proposals before the Board and Leaders , with a view unlocking inward investment from both home and abroad, as well as delivering on the Board’s desire to see a step change in raising the sub-regions profile .

Conclusions

1. The LEP will have just over £3 million of surplus EZ revenue to spend between now and 2022/3. The MOU with MHCLG requires this to be spent in the Zone itself or on other economic development priorities. Given the relatively small scale of the funds being generated by the EZ, at least in the first few years, many of the options for using it are ruled out because the funding available is not large enough to make a material difference to policy outcomes.
2. The only options considered in this note that are commensurate with the amount of funding available are to use some of it to cover the initial running costs of Evergreen II (which would unlock £20 million of European funding to top up C&W’s existing Evergreen investment fund), to build C&W’s “library” of business cases in order to give the sub-region the best chance of success in Government bidding rounds and to set some funding aside to support the delivery of a sub-regional place marketing and targeted inward investment campaign.
3. The Board is asked to consider the options for deploying the retained business rates over the next 3 years, namely:
* Business Case Development                £400k
* Evergreen – over 3 years                      £200k
* Inward Investment Marketing            £100k