For publication

East Midlands Investment Zone

Meeting:	Council
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Cabinet portfolio:	Leader of the Council
Directorate:	Economic Growth and Finance
For publication	

1.0 Purpose of report

1.1 This report seeks approval for 2no. development sites within the borough of Chesterfield to be part of an East Midlands submission to Government for Investment Zone status and for the Chesterfield sites to be designated as Business Rates Retention areas.

2.0 Recommendations

2.1 To support the submission of an East Midlands Investment Zone proposal to Government, to include 2no. development sites (as identified by the plan in Appendix A) within the borough of Chesterfield.

2.2 That the Council agrees in principle for the 2no. development sites to be designated as Business Rates Retention areas in line with Government policy, subject to:

a) the formal establishment of the East Midlands Mayoral Combined Authority (EMMCCA) in May 2024.
b) the Council being satisfied with the final terms of the Business Rates Retention Policy applicable to the East Midlands Investment Zone.
c) the Council being satisfied with the final terms of the Reinvestment Strategy developed by EMMCCA to guide the reinvestment of the retained Business Rates within the East Midlands area.
d) the Council being satisfied with the governance arrangements for the East Midlands Investment Zone, when finalised, and the Council's role within them.

2.3 Given the need for the Council to be able to advise EMMCCA and Government in a timely manner of its position ahead of the final Gateway submissions, that authority be delegated to the Chief Executive, in consultation with the Service Director for Finance and the Leader of the Council to consider the final proposals and arrangements for the East Midlands Investment Zone and conclude the terms of the Council's involvement.

2.4 That Cabinet receives an update report on the East Midlands Investment Zone as and when the outcome of EMMCCA's submission to Government is known.

2.5 That the Council reserves the right to review its position in relation to the 2no. development sites being designated as Business Rates Retention areas should there be a change in Government policy and / or a change in the Council's relationship with EMMCCA.

3.0 Reasons for recommendations

3.1 An Investment Zone (IZ) offers the potential for the Council to secure tax incentives and additional capital and revenue funds to support the development of 2no. key regeneration sites within the borough of Chesterfield for the benefit of local residents and businesses. The proposal supports work already carried out with partners and landowners to catalyse development of the Staveley Growth Corridor as detailed in the Council Plan 2023-27.

3.2 The designation of the 2no. development sites as Investment Zone sites with a focus on green industries and advance manufacturing will help support delivery of the Council's Growth Strategy by strengthening Chesterfield's competitive location as a place to do business, securing new business investment in the borough and supporting the move to a stronger, more diversified and high value economy offering high quality, high value jobs to local people.

3.3 The Council will have the opportunity to take advantage of both the capital and revenue funds that EMMCCA will make available over a 25-year period once positive Business Rates returns are achieved over an agreed baseline.

4.0 Report Details

Background

This report was considered by Cabinet at its meeting on 12 December, 2023 where it was resolved that the report and its recommendations be supported and referred to Council for approval.

4.1 At the Spring Budget Government announced 12 regions across the UK who have been invited to submit proposals for new IZs – this included the East Midlands. Each region was asked to co-design the proposals with Government with the principles set by Government and His Majesty's Treasury in IZ Policy Prospectus March 2023. The EMMCCA will have one IZ across the combined authority geography.

4.2 IZs are being established in places with significant unmet productivity potential, and where existing strengths and assets aligned to priority sectors can be leveraged to increase opportunities for local communities. By focussing on growing high-potential innovation and industrial strengths in areas with significant scope for catch up economic growth the intention is that IZs will drive national productivity growth.

4.3 The IZ must be innovation and R&D focussed with links to universities. They are expected to include large, strategic sites in order to accommodate significant development and growth opportunities, for example up to three tax sites to a maximum of 600 hectares across the region. They must focus on undeveloped sites, avoid displacement, demonstrate private sector investment and meet 'levelling up' targets such as deprivation.

Overview

4.4 Subject to finalising and submitting a detailed business case to Government, the region can expect to receive £160m over 10 years to support growth in the priority target sectors of 'Green' industries and Advanced Manufacturing. This funding is likely to be a five-year initial programme with an extension for five years. This funding can be used flexibly between spending and a single ten-year tax incentive offer and includes:

- Up to £160m spending split between revenue funding (40%) and capital funding (60%), although the level of spending will be reduced in direct proportion with the tax incentives in paragraph 4.5 below;
- Tax incentives for investment over a ten-year period on a maximum of 3 sites, each of which can be up to 200ha. The value of the tax incentives will be estimated based on proposals for the designated sites, up to £45m. Government has advised that the value of the tax incentives will be calculated at between £75-100k per designated hectare of land.
- Two sites will attract full business rates retention over 25 years above a pre-determined baseline free from resets. Retained business rates should be re-invested in the priority sectors across the geography, **not just** the sites.
- Coordinated government support for trade and investment, planning and skills.

Tax Incentives

4.5 The tax incentives will be available for a period of **ten** years, as above as an initial five-year deal with a five-year extension. Specific guidance on these incentives is outlined in the policy as follows:

- Stamp Duty Land Tax (SDLT): a full SDLT relief for land and buildings bought for commercial use or development for commercial purposes (this is likely to result in cost savings/value uplift, shared between the landowner, developer and purchaser)

- Business Rates: 100% relief from business rates on newly occupied business premises, and certain existing businesses where they expand in Investment Zone tax sites.
- Enhanced Capital Allowance: 100% first year allowance for companies' qualifying expenditure on plant and machinery assets for use in tax sites.
- Enhanced Structures and Buildings Allowance: accelerated relief to allow businesses to reduce their taxable profits by 10% of the cost of qualifying non- residential investment per year, relieving 100% of their cost of structures and buildings over 10 years.
- Employer National Insurance Contributions relief: zero-rate Employer NICs on salaries of any new employee working in the tax site for at least 60% of their time, on earnings up to £25,000 per year, with Employer NICs being charged at the usual rate above this level. This relief can be applied for 36 months per employee.

4.6 The tax incentives can be attractive for operations involving significant capital investment and/or high levels of on-site employment. However, they are likely to be more limited for smaller operators and for those who already enjoy significant incentives.

Flexible funding

4.7 Flexible funding will be provided over ten years to be used across a range of interventions, to attract investment and unlock barriers holding back the growth of the sector. As mentioned above, within the overall fiscal envelope the spending envelope will be split between revenue and capital funding at a 40/60 split. Funding can be used across the following areas with examples:

- Research and Innovation – e.g., grants for projects.
- Skills - e.g., Skills Bootcamps, stimulating demand apprenticeships.
- Local Infrastructure – e.g., land remediation for labs or schemes to improve connectivity to improve access to the local labour market.
- Local Enterprise and Business Support – e.g., sector-specific tailored support for start-ups and SMEs that leverages local research strengths and facilities;
- Planning and Development – e.g., funding to recruit a dedicated planning team, implement an LDO or support a Development Corporation to deliver complex or large-scale developments.

Chesterfield inclusion in the IZ

4.8 It is proposed that two sites within the Chesterfield borough would be included in the EMIZ. These sites are shown on Appendix A, the north-eastern site is known as Hartington with the south-western site being part of the Staveley Growth Corridor (previously allocated as the site for the HS2 Infrastructure Maintenance Depot).

4.9 The Hartington site is identified as being able to take advantage of the tax incentives for the first five years of the IZ because development is anticipated within a shorter timescale, whereas development on the Staveley Growth Corridor may take longer due to the requirement to remediate the site and fall into the five-year extension of the IZ tax incentives. The Staveley Growth Corridor may also be impacted by the Chesterfield Staveley Regeneration Route. The tax incentives bring an opportunity to attract 'green sector' and advance manufacturing businesses to the sites with the potential to provide quality jobs in the Chesterfield economy. The other two sites within the proposed EMIZ to get the benefit of tax incentives are Infinity Park in Derby and the Centre of Excellence for Modern Construction at Worksop.

4.10 The Chesterfield sites would be part of the Business Rate Retention designation and as such help maximise the potential benefit of a Business Rates Retention area as they are vacant and under-utilised and as such offer significant potential for business rates growth. In the Hartington case, this could present an early advantage for the EMMCCA. The other site included in the Business Rates Retention would be Infinity Park Derby.

4.11 The Chesterfield sites would also have the potential to bid for the flexible funding allocation and to be part of any future reinvestment strategy for the EMIZ.

4.12 Discussions have been held with the landowners for the Chesterfield sites for the EMIZ, briefing them of the nature of the opportunity and discussing any concerns they may have. They support the inclusion of their sites in the EMIZ submission.

Business rates retention

4.13 In addition to the £160m of flexible funding for the EMIZ, it is also possible to seek approval of two Business Rates Retention areas within the IZ, that have a combined area of no larger than 600 hectares in total.

4.14 This allows for 100% retention of business rates growth by the Billing Authority within these areas over an agreed baseline for 25 years from the point at which the area is designated. Without Business Rates Retention any business growth would continue to be shared as the present arrangements.

4.15 The retention would provide for local economic growth within the wider region and support the priority sector within the IZ. Subject to further work to develop a detailed reinvestment strategy, this could include investment to support the development of the subject site for sector related activities. This could include supporting a TIF type arrangement, with future uplift in business rates supporting initial investment in infrastructure to unlock site delivery.

4.16 The calculation of the business rate growth relies on the establishment of a Baseline. Where a site or area is identified and contains no rateable business properties this Baseline will be set at zero. If the site or area contains existing business properties, the Baseline is calculated on the basis of net amount the Billing Authority is expected to collect in business rates after considering reliefs, appeals and other variables at the start of financial year 24/25.

4.17 Without an IZ Business Rate Retention the Billing Authority would be able to spend its share of the Business Rate as it deems appropriate. However, under the IZ BRR it is necessary to demonstrate how the 100% retained business rates growth, above the Baseline, will address the following:
- Provide for local economic growth within the region.
- Support existing local strategies with a focus on growth.
- Support the priority sector within the Investment Zone.
- Present value for money for the government.

4.18 The Council is being asked to pay growth in Business Rate income, from sites approved as Business Rate Retention areas in the Investment Zone, to the East Midlands Mayoral Combined Authority (EMMCCA) in accordance with Government policy as part of the EMIZ submission. The amount that would be passed to EMMCCA is subject to further agreement and an understanding of the 'no detriment' to the Billing Authority principle.

4.19 EMMCCA as the Accountable Body for the EMIZ will need to develop a reinvestment strategy for the revenue stream that would need to be subject to regular review over the 25-year BRR period. The Strategy would need to include a clear logic that explains how the funding will drive new development and accelerating existing plans in the IZ and/or extend opportunities related to the cluster and sector to local communities. Decisions about the use of retained business rates would need to be taken in an appropriate, transparent way that enables EMMCCA to remain responsible to Government for the overall Investment Zone programme.

4.20 So far, the proposal has been that reinvestment arrangements will be subject to governing principles around:

- No detriment to Billing authority budgets. This means that there is likely to be a negotiation over the % of the Business Rates Retention that would be passed to EMMCCA.
- The use of business rates uplift to support sector investment on the Business Rates Retention Sites.
- There will be Billing authority involvement in the development of the investment strategy.

Governance

4.21 It is anticipated that new East Midlands Mayoral Combined County Authority (EMMCCA) will be established in April 2024 and will be followed by the inaugural mayoral election in May 2024. The development of governance arrangements for the emerging EMMCCA is being led by the four upper tier authorities – Derby City Council, Derbyshire County Council, Nottingham City Council and Nottinghamshire County Council – working in partnership through an established devolution programme.

4.22 In the absence of an existing governance framework for the areas covered by the deal, formalised interim arrangements have been put in place.

4.23 Derbyshire County Council are acting as accountable body for the EMIZ and have established and robust procedures in place to provide appropriate scrutiny and assurance during the current transitional and upcoming shadow phase.

4.24 Interim arrangements have been put in place to support the design and development of the EMIZ pending the formal establishment of the EMMCCA. These arrangements, which will be superseded by the EMMCCA Governance Framework following the election of the Mayor and no later than June 2024, have been designed to ensure accountability within established governance structures alongside compatibility with the emerging EMMCCA framework. An overview of the interim arrangements is at figure 1 in Appendix 3.

Timescales

4.25 There are five Gateways, as part of an iterative and collaborative process, in the application for the IZ to Government:

- Gateway 1 – Expression of Interest for an Investment Zone for Green Industries and Advanced Manufacturing for the East Midlands has already been achieved.
- Gateway 2 – Review of the tax site boundaries with Government has already been achieved.
- Gateway 3 – Setting out the draft governance has already been achieved.
- Gateway 4 - Will set out the reinvestment strategy and a draft programme of interventions and is due to be submitted on 15th December.
- Gateway 5 – Sets out the delivery arrangements and requires the council approval from the Local Authorities.
- EMIZ Launch (funding and tax) would be April 2024
- Business Rates Retention starts April 2025

5.0 Alternative options

5.1 A do-nothing option would leave the council no worse off in that it would continue to secure any business rate growth above existing levels within the identified area but at the current rate. This income would become part of the General Fund and can be used without any restriction imposed through the IZ Business Rates Retention scheme. However, the IZ Business Rates Retention enables 100% retention of the business rate growth and the areas of spend considered acceptable within the scheme provide considerable flexibility to support projects and activity that the region would likely want to fund without having IZ Business Rates Retention status.

6.0 Implications for consideration – Financial and value for money

6.1 The report in its entirety deals with financial and value for money implications.

6.2 Amongst the time-limited tax incentives that businesses within Investment Zone tax sites will receive is 100% business rate relief. There are also enhanced capital allowances for plant and machinery and Stamp Duty Land Tax relief amongst other tax incentives. To compensate for the subsequent revenue losses from business rates, the investment zones are designed to allow the local authority to benefit from being able to take any growth achieved above baseline to be set aside outside of the reset process and allowing the local authorities to receive the long-term benefit of investment in development areas.

6.3 As part of the draft development of agreement the Local Authority partners have agreed in principle that there will be 'no detriment' in respect of Business Rates (BR). The intention of this is that authorities will retain, as a minimum, the Business Rates that they were expecting to receive before passing any balance over. The full details of this will need to be subject to a separate agreement between the authorities involved but based on this intention, it is not expected that this will impact on the current financial position of Chesterfield. However, there are further financial questions to be addressed in respect of the 'no detriment' clause particularly in relation to changes in future government policy and the pooling of Business Rates. These will need to be worked through over the coming months and before final sign off.

6.4 At this stage, there are no requirements for matched funding from the Council. However, Chesterfield would have the potential to bid into the flexible funding allocation and to be part of any future reinvestment strategy for the EMIZ.

7.0 Implications for consideration – Legal

7.1 Business rates are dealt with under the Local Government Finance Act 1988, including but not limited to the liability, accounting and administration requirements. Business Rates Retention sites which are approved by the Government will be designated by regulations under Schedule 7B of the Local Government Finance Act 1988.

7.2 The Government will assess Investment Zone BRR site proposals to ensure that sites are compatible with the purposes of the Investment Zone. The Government have reserved the right to reject or ask for modifications to Business Rates Retention sites that do not meet these requirements based on cost and deliverability.

7.3 Subsidy Control does not apply to the operation of the BRR scheme. However, where applicable Subsidy Control assessments will take place where BRR income is used to support commercial activity.

8.0 Implications for consideration – Human resources

8.1 This report does not have any staffing implications however if the council is successful in its expression of interest for projects as part of the flexible funding or any projects in the future as part of the reinvestment strategy for the Business Rates Retention there may need to be an evaluation of the council's involvement.

9.0 Implications for consideration – Council Plan

9.1 The inclusion of the Hartington/Staveley sites in the IZ submission would, if the bid were successful, potentially contribute to the Council Plan priority of Making Chesterfield a thriving borough, helping businesses to grow and securing new investment in the borough. One of the council's key activities is to work with partners and landowners to develop a delivery framework for the development of the Staveley Growth Corridor.

10.0 Implications for consideration – Climate Change

10.1 The priority sector for the East Midlands IZ would be 'Green' Industries which would have a positive impact for both the region and Chesterfield.

10.2 Whilst the proposal is not specifically designed to reduce carbon emissions it has potential to generate funds that could be used to support projects and investments with climate change mitigation benefits through either directly funding eligible activity of its own or supporting activity carried out by third parties through the provision of financial support.

11.0 Implications for consideration – Equality and diversity

11.1 The initial Equality Impact Assessment (Appendix B) has determined that the IZ proposal should have a positive impact as the purpose of the IZ and the Business Rates Retention is to support the regional and local economy.

11.2 Should any allocation from the flexible funding or the reinvestment strategy be allocated for use in Chesterfield, then specific Equality Impacts may need to be considered.

12.0 Implications for consideration – Risk management

12.1 If Council were not to approve the inclusion of the Hartington Staveley sites in the EMIZ this would almost certainly have a negative impact on the ability of the IZ bid to go forward, especially in terms of the ability to realise the benefits of the Business Rates Retention classification. This could put at risk the council's influence within EMMCCA.

12.2 Forecasting the actual amount of additional business rate growth above the Baseline for the Business Rates Retention area is complex and sensitive to variables such as development timescales, occupation levels and rateable values. The uncertainty of business rate growth will need to be factored into the reinvestment strategy developed by EMMCCA.

12.3 EMMCCA does not control the development process and will be reliant on the private sector to bring forward viable commercial schemes. However, the support offered by the tax incentives, the flexible funding and the Business Rates Retention generating significant funds to support a sustainable and growing economy with the provision of the hard and soft infrastructure to support the 'green sector' and advance manufacturing both across the East Midlands and within the borough of Chesterfield.

Decision information

Key decision number	
Wards affected	

Document information

Report author	**Contact number/email**
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	

Appendices to the report	
Appendix A	Hartington Staveley Chesterfield IZ sites
Appendix B	Equality Impact Assessment 1311
Appendix C	Interim Governance Arrangements