**FOR PUBLICATION**

# MARKHAM VALE ENTERPRISE ZONE – TRANSFER OF BUSINESS RATES INCOME TO THE SHEFFIELD CITY LOCAL ECONOMIC PARTNERSHIP/COMBINED AUTHORITY

| | |
|---|---|
| MEETING: | COUNCIL |
| DATE: | 17 DECEMBER 2014 |
| REPORT BY: | CHIEF FINANCE OFFICER |
| WARD: | ALL |
| COMMUNITY FORUM: | ALL |
| KEY DECISION REF: | 477 |

FOR PUBLICATION

BACKGROUND PAPERS FOR PUBLIC REPORTS:
TITLE: Working Papers LOCATION: Accountancy

## 1.0 PURPOSE OF REPORT

1.1 To determine how the Business Rate income from the Markham Vale Enterprise Zone will be allocated.

## 2.0 RECOMMENDATIONS

2.1 That the Council agrees to pay the growth in Business Rate income from the Markham Vale Enterprise Zone to the Sheffield City Region Local Enterprise Partnership/Combined Authority in accordance with Government policy.

2.2 That this arrangement will be reviewed in the future if there is a change in Government policy or a change to the Council's membership of the Sheffield City Region Combined Authority.

## 3.0 BACKGROUND

3.1 The Government announced in 2011 that a number of new Enterprise Zones (EZ) would be established to stimulate economic growth and invited Local Enterprise Partnerships (LEP) to nominate areas for consideration. The Sheffield City Region (SCR) LEP submitted a proposal for an EZ based on Advanced Manufacturing around a number of sites close to the M1; including Markham Vale at junction 29a and sites in Sheffield, Rotherham and Barnsley at junctions 33, 34 and 36 respectively.

3.2 There are four areas of land at Markham Vale which are designated as the EZ site; one in Bolsover, one in North East Derbyshire (with a small part in Chesterfield) and two wholly in Chesterfield. The two main sites in Chesterfield cover an area of almost 20 hectares which is roughly equivalent to the size of 32 football pitches. The EZ site was granted Enhanced Capital Allowance (ECA) status for five years starting in April 2012. This means that businesses locating on the site can claim up to 100% first year capital allowance against taxable profits.

3.3 The Markham Vale EZ, however, does not have Business Rate Relief status. New businesses created on the sites at Markham Vale will, therefore, be assessed for and have to pay Business Rates in the normal way. The Business Rates income, however, is excluded from the usual Business Rate income distribution mechanism, which means that the Council must determine how to allocate this income.

3.4 Government Policy, as described in the “Enterprise Zone Prospectus”, is that:

***“All business rates growth within the zone for a period of 25 years will be retained by the local area, to support the Partnership’s economic priorities and ensure that Enterprise Zone Growth is reinvested locally”.***

This requirement, however, has not been included in legislation nor is it a condition of the EZ status granted.

3.5 The payment of the business rate income to the LEP has been agreed at a SCR level (i.e. LEP Board, Leaders prior to the SCR Combined Authority (CA) coming in to effect) and applies to all SCR EZ sites, but this decision must be formally ratified by the Council.

3.6 To transfer the growth income, which is initially credited to the Council, to the LEP/CA will require a Budget Policy decision and that is why this report is presented to the full Council.

3.7 This report was considered by Cabinet at its meeting on 2 December, 2014 and it was resolved that the recommendations be supported and submitted to Full Council for approval (Cabinet Minute No. 126 2014/15).

## 4.0 PROPOSAL AND FINANCIAL IMPLICATIONS

4.1 The EZ status granted for the Markham Vale site means that any business rate growth above a baseline figure for the site can be retained. The baseline is zero as it was previously a vacant site with no businesses and, therefore, no rates being collected. All future business rate income from the site will, therefore, be counted as ‘growth’ and in accordance with Government policy intention and expectation (but with no regulations to back this up) be passed to the SCR LEP/CA for economic priorities.

4.2 Business Rate income would normally be distributed as follows through the Retained Business Rate mechanism:

| **To:** | Share (%) |
|---|---|
| Government | 50% |
| County Council | 9% |
| Fire Authority | 1% |
| Chesterfield Borough Council | 40% |
| Total | 100% |

The Business Rates income from the EZ are excluded from this arrangement and instead paid over in full to this Council as the Billing Authority. There is then an expectation that this money will then be passed over to the SCR LEP/CA.

4.3 It is proposed that EZ Business Rate growth estimated before the start of the financial year as part of the budget setting process is then paid over on account to the LEP during the year with any under/over estimates being corrected in future years. This process is similar to that used for other Collection Fund type transactions. It is proposed that these mechanisms are adopted for an initial period of three years, after which a review will be undertaken.

4.4 To date only one building has been erected on the EZ. This building is intended to be a temporary structure for approximately 18 months starting in November 2013. The Valuation Office has yet to determine the Rateable Value (RV) of this property so it is not possible to provide a precise figure for the rates payable. Assuming an Rateable Value of £40k would produce a rates payable figure of £8k re 2013/14, £19k re 2014/15 and £2k for the final month’s occupation in 2015/16.

4.5 At the moment there is only one other known development on the site, where construction work has recently commenced but the likely occupation date and the Rateable Value of the completed property are not yet known. Assuming a Rateable Value of £397.5k and an occupation date of October 2015, gives a rates payable figure of £96k in 2015/16, rising to £192k in a full financial year.

4.6 It is much more difficult to forecast what the rates payable will be in the succeeding years, as this will depend on many factors such as the rate of development on the site and the types of properties created. A very rough estimate suggests that once the site is fully occupied the total rates payable could be around £0.9m at today's prices.

4.7 The potential income that the Council will transfer to the LEP is, therefore, significant and the Council might wish to consider what other alternatives are available to it.

## 5.0 ALTERNATIVE OPTION

5.1 Given that there is no statutory requirement to pay the growth to the LEP the Council could in theory elect to retain the money locally; it could for example use the Government's share and its own 40% to fund economic development projects and perhaps pass the relevant shares to the County Council and the Fire Authority. This may at first appear to be an attractive option but it could involve some significant risks.

5.2 The Department for Communities and Local Government has been contacted to try and determine what the Government's response would be if their 'expectation' was not followed. The response was:

"We can't enforce the arrangement, but it is an expectation of government that in granting 100% of rates retention that it is used to drive growth in the local economy in line with the LEP Growth Plan. For that reason we wrote to all LEP Chairs making this clear when approving bids to establish enterprise zones".

Although there does not appear to be any pre-defined sanction that the Government could impose it is hard to imagine that no action would be taken if the 'expectation' was not adhered to.

5.3 The other risk is that it could put at risk the Council's influence and even membership of the SCR CA. The monies that are currently earmarked in the Sheffield City Region Investment Fund (SCRIF) programme for schemes in Chesterfield, i.e. the Waterside and Northern Gateway schemes, could then be at risk. It should also be remembered that the Council will share in the business rates income generated by the businesses on the completed SCRIF funded developments, through the normal redistribution mechanism.

## 6.0 RISK MANAGEMENT

6.1 Failure to pay the Business Rates to the LEP as per Government expectation could provoke a response but it is not clear whether that could extend as far as putting the status of the EZ at risk.

6.2 EZ status provides considerable economic benefits. It provides an improved marketing tool to compete effectively across the UK and internationally to bring jobs and growth to the area. Investment in the EZ will act as a catalyst for further ancillary and supply chain investment around the site, generating business rates, jobs and growth as a result.

## 7.0 LEGAL CONSIDERATIONS

7.1 The Localism Act 2011 provides the Council with the so called power of competence which allows a Local Authority to do anything which an individual may generally do. Whilst the decision to designate parts of Markham Vale as an EZ is a Government decision, there is an expectation that the Council will pay over any growth in Business Rates from the EZ to the Sheffield City Region LEP/CA. There is, however, no legal requirement in place to force the Billing Authority to transfer EZ growth to the LEP/CA. Such a decision is a budget policy matter and therefore a decision for the full Council.

## 8.0 RECOMMENDATIONS

8.1 That the Council agrees to pay the Business Rate income from the Markham Vale Enterprise Zone with the Sheffield City Region Local Enterprise Partnership/Combined Authority in accordance with Government policy.

8.2 That this arrangement will be reviewed in the future if there is a change in Government policy or a change to the Council’s membership of the Sheffield City Region Combined Authority.

## 9.0 REASON FOR RECOMMENDATIONS

9.1 To formally approve the policy of transferring Business Rate income from the EZ to the SCR LEP/CA.

**BARRY DAWSON,**
**CHIEF FINANCE OFFICER**

| |
|---|
| You can get more information about this report from Barry Dawson Ext 5451 |

.