

CABINET

7TH MAY 2024

ENTERPRISE ZONE – ASHWOOD BUSINESS PARK

Report of: Councillor Richard Wearmouth, Deputy Leader and Cabinet Member for Promoting Business and Opportunities

Lead Officer: Simon Neilson, Executive Director of Place and Regeneration

1.0 Link to Key Priorities of the Corporate Plan

The scheme fits with Northumberland County Councils Economic Strategy and Northumberland's Local Plan which was adopted in 2021 and specifically recognises the importance of the EZ site at Ashington. This report sets out the critical site ambitions for Ashwood Business Park. The development of business cases to comply with the external lending requirements will ensure value for money.

2.0 Purpose of Report

The purpose of this report is to update Cabinet on the most recent variation to the Ashwood Enterprise Zone (EZ) business case application from Advance Northumberland (Commercial) Ltd to the NELEP. The business case requests approval to the investment in site works and utility costs and the need to address higher cost inflation on site works.

The total estimated cost of the works is £6,156,004, with £6,018,254 to be funded from the EZ account. It should be noted that £3,480,277 of investment from the EZ account has already been approved by the NELEP and the Council, and this request is specifically for an additional **£2,537,977** of EZ loan finance. The increased costs are funded by borrowing by Northumberland County Council, with the estimated annual borrowing costs being paid for from the EZ Account and financed from annual business rate income.

The NELEP will repay the total Council loan of £6,018,254 million plus interest, via the business rates collected in relation to the Ashwood Business Park site. The additional funding to be provided to Advance Northumberland (Commercial) Limited and the associated repayment from the NELEP to the Council will be subject to either a variation to the existing funding agreement or a second separate funding agreement, yet to be determined by NECA. In the event that individual scheme costs cannot firstly be covered by individual scheme BRGI or the overall regional BRGI pool then ultimately the remaining scheme deficit would fall on the relevant individual local authority, in this case Northumberland County Council.

Therefore, there is a risk that if the Ashwood Business Park site did not achieve the anticipated levels of BRGI set out both in this report and the tripartite funding agreement with Advance Northumberland (Commercial) Limited and NECA, that any shortfall would need to be met by the Council.

Subject to availability for funding from the Regional EZ pool, the interest and capital repayment costs of the loan will be met by the EZ account which is currently managed by the NELEP and administered by the Accountable Body of the NELEP currently NTCA. From the end of May 2024 this will become the new North East Combined Authority (NECA).

3.0 Recommendations

Cabinet is requested to make the following recommendations to the County Council:

3.1 Cabinet is recommended to:

3.1.1 Approve the additional loan funding of **£2,537,977** to the NECA to fund the proposed improvement works to Ashwood Enterprise Zone bringing the total loan funding provided by the Council for the scheme to £6,018,254, subject to a separate funding agreement with NECA and Advance Northumberland (Commercial) Ltd or variation to the existing tripartite agreement dated 07 February 2020, which sets out a repayment schedule for the additional £2,537,977 million loan plus interest;

3.1.2 Approve delegated authority to the Executive Director for Place and Regeneration, in consultation with the s151 Officer to enter into either:

- a variation to the tripartite Funding Agreement (07.02.2020), or
- a new tripartite Funding Agreement,

between the Council, Advance Northumberland (Commercial) Limited and NECA in respect of the Ashwood Business Park, Enterprise Zone Infrastructure works, such agreement to include the obligation for Advance Northumberland (Commercial) Limited to meet any potential shortfall in Business Rates.

3.1.3 Note the contents of the report, in particular the risks associated with the proposal and the measures proposed to mitigate the risks.

3.1.4 Note that the proposed additional loan of **£2,537,977** million is not included within the Council's capital budget and agree that the Council's approved 2024/25 capital budget is increased accordingly.

4.0 Forward plan date and reason for urgency if applicable

The report first appeared on the Forward Plan on 19th March 2023

5.0 Key Issues

- 5.1 Advance Northumberland (Commercial) Limited has updated the business case for consideration by the NELEP, for the development of the infrastructure works at Ashwood Business Park, a strategic employment site and Round 2 Enterprise Zone.
- 5.2 The proposal is estimated to cost an additional **£2,537,977**. Funding will be provided; £137,750 from AkzoNobel, with the balance of £2,537,977 being made available from NECA. NECA will look to secure this funding from the Council and then pass it onto Advance Northumberland (Commercial) Limited in tranches to fund the work.
- 5.3 The Council can choose how it wishes to fund the £2,537,977 million loan for the project. This could be from internal resources, or it could borrow; the Council has access to borrow money through the Public Works Loans Board at a lower rate of interest.
- 5.4 Repayment of the contribution would be subject to a separate funding agreement with NECA and Advance Northumberland (Commercial) Limited or variation to the existing tripartite agreement dated 07 February 2020. This will specify how the contribution plus interest will be repaid by NECA from the BRGI collected on the Enterprise Zone Site.
- 5.5 The Council's Budget for 2024-25 does not include financial provision for the proposed loan of £2,537,977 to NECA; being the Council's additional financial contribution to the Ashwood Business Park, Enterprise Zone infrastructure works. It is therefore proposed that an additional loan of £2,537,977 is made to NECA to assist with funding this project.
- 5.6 The NELEP considered and approved the business case for appraisal for Ashwood Business Park, Enterprise Zone infrastructure works at the NELEP Investment Board meeting on 21st March 2023.
- 5.7 Cabinet should also note the agreement would require Advance Northumberland (Commercial) Limited to meet any potential shortfall in Business Rates.
- 5.8 Cabinet should note that the anticipated delivery model for Ashwood Business Park is reliant upon end users drawing down plots and bespoke construction to their operational requirements rather than any speculative development. Advance Northumberland (Commercial) Limited asserts, and Council officers would accept, that this is realistic given the recent investments on site. This delivery mechanism is critical to the economic modelling and the business rates assessment and whilst there are no guarantees, the Sanderson Weatherall market review carried out by the NELEP of the investor pipeline gives comfort that there is demand which can be satisfied by this site.

6.0 Background

- 6.1 The project originally had an approval of EZ loan finance of £2,576,426 in February 2020 and then an additional approval in September 2023 of £985,270 for cost increases and inflation, increased the EZ financing award to £3,561,696. In addition to this there was a legal agreement for a financial contribution of £137,750 in place from AkzoNobel in respect of supporting the improvements to the existing electrical substation. Total project costs following the last approval was £3,480,077, once circa £82k of ineligible costs were removed.
- 6.2 This report addresses the application from Advance Northumberland (Commercial) Limited for additional EZ loan finance of £2,537,977 to increase the total award to £6,018,254.
- The additional funds will be utilised to meet increased costs against the original programme of works as well as additional works required which have emerged over the last 2 years as Advance Northumberland (Commercial) Limited has gained a more detailed understanding of infrastructure constraints which were not recognised through earlier desktop studies. This includes the shallow depth of services within the site boundary, limitations to drainage/utilities as well as additional earthworks required to allow development to come forward.
 - Increases to the original works programme have occurred primarily from hyper inflationary costs within contractor and professional services market, greater power requirements than previously anticipated, omission of adoption commuted sum costs from original estimate, extended programme for delivery and more accurate forecasting of costs of plot development following actual works costs for earlier completed phases.
- 6.3 Advance Northumberland (Commercial) Limited has applied for additional support of £2.38m towards completing the preparatory works on the Ashwood EZ site. The infrastructure investment works at Ashwood Business Park (ABP) are required to support the transition of the ABP site into a modern advanced manufacturing park, creating a significant number of new and higher value jobs in South East Northumberland and wider NECA area and building on the success to date including attraction of new investment from the contamination control firm Contec Cleanroom (UK) Ltd which is nearing completion.
- 6.4 As presented in the business case, the strategic rationale is based upon the enabling effect of the site preparation programme unlocking further investment and employment opportunities from advanced manufacturing and engineering companies in this location. This strategy supports critical elements of the North East Strategic Economic Plan including the development of a significant employment led scheme, creating new industrial floor space.
- 6.5 Ashwood Business Park is excellently located for investment on the A189, providing direct access to the Port of Blyth close by and through to A19 and A1(M). The site is identified as a key site with economic potential through its

designation as an Enterprise Zone and linking directly to SEP priority theme of “economic assets and infrastructure” and “more and better jobs”.

6.6 The scheme also fits with Northumberland County Councils Economic Strategy and Northumberland’s Local Plan which was adopted in 2021 and specifically recognises the importance of the EZ site at Ashington.

- The works included as part of the additional investment include build costs for preparation of plots by 2028, including adaptation to A189 roundabout, adoption works for roads and sewers, power upgrade for site to meet demand, utility service supplies for remaining plots and landscaping and signage
- These works are required to prepare the site for a variety of potential employment led end uses for the remaining plots on the site.
- The proposed works will enable Advance Northumberland (Commercial) Limited to secure more jobs (up to 1,105 gross jobs are forecast) and attract more private sector investment on the site.

7.0 FINANCIAL IMPLICATIONS

Funding to date and Budget Implications

7.1 The current income projection for the whole EZ site has a lifetime estimate of business rate income of around £25.0m including estimated inflation and before the deduction of a contingency. After the deduction of the contingency the net estimate is £20.6m. This includes an estimate of rates income from this final phase of works amounting to £11.5m. after applying a contingency to the estimates.

7.2 The NELEP assessment of business rates income takes into account a contingency profile having been applied in line with the latest EZ model; this includes a 40% contingency in year one, which then decreases until a 15% contingency is applied until the end of the EZ period (2041/42).

7.3 The capital financing cost to the EZ account of spending of £6,018,254 is estimated to be £8.398m including 4% interest. The borrowing costs relating to the additional £2,537,977 is estimated to be £3.5m. The total estimated lifetime surplus after funding borrowing costs is estimated to be £12.18m.

7.4 Although this funding will be provided to Advance Northumberland (Commercial) Limited from NECA, NECA will look to source this funding from the Council. The Council can choose how it wishes to fund the loan to the project. This could be from internal resources or borrowing; the Council has access to borrow money through the Public Works Loans Board at a lower rate of interest. Between 2020/21 to 2027/28 when the works are being undertaken, interest only payments will be paid to the Council at a rate of the Bank of England base rate plus 0.25%. Upon completion of the works, predicted to be

2027-28, the interest rate will be equivalent to the PWLB 14-year Annuity rate. As a result, any financing costs to fund this project are offset by the interest received from NELEP.

- 7.5 The Council’s Budget does not include financial provision for the additional loan of £2.5 million to NECA; being the Council’s financial contribution to Ashwood Business Park, Enterprise Zone infrastructure works.
- 7.6 Whilst the site has generated income through the capital receipts from EuroGarages and Contec, this income has been used by Advance Northumberland (Commercial) Limited to offset against the value of the loan provided by the Council to purchase the site as was agreed. In order to provide the additional funding required, it is therefore proposed that a further tripartite funding agreement is entered into to enable NECA to provide funding to Advance Northumberland (Commercial) Limited, the funding being made available to NECA for onward funding of the Project. IT is yet to be confirmed by NECA whether this will be a variation to the existing tripartite agreement or a sperate tripartite agreement on identical terms. Whichever route is chosen the funding provided by the Council will be repayable from BRGI collected on the Ashwood Business Park site over the duration of the Enterprise Zone in accordance with the terms of the Enterprise Zone Business Rate Pooling Agreement dated 21 June 2018 (“EZBRPA”).
- Business rates for the site would initially be collected by the Council but paid over in full to NECA under the EZBRPA, and subsequently used to repay the loan from the Council.
 - The funding and cost breakdown of the proposed works is shown in the tables below, which include a 5% contingency allowance: -

Table 7.6.1

Funding Source	Forecast Expenditure up to March 2024 £	2024-25 £	2025-26 £	2026-27 £	2027-28 £	Total £
Estimated Expenditure						
Capital Infrastructure	1,777,480	1,046,869	1,588,964	440,683	645,229	5,499,225
Fees	0	184,742	280,405	77,768	113,864	656,779
Total Estimated Expenditure	1,777,480	1,231,611	1,869,369	518,451	759,093	6,156,004
Akzo Novel Contributions	0	68,874	68,876	0	0	137,750

EZ BRGI Borrowing	1,777,480	1,162,737	1,800,493	518,451	759,093	6,018,254
Existing EZ BRGI Borrowing within MTFP	2,145,208	1,335,069	0	0	0	3,480,277
Proposed Increase/Amendment to MTFP	(367,728)	(172,332)	1,800,493	518,451	759,093	2,537,977

8.0 Milestones

The milestones set out by the Advance Northumberland (Commercial) Limited are shown in *Table 8.1* (below):

Table 8.1

Milestone	Completion Date
Plot 4 enabling works	2024/2025
Plot 8 Enabling works	2024/2025
NWL Adoption of sewers (when 51 % of ABP is occupied)	2024/2025
NPG upgrade works – additional power supply to ABP	2025/2026
Ashwood Roundabout Highways Signalisation works	2025/2026
Plot 2 Enabling works	2025/2026
Plot 7 Enabling works	2025/2026
Plot 1 enabling works	2026/2027
Plot 9 enabling works	2027/2028
Highways Adoption of Roads, Pavements and Streetlighting	2028

9.0 Outputs

The following KPIs have been put forward by Advance Northumberland (Commercial) Limited (see *Table 9.1*, below). It is anticipated these will be accepted by NELEP as reasonable:

Table 9.1

	2022/23	2023/24	2024/25	Future	Total
Gross jobs – direct on site	27	34	59	985	1,105
Construction Jobs	45			45	90
No. of businesses accommodated	1	1	2	11	15
Area of site reclaimed, (re)developed or assembled (ha)	3	3	5	5	16

10.0 Governance

- 10.1 There is an overarching legal agreement between the NELEP and the seven regional North East councils - Enterprise Zone Business Rate Pooling Agreement dated 21 June 2018 ("EZBRPA") which sets out the funding approach.
- 10.2 Section (3) in the 'Background' of the EZBRPA sets out - *"It is expected that most of the Round 1 costs yet to be incurred and all of the Round 2 infrastructure costs will be funded by internal or external borrowing by the constituent local authorities. The annual cost of borrowing, whether undertaken by the local authorities or by NECA is to be met by payments funded from Pooled BRGI."*

This was because in 2018 neither the NELEP or its accountable body had economic development borrowing powers. The overarching legal agreement is underpinned by individual funding agreements on a scheme-by-scheme basis.

- 10.3 Each individual funding arrangement / project then has an individual funding agreement between NTCA, the land owner and where different the relevant local authority. For the Ashwood Business Park the variation to the tripartite funding agreement or separate second tripartite agreement will include an estimate of the borrowing cost to be repaid over the life of the EZ account in Schedule 2. This is likely to be based on an estimated long term interest rate of 4% and short-term rates currently 5.25%. This estimate will be replaced with a Final Schedule 2 finalised when the works are completed the costs known and an interest rate calculated with reference to an agreed approach using actual PWLB interest rates.
- 10.4 In the event that individual scheme costs cannot firstly be covered by individual scheme BRGI or the overall regional BRGI pool then ultimately the remaining scheme deficit would fall on the relevant individual local authorities.

Therefore, there is a risk that if the Ashwood Business Park site did not achieve the levels of BRGI set out in this report and the individual funding agreement with NECA, that any shortfall would need to be met by the Council.

11.0 Options open to the Council and reasons for the recommendations

- 11.1 Over the last 12 months, the pipeline of new growth and investment projects considering ABP have been large scale advance manufacturing facilities with power intensive project requirements (typically requiring a minimum of 10-50MVA capacity) which at present the Ashwood Business Park cannot deliver and as such investment is unable to come forward.

If the power capacity intervention is not addressed, it is anticipated Ashwood Business Park will continue to lose out to other sites throughout the UK and Europe as international investors looking to determine supply chain locations. This is complimented by opportunities for business growth through expansion of companies looking to increase footprint on the Enterprise Zone site.

11.2 Cabinet is recommended to approve the proposed improvement works to Ashwood Enterprise Zone and the request for an additional funding contribution of **£2,537,977** towards an overall agreed allocation of EZ loan funds of £6,018,254 subject to:

- As a prerequisite to any funding agreement the applicant must demonstrate that funding gap for the A189 roundabout improvements outlined in section 5.3 of this report can be fully mitigated.
- Advance Northumberland (Commercial) Limited to revise the Business case to reflect NELEP appraisal feedback. Amended business case to be submitted to and approved / signed off by NELEP including subsidy control compliant solution.
- Funding to be contained within a suitable legal agreement

12.0 Implications

Policy	The site is identified as a key site with economic potential through its designation as an Enterprise Zone and linking directly to SEP priority theme of “economic assets and infrastructure” and “more and better jobs”. The scheme also fits with Northumberland County Councils Economic Strategy and Northumberland’s Local Plan which was adopted in 2021 and specifically recognises the importance of the EZ site at Ashington.
Finance and value for money	The applicant as provided an estimate of total costs over and above those spent to date of £3,586,644. That is effectively £2,675,727 higher than the original estimate once the remaining £910,917 has been factored in from the original approval. If we then factor in the contribution of £137,750 coming from the applicant that shows an increase in the ask from NECA of £ 2,537,977 (£2,675,727 minus £137,750).
Legal	<p>The increased funding carries an additional risk to the Council albeit it low in the event the business rates realised from the site are insufficient to meet the loan costs incurred by the Council. The BRGI agreement in place across all 7 regional authorities means that the BRGI is ‘pooled’ and so if other sites / other LA’s are realising business rates over and above their targets, the funding from the pool will be utilised to meet these costs prior to them falling to the Council.</p> <p>Subsidy control advice has been commissioned for the project in addition to the advice provided to date for this project via NCC Legal team. The Accountable Body will also seek Legal advice.</p> <p>Legal Services will work with the Accountable Body to ensure a compliant agreement is in place between all parties.</p>

	It has been confirmed by the Executive Director of Transformation & Resources that he has no conflict of interest in relation to this project.
Procurement	The authority to award any contracts will be subject to Advance Northumberland (Commercial) Limited's Financial Regulations and Delegated Authority and therefore, depending on the value of the contract being awarded, subject to the approval of Advance Northumberland (Commercial) Limited Board or approval of the Head of Finance
Human Resources	The project is being delivered by Advance Northumberland (Commercial) Limited
Property	The scheme will assist in the regeneration of Ashwood Business Park as a significant Northumberland employment site.
The Equalities Act: is a full impact assessment required and attached?	No - Advance Northumberland (Commercial) Limited have not completed a full impact assessment – their equalities are linked to the company policies.
Risk Assessment	The risks associated with this proposal are contained within the report. The Council should enter into an addition legal agreement with Advance Northumberland (Commercial) Limited to mitigate any shortfall in BRGI.
Crime & Disorder	The increased economic activity, investment and movement of people in will provide a preventative measure against anti-social behaviour or disorder in the local area.
Customer Consideration	Ongoing engagement with tenants and potential tenants has taken place. Further engagement is planned as the business case and detailed proposals develop.
Carbon reduction	The project will support the county's contribution to carbon reduction and clean growth objectives.
Health and Wellbeing	The increased opportunities for new employment through the intervention should lead to better health and wellbeing outcomes for local residents and communities.
Wards	Seaton with Newbiggin West

14.0 Background papers:

Cabinet, 12 December 2017 – Enterprise Zone: Business Rate Growth Income Pooling Agreement.

Cabinet, 10 July 2018, Enterprise Zone, Ashwood Business Park

15.0 Report sign off

Authors must ensure that relevant officers and members have agreed the content of the report:

	Full Name
Executive Director of Transformation & Resources	Jan Willis
Head of Legal & Deputy Monitoring Officer Legal Services	Neil Masson
Executive Director - Place and Regeneration	Simon Neilson
Portfolio Holder(s)	Cllr W Ploszaj

16.0 Author and Contact Details

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