

OPEN

Cheshire and Warrington Joint Committee

31 January 2025

**To consider approval of Enterprise Zone
Retained Business Rate Investment Support
Fund grant to Enviroo Protos Project Co.**

Report of: Growth Director, Cheshire West and Chester Council

Report Reference No: CWJC/14/24-25

Significant/Key Decision?	Yes/No
Cheshire West and Chester	Yes
Warrington	No
Cheshire East	Yes

Purpose of Report

- 1 This report sets out the findings of an independent assessment of Enviroo's Business Case for £1m of Enterprise Zone (EZ) Grant Funding and seeks approval from the Joint Committee for Enterprise Cheshire + Warrington (ECW) to issue a grant funding offer and draw down funds aligned to a Grant Funding Agreement (GFA) that is consistent with, but not limited to, the terms and conditions set out within this report.

Executive Summary

- 2 This report provides an overview of the Business Case application submitted by Enviroo for £1 million EZ grant funding to deliver a specialist food grade waste plastics recycling facility at Protos in Ellesmere Port, and the independent appraisal of their business case carried out by Cushman & Wakefield and SG Financial on behalf of ECW.
- 3 The overarching Development and Investment Strategy for the Cheshire Science Corridor sets out the vision, objectives and investment priorities for the Enterprise Zone (EZ). In order to maximize the scale of the Business

Rate Retention re-investment pot, the focus of investment continues to be on projects that unlock and accelerate the delivery of new commercial floorspace and which have the potential to attract high quality occupiers.

- 4 The Business Case Appraisal Report concludes that a strong case for EZ investment can be made on the basis that the project will be unable to progress without grant funding, the investment is at the minimum level required to unlock development, and it will contribute towards delivering the following priority investment outcomes:
 - Facilitates additional business rate retention – Totalling £2.6m against a grant of £1m over the remaining 15 years of EZ
 - Supports job creation – 80 FTE jobs (gross)
 - Increases economic growth - £4.5m GVA per annum
 - Facilitates business start ups – 1 new organisation
 - Attracts private sector investment – Totalling over £57m
- 5 The proposed £1m grant does not fall within the ECW business plan. ECW will borrow the funds from Cheshire West and Chester Council as part of the EZ Investment Strategy, who in turn will take a loan from the Public Loans Board. ECW will repay the loan to CW&C at a higher rate of interest to that of the PLB.
- 6 Approval is sought from the Joint Committee to approve a £1m grant funding offer to Enviroo aligned to a GFA that is consistent with, but not limited to, the terms and conditions set out within this report. Further, agreement is sought as to the next steps to be taken by the Chief Executive of ECW, in consultation with the Joint Committee Leads for Net Zero and Place, to implement this decision and to oversee and monitor the funding.

RECOMMENDATIONS

The Joint Committee is recommended to:

1. Approve the award of EZ grant funding to Enviroo of up to £1 million to support the delivery of a waste plastics recycling facility subject to the terms and conditions precedent set out in this report.
2. Note that the Chief Executive of ECW, in consultation with the Joint Committee leads for Place and Net Zero, will enter into a Grant Funding Agreement with Enviroo on terms consistent with paras 15 and 16 of this report to implement the grant and monitor the terms of the funding agreement.

Report Detail

- 7 The Enviroo application and supporting Business Case is seeking a £1 million grant from the EZ Retained Business Rate Investment Support Fund (BISF) to deliver a £58 million project to bring forward the delivery of a new 7,535 sq m (81,107 sq ft) specialist PET (PolyEthylene Terephthalate – food grade plastics) recycling facility at Protos, Ellesmere Port.

- 8 The proposed intervention is in response to an increased global demand for food grade recycled plastic given heightened environmental awareness and corresponding EU and UK government legislation on food and beverage manufacturers to meet ambitious recycling targets despite a constrained capacity of specialist plastic recycling facilities within the UK market. This identified market failure is clearly evidenced by external market review.
- 9 The project can demonstrate good strategic fit with the EZ and ECW's strategic objectives in terms of delivering new employment floorspace, attracting science sector businesses and creating high value jobs in the target environmental technology sectors. It also supports the aspirations for ORIGIN (one of the most important green industrial clusters in the UK) including a Resource Recovery Park at Protos and wider local and national strategies for economic growth and environmental commitments including industrial decarbonisation and Net Zero.
- 10 The site is in the freehold ownership of Peel NRE and is proposed to be acquired by Enviroo by way of a 125 year long lease. The scheme received full planning consent from Cheshire West and Chester Council in May 2021 (Ref: 20/0436/FUL). All planning conditions were discharged and a material start on site was made in April 2024 in order to lawfully implement the planning consent before expiry.
- 11 Grant is sought on the basis of the need to leverage private sector investment, reduce risk and achieve the funder's minimum Internal Rate of Return (IRR) financial hurdle rate. A detailed financial model has been provided and independently appraised by SG Financial on behalf of ECW and found to demonstrate that the £1 million ask is at the minimum level required to enable to project to progress.
- 12 Key outputs include 80 new jobs created (49 net = 'good' value for money against HCA cost per job benchmarks); 19 additional indirect jobs within the supply chain; 83 temporary construction jobs; and £4.5 million GVA per annum. The project can also demonstrate wider benefits in the form of meeting environmental and recycling targets, social and charitable contributions, skill development, fostering innovation and enhanced market profile and confidence.
- 13 A Business Rate Retention estimate of £174,892 per annum is anticipated (prepared October 2024), representing a 5.75 year repayment period for the £1 million EZ ask and generating c.£2.6 million over the remaining 15 years of the EZ assuming continuous occupation from July 2026 as per programme. This is considered a reasonable pay-back period and acceptable risk to investment relative to other projects assessed.
- 14 Cushman & Wakefield's Ratings Specialist has taken a prudent approach to estimating the potential business rate return, assuming a lower rate to that put forward by the applicant and a nil value uplift in Rateable Value to the 2026 Ratings List. Further, the estimate does not account for any additional Business Rate Retention that may be payable in respect of plant and machinery, and as such could be considered to be an under-estimate. As new

floorspace, any new Business Rates generated will be truly additional to the EZ.

- 15 To mitigate risk for the public sector the EZ grant funding will be capped at £1 million and provided at Practical Completion with an agreed longstop date at the current financial intervention rate (1.7%) against evidenced costs incurred. This will ensure:
- Any cost savings will be passed on to ECW in the form of a reduced funding draw down, and any cost over-runs will be covered by the beneficiary;
 - At Practical Completion Business Rates will become payable and subsequently retained by the EZ (following 6 month empty rate relief) regardless of occupation;
 - The scale and pace of the business rate retention return anticipated is not significantly negatively impacted by a delayed start on site of Practical Completion; and
 - The GFA will make provision to ensure rate mitigation measures are not undertaken by the grant recipient nor any future purchaser.
- 16 Conditions precedent will be included, as a minimum, within the GFA:
- Signed agreement with Peel NRE for the long leasehold on the land
 - Financial close with private investors (anticipated January 2025)
 - Final confirmation of capital costs evidenced by supplier quotes
 - Agreement of project longstop dates for signing of the GFA, start on site and practical completion
 - ECW independent legal opinion on compliance with Subsidy Control regulations
 - A detailed risk register
 - Provision of Environmental Permit
 - Practical Completion Certificate

Comments from the Business Advisory Board (BAB)

- 17 The BAB provides expert business-orientated insights and advice to support the economic growth aspirations of the sub-region and has been consulted on with respect to the Enviroo Business Case. Whilst the BAB does not have a role in approving investments, it fully supports, in principle, the strategic use of grants to drive economic growth within the Enterprise Zone.
- 18 The BAB has raised the following comments and recommendations for review and resolution:
- Clarity and due diligence on formal beneficiary organisation - newly incorporated Enviroo Project Co (Company No. 16102717)
 - Due diligence on the funder - Reichmuth & Co. - including their experience and capacity to deliver projects of this scale and complexity

- Mitigation of capital cost escalation risk - Through updated supplier price validity review and GFA Terms transferring the risk of cost over runs to the grant recipient
 - The proposed payment of any grant upon practical completion is a critical safeguard and strongly endorsed by the BAB to ensure that funds are disbursed only after tangible milestones are achieved
- 19 The Board concludes “Ultimately, the decision rests with you ,the JC, and we trust you will carefully evaluate the financial viability of the applicant and their ability to deliver a successful outcome. Provided these matters are resolved to your satisfaction, the BAB sees no reason why the project should not proceed, given its alignment with the region’s strategic objectives.”
- 20 In response, Officers will be reviewing each of these comments in collaboration with the BAB through further due diligence and negotiation of any GFA in order to further mitigate funding risk.

Reasons for Recommendations

- 21 Without approval of EZ grant funding the development will not be delivered. There will be no new floorspace delivered, nor jobs created and the economic benefits of the scheme to the local community will be lost.
- 22 Importantly, the opportunity to raise an estimated £2.6 million in retained Business Rates (260% return on £1 million investment) through the EZ rate retention mechanism will not be facilitated without grant assistance, thus limiting the potential to invest in future projects that support economic growth across the sub-region.

Other Options Considered

- 23 The applicant is unable to raise sufficient capital itself and has considered other sources of funding including alternative sources of grant (Innovate UK R&D; ERDF etc) but is either ineligible, or outside of the programme window. They do not have access to commercial loans because trading history is not available. As such, the only way they can fund the project is through private equity – for which an additional £1m of funding is required to meet minimum IRR hurdle rate and without which the project will not be able to proceed.
- 24 Other options considered through the appraisal of the grant funding application have included the provision of a loan rather than grant. However, the financial modelling demonstrates that this would not meet the minimum IRR hurdle rate, nor would a grant of a lesser value.
- 25 Without EZ investment, Enviroo are unable to reach Financial Close with their private investors and the project will not go ahead.

Other Consultation and Engagement

- 26 The applicant undertook public consultation on the proposed development as part of the planning application process in October 2020. A specialist communication team was appointed and worked collaboratively with Peel

Communications and through the Protos Community Forum to engage with local residents and businesses via various means. Councillors and officers at Cheshire West and Chester Council and the relevant Member of Parliament for the site were also consulted.

- 27 Feedback from the consultation is reported to have been broadly supportive and taken into account in the development of the planning application. No objections were received.
- 28 For the purposes of assessing the need for EZ grant funding consultation and engagement has been limited to the applicant, their private investors and Peel RWE as landowners. This has been led by independent advisors Cushman & Wakefield and SG Financial.
- 29 Engagement between ECW and the finance and legal teams within the three local authorities is continuing to support the implementation of the grant funding mechanism should approval be granted.

Implications and Comments

Legal implications

- 30 The Joint Committee terms of reference include the following:

“To approve the entering into or giving of any loan, guarantee, surety or indemnity by LEPCo/ECW other than the giving of grant by LEPCo/ECW as part of its business plan.”
- 31 The 2024/25 business plan for ECW, that was included in reporting to each council as part of the approval for establishing ECW, includes the following with regard to Physical Development and Regeneration: “Investment and ongoing management of the EZ programme including retained business rate income of £60 million over the period to 2024 –2041, deploying the £30 million EZ loan facility to promote and facilitate further development within the Zone.”
- 32 In effect this provides for continuity with regard to the previously approved arrangements, with regard to utilisation of the loan facilities from the 3 councils (£10m each), in respect of supporting new developments in the EZs.
- 33 The proposed £1m grant does not fall within the ECW business plan. ECW will borrow the funds from (in this case) Cheshire West and Chester Council as part of the EZ Investment Strategy, who in turn will take a loan from the Public Loans Board. ECW will repay the loan to CW&C at a higher rate of interest to that of the Public Loans Board through the future retained business rates.
- 34 A Grant Funding Agreement (GFA) between ECW and the beneficiary will need to be agreed and signed and the conditions precedent met before the draw down of any funds. ECW would be responsible for ensuring the spend and activity supported is in line with the GFA.

Finance implications

- 35 Any borrowing by ECW is overseen by the Credit Committee comprising senior finance officers within each of the three local authorities. This mechanism has been previously utilised to facilitate investment decisions across the EZ on multiple occasions - to date, over £15m of EZ grant has been invested in 8 projects.
- 36 The proposed grant payment was considered by the Credit Committee on 6 January 2024 and was broadly supported. The independent assessment carried out by Cushman and Wakefield demonstrated the proposal aligned with ECW priorities, leveraged significant private investment and paid back to ECW within a reasonable period.
- 37 The group had some reservations over scheme deliverability and risk management controls and asked for sight of additional detail to give assurance in those areas, but the agreement to only pay the grant on Practical Completion and subject to meeting specific conditions greatly reduces the risk involved as should the project never come to fruition, the grant would not be paid out, and if capital spend is lower than anticipated, a lower quantum of grant would be paid.
- 38 The scheme appears to represent a reasonable investment. The £1m grant will be repaid through the EZ business rate retention mechanism within an estimated 5.75 years based on current rateable values on local comparable hereditaments.
- 39 The repayment of the loans that would be used to fund that investment would not place additional unfunded burdens on the ECW budget and is estimated to deliver a net cash surplus of £2.6m over the remaining EZ term – more than doubling the initial investment. This is a conservative estimate as based only on the business rates attributable to the property itself. Additional rates are likely to be generated as a result of the significant plant and machinery, thus potentially increasing the total pot of rates retained and the speed at which the investment is repaid.
- 40 Subject to approval of the grant award by ECW Joint Committee, a request would need to be submitted to CW&C to draw down the funds from the available loan facility. CW&C have already considered this scheme and have confirmed that they would expect to approve such a request.
- 41 While all necessary approvals would be secured upfront, the cash would only be physically drawn down shortly before the grant payment was expected to be paid, minimising interest costs to ECW.

Sustainable, inclusive, healthy and growing economy/ climate implications

- 42 The Business Case demonstrates strong strategic fit with the sub-regional vision *“to be the healthiest, most sustainable, inclusive and growing economy in the UK”* through its contribution to addressing the global challenges

associated with plastic waste, making more efficient use of resources and increasing productivity of the recycling sector.

- 43 The project will result in the creation of new employment floorspace attracting private investment and jobs, and supporting skills development within the green economy and the local community.

Risk Management

- 44 The applicant has provided a risk register and appropriate risk mitigation strategies as part of the Business Case. It is recommended that a more detailed formal Risk Register incorporating regular risk identification and scheduling throughout the project to support pro-active project management and risk mitigation is implemented should EZ funding be granted.
- 45 In order to de-risk the project for the public sector, it is recommended that any EZ grant funding is provided at Practical Completion (at which point Business Rates become payable) at the current intervention rate (1.7%) against evidenced costs incurred. Guaranteed long-stop dates for both the signing of a GFA and a substantial start on site for the project (e.g. building foundations) and practical completion should be agreed.

Equality, Diversity and Inclusion

- 46 The award of EZ grant funding will unlock the development of a new waste plastic recycling facility that will inclusively benefit the resident and business community of Ellesmere Port, an area of relative deprivation, and the wider sub-region as follows:
- Creation of 83 temporary construction jobs; 80 direct operational jobs and a further 13 indirect supply chain jobs (all gross figures) - which will be offered to local people and ex-offenders
 - Local school engagement to raise awareness and uptake of plastics recycling
 - Partnering with homeless charities to create litter picking roles and FT jobs in the longer term
 - Increase charitable donations through Deposit Return Scheme (DRS)

Access to Information	
Contact Officer:	Heather Standidge, Interim Growth Manager, Enterprise Cheshire + Warrington Heather.standidge@cushwake.com
Appendices:	N/A
Background Papers:	N/A