

MARCHES LOCAL ENTERPRISE PARTNERSHIP JOINT EXECUTIVE COMMITTEE

MEETING DATE: 11 December 2014

TITLE OF REPORT: Marches Enterprise Zone

Classification

Open

Key Decision

This is a key decision because it is likely to result in the councils incurring expenditure which is, or the making of savings which are, significant having regard to the councils' budgets for the service or function to which the decision relates.

Purpose

To consider the outcome of a review of options and agree mechanisms for accelerating delivery of the enterprise zone.

Recommendation(s)

THAT: the Joint Committee

(a) approve Scenario 3, as outlined in this report, as the investment approach to take, with an amendment to provide £100k a year from the additional business rates to help meet LEP running costs from 2016/17 onwards for the duration of the model;

(b) business rates generated by the enterprise zone be used to fund the additional investment required;

(c) recognise that the enterprise zone funding stream is one of the potential sources for the Wye river crossing, but that this funding need not be quantified at this time; and

(d) ask Herefordshire Council to keep the Marches LEP board informed of progress with the implementation of the Herefordshire Local Development Framework.

Summary

1. DTZ has been commissioned by the Department for Communities and Local Government (DCLG) to work with a number of enterprise zones across the country to encourage delivery propositions to accelerate take up and hence maximise financial returns to the parent local enterprise partnership (LEPs).

2. DTZ has prepared a detailed report for the Hereford enterprise zone. The DTZ report considered a range of intervention measures in enabling infrastructure and other site preparation works in order to optimise the performance of the enterprise zone.

3. DTZ noted the limitations that the broader infrastructure around the city will have on the success of the enterprise zone. In particular, they highlighted the development of a new Wye river crossing as critical to success. The implementation of this crossing will free up capacity on the existing road infrastructure to enable the zone to be

developed out in full.

4. The DTZ report considered the financial position under three scenarios:

- **Scenario 1 – ‘Base Case’.** This summarised the interventions by Herefordshire Council and outcomes to date, with £3.8m of committed expenditure likely to provide an estimated take-up of 35,525 sq m. If no further proactive interventions were adopted, the forecast rate of income over the 25 year life of the enterprise zone would be £21.3m. Following removal of costs, and allowing for a contingency, a net surplus of £7.5m would be generated over the 25 year period.

- **Scenario 2 – Enterprise zone interventions partially implemented but river Wye crossing is not completed.** A range of further intervention measures (e.g. enabling works) costing £10.6m would increase take-up to an estimated 49,435 sq m. This would generate an estimated rates income of £33.3m, following removal of costs and allowing for a contingency, a net surplus of £7.8m would be generated over the 25 year period.

- **Scenario 3 – Enterprise zone interventions fully implemented and river Wye crossing completed.** A bridge would enable an estimated take-up of 146,925 sq m at a cost of £17.3m. This would generate rates income of £79.4m, following removal of costs and allowing for a contingency, a net surplus of £40.9m would be generated over the 25 year period.

5. Officers from the three councils have heard from the experiences of the enterprise zone team in the light of two year’s practical experience of delivery and the financial circumstances that applied as a consequence, and had an opportunity to test the DTZ model’s assumptions and outputs in detail. Herefordshire Council also provided the LEP board with a detailed update on the progress with the Hereford relief road. This confirmed that the relief road was included within the Herefordshire Local Plan Core Strategy submission, and that Herefordshire Council had a range of funding opportunities at its disposal to fund the relief road including the enterprise zone business rates generation.

6. Officers concluded, and the Marches LEP Board accepted, that:

- the DTZ model is good and robust and provides a good evidence base for actions and the consequences of those actions
- the circumstances are far better understood now than in 2012 and the zone is not a simple ‘cash cow’. It has to be worked hard to generate a return, potentially not starting to make a return to the Marches LEP until 2022/23
- Scenario 3, maximum intervention, provides by far the best potential scale of return for the Marches LEP, but requires certainty of a Wye crossing to achieve maximum impact
- the model should be adjusted, to provide an earlier contribution to the Marches LEP running costs, in order to reflect the principle of an early first call established in 2012. This was proposed at £100k a year from 2016/17, when the current Government core funding commitment end
- the enterprise zone funding stream needed to remain one of the potential sources for the Wye river crossing, but that the overall situation would become much clearer once Herefordshire’s Local Development Framework had been adopted.

7. The Marches LEP board considered and agreed a series of recommendations which it is now submitting to the joint executive committee for approval.

8. Approval of individual investments proposed in scenario 3 will be subject to decisions by Herefordshire Council, informed by business cases.

Financial implications

9. Under the legislation establishing enterprise zones, business rates that are generated by new businesses occupying space on the zone can be allocated by the Marches LEP to use for economic activity in the LEP area.

10. The DTZ model shows how this funding stream can be maximised over the life of the enterprise zone to 2038 by investing in infrastructure. The recommendation is that Herefordshire Council will fund the interventions specified in Scenario 3 and the other two authorities agree that those investments and associated costs are repaid from the business rates accrued.

11. £100k a year from the additional business rates will be used to meet the running costs of the Marches LEP from 2016/17 onwards.

12. If the Wye river crossing does not progress it is estimated that the additional investment will accrue an additional £7.8m over the 25 year life of the enterprise zone. This will be available for re-investment by the LEP, this amount includes the £100k allocated for running costs.

13. If the Wye river crossing does progress it is estimated that the additional investment will accrue an additional £40.9m over the 25 year life of the enterprise zone. This will be available for re-investment by the LEP. This amount includes the £100k allocated for running costs.

Legal implications

14. The business rate relief retention concession is set out in Government legislation and regulation.

15. The agreement on the investment approach will need to be followed up with a formal agreement between the three authorities on collection and usage of the rates relief.

16. Herefordshire Council will follow its own established procedures in resourcing and procuring the interventions approved.

Risks, opportunities and impacts

17. The principal risk to the model's success is the failure to deliver the river Wye crossing which would limit the extent of development on the enterprise zone. This will be mitigated by the adoption of the Core Strategy in 2015 and the on-going collaboration between key public bodies and developers to ensure the delivery of the growth planned in the core strategy and the associated transportation infrastructure.

18. An associated risk lies with Herefordshire Council in terms of making the interventions without the consequent business take up on the zone and business rate generation. This is mitigated by the experience of the first two years of operation, and a thorough and independent evaluation of assumptions by DTZ in order to develop a realistic intervention and take up scenario.

19. There is a significant reputational risk for the Marches LEP if a decision were taken not to seek to develop the zone out in full. In particular central Government would question why an opportunity was not grasped to maximise the economic benefit of the enterprise zone and to generate significant income locally for use by the Marches LEP to create further economic benefit.

20. Scenario 3 provides a significant opportunity to generate a net benefit of over £40m of funds for the Marches LEP's usage over the enterprise zone's lifetime, as well as £100k a year to meet running costs.

21. The impact of Scenario 3 is expected to be a significant component of the success of the Marches LEP. Using standard econometrics, full development and occupancy would result in £180m of new construction work, almost 1.5m sq ft of new workspace, over 4,000 gross jobs and a consequent £100m a year boost to the Marches 'gross value added' – the nationally adopted measure of the contribution to the economy of each individual producer, industry or sector.

Consultation

22. The subject of this paper has been considered at two Marches LEP board meetings, with a detailed review and consideration by officers from the three authorities within the Marches LEP between meetings.

Additional Information

- None

Appendices

- None

Background papers

- None

Further information on the subject of this report is available from Mark Pearce, Managing Director, Hereford Enterprise Zone Mark.Pearce@herefordshire.gov.uk