

Economic Development Sub-Committee

Item No.

Report title:	Enterprise Zones
Date of meeting:	19 January 2017
Responsible Chief Officer:	Tom McCabe - Executive Director, Community and Environmental Services
Strategic impact Enterprise Zones (EZ) are a key Central Government initiative, conceived to regenerate difficult employment sites and to help stimulate the economy as the country slowly climbed out of recession. They provide incentives to businesses occupying the site, superfast broadband, simplified planning and 100% rates retention by the local authorities/LEP set aside from the local baseline. This provides a means to fund site infrastructure etc. One Zone awarded in the first round covers six sites in Great Yarmouth and Lowestoft (Space to Grow). A further round of awards was made in 2014 with an additional four sites in Norfolk in New Anglia LEP's Space to Innovate EZ. In combination the Norfolk EZ sites are expected to deliver 21,848 jobs and 316,700m ² of development over their period of operation.	

Executive summary Initially conceived in the 1980s, Enterprise Zones helped regenerate major sites such as the London Docklands and Liverpool Docks and led to the creation of thousands of new jobs. The incoming Coalition Government in 2010 reintroduced the Enterprise Zone concept, although the incentives offered were far less generous as research showed the 1980s zones created considerable displacement. The reason behind their re-establishment was part of a major strategy to rebalance the economy, generate more private sector jobs, encourage investment and bring forward stalled or difficult sites. We have a number of those in Norfolk and were delighted to have sites included in both rounds – six sites across Great Yarmouth and Lowestoft (Space to Grow) in the first wave, and four further sites in the second, Space to Innovate Zone. Enterprise Zones work by providing financial incentives to businesses through reduced business rates, enabling swift decision-making through simplified planning processes and allowing the retention of 100% of business rates paid/payable for the 25-year lifespan of the EZ. The Government requires LEPs to enter into an agreement with the Local Authorities concerned, including the County Council, in order to give assurance that all partners will work to deliver the EZ. The agreement also determines how it will operate and how income will be used/apportioned. Great Yarmouth's first EZ already has an agreement in place but formal agreements for the new EZ sites will need to be in place by March 2017. The Economic Development team played a key role in the awarding of the first Enterprise Zone and supported the application for Space to Innovate. The team has also been supporting the delivery of projects on a number of the sites, including looking into the provision of loan finance to forward fund projects to enable/accelerate/enhance the sites and ensure predicted Enterprise Zone income is realised.

Recommendation:

Members are requested to endorse the approach being taken to support Enterprise Zone development.

1. Proposal

- 1.1. Enterprise Zone (EZ) status is an economic intervention created by Central Government and afforded to a number of discrete employment areas. Initially established in the 1980s, they played a key role in regenerating some difficult urban areas such as Liverpool Docks, the London Docklands and parts of the West Midlands. The benefits to business were very generous and Government's own research in 1987 revealed displacement, but there was net job growth and the environmental improvements were significant.
- 1.2. The model introduced in 2011 was less generous to businesses and there seems to be less displacement. Businesses occupying an EZ site can qualify for business rates reduction of up to 100% for the first five years, capped at = €65,000 per year (the figure is set by a European body). Local authorities are required to introduce a system of simplified planning and superfast broadband. The other key benefit is for the Local Enterprise Partnership to retain 100% of business rates collected (or payable in the event that a business qualifies for free rates) over the 25-year lifetime of the EZ. The money collected is to be used for economic development purposes.
- 1.3. The rateable value of EZ sites is not included in the baseline of the district in which they are located. So under the current arrangements for local business rates retention where 50% of rates growth is retained locally, the performance of the EZ is not taken into account. This is due to change in 2020 when 100% of growth will be retained by local government. Formulae are being established to ensure Enterprise Zone sites will not be affected by these changes and also that the intended benefits of EZ status are not diluted.
- 1.4. The Enterprise Zone sites were carefully selected. It was not appropriate to select a site that was fully serviced and ready to develop. Instead we chose sites that had constraints and where EZ status would make an appreciable difference to the site's prospects. In other words, without EZ status the sites would probably remain undeveloped and not generate rates without significant financial intervention. Such intervention would probably be difficult to fund or justify.
- 1.5. The rates collected/payable by businesses on the EZ sites are retained by the District Council and in a tripartite agreement with the LEP and the County Council, distributed across 3 "pots", broadly shared as follows +/- each % split (this will vary from site to site but the ratios below are typical).
 - Pot A - 25% is retained locally in lieu of rates that may have been collected if the site did not have EZ status. 4/5 of this sum is retained by the Local District to provide funding for core services, and 1/5 is paid to Norfolk County Council. This is paid annually as receipts come in.
 - Pot B - 35% to support site development, enablement, enhancement or acceleration. It is clearly important for the EZ to develop out as quickly as possible, so it would not be practical to simply spend Pot B as income is received over the 25-year lifespan. Typically there is a need to spend money up front – either by using cash balances, or borrowing. The relevant district or the County Council will be the main source. Expenditure will be carefully profiled against expected revenue.
 - Pot C - 40% paid to the Local Enterprise Partnership to fund wider economic development initiatives across the two counties.

- 1.6. Each site will have a different approach and Pot B will be larger if there are more costly constraints needing to be overcome. Pot B tends to expand at the expense of both Pots A and C.
- 1.7. This report focusses more on Pot B, and how this Council can support projects using it. Proposed activity utilising Pot B is contained within Site Delivery Plans that are being established for each site and will form part of wider legal agreements that are to be signed by March 2017.
- 1.8. This report provides members with an update on the progress of the EZ sites, and an opportunity to question officers on the approach being taken.

2. Evidence

- 2.1. In April 2012 the Space to Grow Enterprise Zone was established as part of the first wave of Enterprise Zones. Covering six sites (See Appendix A) across **Great Yarmouth and Lowestoft**, the Zone seeks to exploit the area's strengths in the energy sector. This was a large Zone containing a significant amount of employment land. The following table shows the current position (after four years) against the 2025 target (Gt Yarmouth only figures in (brackets)):

	Current position	2025 target
Businesses	40 (23)	150
Jobs	2,101 (1,081)	9,000
Private investment	£30.6m (£21.7m)	Not stated
Floor space (m ²)	36,500m ² (27,300m ²)	540,000

- 2.2. The Space to Innovate EZ has only recently commenced and it is therefore too early to provide performance data. However, the targets are as follows:

	Jobs					m ² developed		
	Direct	Indirect	Construction	Total Jobs	Businesses	New	Refurb	Total
Egmere	309	Not collected	148	457	62	14,500	-	14,500
Nar Ouse	1,990	Not collected	955	2,945	83	50,000	-	50,000
NRP	6,667	Not collected	3,200	9,867	44	66,000	-	66,000
Scottow	1,161	Not collected	116	1,277	116	-	36,400	36,400
Norfolk S21 Total	10,127	Not collected	4,420	14,547	305	130,500	36,400	166,900

- 2.3. National comparisons are not readily available but in 2014 a report was produced showing the Great Yarmouth and Lowestoft (Space to Grow) Enterprise Zone to be one of the most successful in the country. Across the UK only 2,754 jobs had been created across the remaining 23 Enterprise Zone sites (an average of only 114 jobs per site), performance far below what had been achieved through effective management of the Space to Grow site in Great Yarmouth and Lowestoft. Nationally, many sites have started to gather momentum, but the swift start and sustained pace in Great Yarmouth has been significant.

2.4. Each of the sites either has, or is developing a Site Delivery Plan which presents how the site will develop, how it will be promoted, what it will deliver and what needs to be done to make it happen – in essence, the business case for using Pot B. The rationale for Pot B is to invest as quickly as possible in order to enable development to take place as soon as, and as quickly as possible. There is also the potential to enhance the site to attract better quality, or more intense investment that will generate a higher rates yield.

2.5. Appropriate spend from Pot B could include any or all of the following:

- Master planning
- Ensuring that the sites have access to superfast broadband (a requirement of the EZ)
- The creation of a Local Development Order, or another form of simplified planning can be implemented (also a requirement of the EZ)
- Basic but vital infrastructure provision
- Environmental improvements, or remediation
- Building refurbishment (if already in situ)
- Resolving issues around power, drainage, highways access, water and other site services.
- Undertaking speculative build – Pot B can be used as a safety net in the event of a rental or sales income deficit
- Rent guarantees for a third-party developer
- Site promotion, or wider sector promotion
- Business support or supply chain development
- Additional, state aid compliant grant aid as an incentive to a company to invest.

3. Financial implications

3.1. There are no direct implications as a result of this report. However, each of the new sites in the Space to Innovate EZ will deliver a modest income stream for the county council through a 20% share of Pot A. In addition, the County Council may be requested to provide funding to support projects on one or more of the sites, in order to enable, enhance or accelerate development. This will ultimately lead to business rates income being generated, from which any funding we provide will be recouped, plus appropriate interest. Any proposed support will be subject to consultation with the Executive Director of Finance, and any proposals will carefully assess expenditure and repayments against projected income streams to be generated from the site in question.

4. Issues, risks and innovation

4.1. Without intervention the main risk is that some or indeed all of the new Enterprise Zone sites created in Norfolk will fail to maximise their potential; indeed some may not develop at all. The Site Development Plans will be important documents for each respective site, including the original Great Yarmouth sites.

4.2. If the plans are not delivered, the sites risk not generating the projected income over their respective lifetimes. Forward funding development, infrastructure and promotional work in accordance with the plan is vital. Indeed, the former Chancellor in 2013 urged local authorities to borrow against the projected collective value of the original 23 sites – estimated at the time to be £2.3bn. It was a key component of government policy. If these sites remain stalled there will be considerable reputational damage, alongside a missed opportunity to address key economic development targets and to generate revenue.

- 4.3. Another risk is the failure to capitalise on the opportunity presented by EZ status. Some of Norfolk's EZ sites represent important inward investment opportunities – especially the Great Yarmouth sites linked to the energy sector. EZ status offers direct incentives, but it also provides local authorities with the opportunity to be creative with the potential income over the lifetime of the Zone in relation to specific deals. This is especially important if an investment has the potential to be transformational and at the same time deliver far more rates income than was originally projected.
- 4.4. Each site has a capital investment programme, with some projected to cost millions of pounds, although all programmes will be phased. The majority of these costs will be absorbed through conventional revenue generation and repayment routes, however with the additional revenue of business rates, the financing models are more complex than conventional business parks.
- 4.5. The County Council only has direct control over one of the new Enterprise Zone sites (Scottow Enterprise Park) and therefore has clear sight over the site's development needs/costs and how realistic the projected income is. It can also control marketing and management of the site.

5. Background

- 5.1. The new EZ sites in Norfolk are the undeveloped areas (see appendix A) of:
- Egmere Business Zone (North Norfolk);
 - Norwich Research Park, (South Norfolk);
 - Scottow Enterprise Park (North Norfolk);
 - Nar Ouse Business Park (King's Lynn and West Norfolk).

Each site has a projected rate of development and revenue generation. The Site Development Plan proposals being agreed for each site needs to be of a scale commensurate with the projected income. District Council colleagues are leading on the plans for the sites in their areas. The County Council as owner of SEP is leading on that site. Where they lead, the district will look to fund projects but we may be requested to assist alongside SEP projects.

Each intervention will be subject to the creation of a business plan to illustrate the business rate income can cover repayments with appropriate interest.

Officer Contact

If you have any questions about matters contained in this paper or want to see copies of any assessments, e.g. equality impact assessment, please get in touch with:

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