



Report for:	Cabinet
Title of report:	Herts IQ Future Funding Allocation Proposals
Date:	18 th March 2025
Report on behalf of:	Councillor Adrian England, Leader of the Council and Portfolio Holder for Place
Part:	I
If Part II, reason:	<i>n/a</i>
Appendices:	<ul style="list-style-type: none">• Appendix 1 - Herts IQ Board Agreed Finance Principles (2020)• Appendix 2 – Equalities Impact Assessment
Background papers:	
Glossary of acronyms and any other abbreviations used in this report:	Herts IQ – Hertfordshire Innovation Quarter

Responsible Officers

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Corporate Priorities	Community engagement Service improvement and delivery Vibrant communities Sustainable future Clean, safe and green Homes to be proud of Proud and thriving borough
Wards affected	All wards
Purpose of the report:	<ol style="list-style-type: none"> 1. To provide a background and overview of the future funding allocation proposals for Herts IQ. 2. To seek formal approval for the Council’s representative of the Herts IQ Board to formally endorse the future funding allocation proposals. 3. To provide delegated authority to the Council’s Strategic Director - Place following consultation with the Portfolio Holder for Place, the Assistant Director (Legal & Democratic Services) and the Chief Finance Officer to enter into any necessary agreements to document or formalise the revised arrangements including detailed funding allocation proposals and to agree any subsequent variations.
Recommendation (s) to the decision maker (s):	That Cabinet: <ol style="list-style-type: none"> 1. Agrees to formally endorse the future funding allocation proposals as set out within Section 1.11 of this report, specifically for Dacorum Borough Council as shareholder to formally endorse the interim variation to the Herts IQ financial principles, to direct 100% of surplus funds to support business growth activities over an interim period of financial years 2024/5 to 2027/8. 4. Delegates authority to the Council’s Strategic Director – Place, following consultation with the Portfolio Holder for Place, the Assistant Director (Legal & Democratic Services) and the Chief Finance Officer, to enter into any necessary agreements to document or formalise the revised arrangements including detailed funding allocation proposals and to agree any subsequent variations.
Period for post policy/project review:	N/A

1. Background

- 1.1. Hertfordshire Innovation Quarter is an Enterprise Zone and was developed by a partnership team led by Hertfordshire Futures (formerly Hertfordshire Local Enterprise Partnership), together with Hertfordshire County Council, Dacorum Borough Council, St Albans City and District Council, and innovation partners Rothamsted Research, BRE and the University of Hertfordshire.
- 1.2. Enterprise Zones are single or multiple sites designated by the Ministry of Housing, Communities and Local Government (MHCLG) for business development which may offer business rate discounts or enhanced capital allowance for new businesses locating on the sites. Enterprise Zones are typically designated in locations which would not ordinarily be expected to generate significant business growth nor generate any business rates without incentives and/or dedicated local stakeholder support. The designation allows for any increase in business rates collected from each Enterprise Zone site, for a period of 25 years from the commencement date of 1st April 2017, to be used to support the further development of the Enterprise Zone and neighbouring areas.
- 1.3. The Herts IQ Enterprise Zone has been operational since 1st April 2017. The parties to its creation were the Secretary of State for Communities and Local Government (now MHCLG), Hertfordshire Local Enterprise Partnership (now Hertfordshire Futures), Hertfordshire County Council, Dacorum Borough Council, and St Albans City & District Council. These parties are shareholders.
- 1.4. In addition, there are three further key stakeholders (who have no voting rights): the University of Hertfordshire, the Building Research Establishment (BRE), and Rothamsted Research. The Herts IQ Board meets quarterly. The four shareholders are represented at Leader, Portfolio Holder and Board Member as appropriate to the organisation. The Herts IQ governance arrangements are set out in a Memorandum of Understanding (MoU) dated 15th December 2016, together with an Implementation Plan published concurrently.

Infrastructure Investment and Financial Principles

- 1.5. The Herts IQ Implementation Plan assumes that a significant proportion of the business rates generated will be used to finance infrastructure within the Enterprise Zone. In terms of infrastructure requirements to support growth, the Implementation Plan recognises that the major growth sites in the Hemel Garden Communities programme area (the Crown Estate site) will require a significant contribution from the monies generated from retained business rates in order to support the infrastructure required to enable development – notably through anticipated major motorway junction improvements at J8/M1 - and the other sites will require some infrastructure investment.
- 1.6. Herts IQ Financial Principles (presented to Herts IQ Board July 2020) further clarify that in order to ensure sufficient provision is made to fund the Junction 8 improvements, 75% of surplus income – i.e. after operational costs and current commitments have been met – will be ring-fenced specifically to fund infrastructure investment, with 25% of surplus income being available to fund other investment items approved by the Herts IQ Board.
- 1.7. During the past 12 months Herts IQ commissioned the *Herts IQ: Future Scenarios* study undertaken by external consultants to identify how growth may be stimulated and accelerated within the Enterprise Zone. The report identified that early development is more valuable than that which happens later, in the context of uplift in business rate receipts and questioned if there is a need for some level of recalibration of the vision for Herts IQ. This message has been broadly reinforced by recent economic studies, notably the Hatch *South-West Hertfordshire Economic Study* which concludes the need to support a number of key growth sectors, notably agri-tech and film & TV.

- 1.8 It is considered by partners that if Herts IQ continues upon its current trajectory and approach to investment, then there is a real risk that the high-quality growth which the Enterprise Zone was incorporated to promote will either not be delivered or will be delivered by market forces over which we have limited control and little influence.
- 1.9 Within this context, at the Herts IQ Board meeting on 26th June 2024 it was approved, in principle, to use 100% of surplus funds, amounting to a forecast £6.0m, over the period to the end of financial year 2026/27 to stimulate and accelerate growth through spending and investment to support business growth, carbon reduction and regeneration schemes, whilst proposals for major infrastructure are developed.
- 1.10 In order to meet the existing Herts IQ 75:25 obligation to use 75% of reserves to fund infrastructure investment, with the remaining 25% available for other investments, in subsequent years Herts IQ would repay the sum 'owed' to the infrastructure fund in a manner that allows Herts IQ to meet the profiled funding requirement of its capital commitment to transport infrastructure, with this 'repayment' concluded by the end of financial year 2031/32.
- 1.11 Subject to Herts IQ Board approval, an **illustrative** allocation of the cumulative net surplus to the end of financial year 2026/27 is set out below:

Additional budget allocation to Rothamsted	= £1.5m
Growth Initiative Programme pilot	= £0.2m
Growth Initiative Programme full	= £1.3m
Other low carbon employment & regeneration investments	= £2.0m
<i>Sub-total</i>	= <i>£5.0m</i>
Infrastructure contingency (for initial feasibility & design)	= <u>£1.0m</u>
<i>Total</i>	= <i>£6.0m</i>

The proposed **Rothamsted** funding is proposed as a contribution towards the conversion of under-used café, catering and conference space into additional laboratories and ancillary office space. This is part of a longer term plan to improve the campus and enable the creation of off-campus grown-on space at Hemel East. The **Growth Initiative Programme** is designed to provide funding to earlier stage (but not start-up) businesses that demonstrate innovation through technology or processes. This funding will be available for a range of services such as skills, staff costs, plant & equipment, marketing, prototyping, research, etc. With the **low carbon employment & regeneration** projects we are working up a programme that *could* be a blend that includes green business grants, investment in key pedestrian/cycling infrastructure, green/recycling technology. The **infrastructure contingency** is being held back to be available, should it be needed, to support feasibility and design work for key infrastructure projects in the Herts IQ (and related) area.

- 1.12 Approval is therefore sought for Dacorum Borough Council as shareholder to formally endorse the interim variation to the financial principles, to direct 100% of surplus funds to support business growth activities. In addition, approval is sought to endorse the decision of the Herts IQ Board to adopt a growth acceleration programme: to, during the period 2024-27 deploy £5.0m of the net surplus and retain a contingency of £1.0m, to be repaid to the infrastructure improvements reserves by the end of 2031/32.

2. Risks

- 2.1. A key risk identified is the ability of Herts IQ to repay 75% of the £6m, £4.5m to replenish infrastructure funding reserves at the end of the interim term.

- 2.2. To mitigate this, a detailed investment plan will be prepared which will cashflow expenditure release on an annual basis, with the governance arrangements of the Herts IQ Board enabling effective monitoring of expenditure and income each quarter. Should it materialise through this process that a risk crystallises with regard to repayment of funding then appropriate action will be taken by the Herts IQ Executive to resolve the risk. All projects go through a robust application, appraisal, approval and monitoring process, with all projects signed off by the Herts IQ Board. This process has been designed and operated by Hertfordshire Futures/Herts LEP over many years, modelled on the Government's Assurance Framework requirements, but will be extended to include Herts IQ shareholders and possibly key stakeholders. Identifying and managing risk is a key element of every application and appraisal.
- 2.3. In addition, undertaking activities to support growth and development within Herts IQ to attract future business rate receipts is underlined as an important activity which the Council should continue to support in order to assist with mitigation of this risk. The Council has recently concluded the preparation of the Maylands Plus masterplan, which provides for a detailed development framework for the area, and which can be used as a tool to inform investment priorities. This further complements the commitment and contributions that the Council is making to the Hemel Garden Communities programme, specifically supporting Pillar 3 of the Spatial Vision, 'Creating a self-sustaining economy'.

3. Financial Implications

- 3.1. During the remainder of its lifetime Herts IQ is anticipated to receive net business rates in the region of £100m, provided the planned commercial developments in the Herts IQ area progress as planned.
- 3.2. Herts IQ has delivered an operational budget saving and net surplus totalling £521,697 in 2023/24, and it is anticipated to deliver an operational surplus of £835,056 in 2024/25.
- 3.3. Herts IQ has an outstanding budget allocation commitment to Rothamsted of a final £567,156
- 3.4. A summary of the surplus funds is set out in the table below

Surplus at 31 st March 2023	£0*
Surplus 2023/24	£521,697
Estimated Surplus 2024/25	£835,056
Estimated Surplus 2025/26	£2,620,000
Estimated Surplus 2026/27	£2,760,000
Less: Commitment to Rothamsted	(£567,156)
Net Estimated Surplus at end 2026/27	£6,169,597

*This ignores an going reserve of £300,000 held as operational contingency

4. Options

- 4.1. **Agree to the approach and recommendations as set out in the reports** – this will enable the allocation of funding towards growth activities to progress and for the Council to be an equal partner in shaping the outcomes of the work. This will ensure full consideration is given to the broader benefits of the scheme to support the delivery of Herts IQs agenda and objectives. This option is **recommended**.
- 4.2. **Not agreeing to the approach and recommendations set out in the report** – This could result limiting the scope and ability of Herts IQ to influence the outcomes which result in economic growth for Dacorum. Given that a significant proportion of the Herts IQ boundary sites within Dacorum, support for short term growth activities is considered essential. As such this option is **not recommended**.

5. Legal Implications

The Governance arrangements of Herts IQ will provide the framework for documentation and agreement of revised investment priorities.

6. Risk implications:

See section 2.

7. Equalities, Community Impact and Human Rights:

7.1 Equalities Impact Assessment has been completed – see appendix 2.

7.2 There are no Human Rights implications arising from this report.

8. Sustainability implications (including climate change, health and wellbeing, community safety)

8.1 As detailed in the report, investment will be focussed towards growth, regeneration and low carbon activities which will support the health and wellbeing of local residents.

8.2 In addition increased productivity and economic activity will provide for increased opportunities for local residents in respect of skills and employment opportunities.

9. Council infrastructure (including Health and Safety, HR/OD, assets and other resources)

There are no implications to the Council's Infrastructure arising from this report.

10. Statutory Comments

Monitoring Officer:

The proposed changes to funding priorities will need to be formally documented and officers will work with the Legal Services Team to ensure relevant agreements in place.

S151:

[The proposed funding approach will be monitored closely by the HIQ Board on a quarterly basis to ensure that future income projections ensure the repayment to the infrastructure improvement reserve of £4.5m can be met by 2031/32.]

11. Conclusions

11.1 The proposed revised interim funding priorities for Herts IQ provide an opportunity to support and accelerate growth in the immediate term by release of surpluses which would otherwise remain allocated for longer term infrastructure investment.

11.2 The preferred option of endorsing the approach to release £6m of surpluses is recommended for approval, noting the governance arrangement that are in place in order to mitigate risks to future longer term infrastructure provision.