



<b>Report for:</b>	<b>Cabinet</b>
<b>Date of meeting:</b>	<b>29 November 2016</b>
<b>Part:</b>	<b>1</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Hertfordshire Enviro-Tech Enterprise Zone Memorandum of Understanding</b>
Contact:	Councillor Andrew Williams, Leader of the Council  Author/Responsible Officer: Mark Gaynor, Corporate Director (Housing and Regeneration); James Deane, Corporate Director (Finance and Operations)
Purpose of report:	To inform Cabinet about the progress made on the Hertfordshire Enviro-Tech Enterprise Zone and to consider the requirement to agree the Memorandum of Understanding that will guide its eventual operation.
Recommendations	That Cabinet: <ul style="list-style-type: none"> <li>(1) Agrees for the Council to progress to formal designation of the Enterprise Zone on 1<sup>st</sup> April 2017 subject to recommendation 3.</li> <li>(2) Agrees that the Council enters into the Memorandum of Understanding (MOU), set out as Appendix 1 of the report, and delegates authority to the Corporate Director (Housing and Regeneration) to sign the MOU</li> <li>(3) Requires a further report to be brought before the designation of the Enterprise Zone in April 2017 setting out an analysis of the final business plan and any other matters relating to the viability of the proposal</li> <li>(4) Delegates authority to the Corporate Director (Housing and Regeneration) in consultation with the Corporate Director (Finance and Operations) and the Portfolio Holder for Finance and Resources to vary the terms of the MOU following completion subject to such variations being agreed with the other Enterprise Zone parties.</li> </ul>

Corporate objectives:	Ensuring economic growth.
Implications:	<p><u>Financial</u></p> <p>The immediate financial impact on the Council will largely be officer time in supporting the Enterprise Zone Board and contributing the operational sub-groups. This will be delivered within existing budgets.</p> <p>If the Enterprise Zone is designated in April 2017 then all the Business rates growth will be retained within the zone and capable of use for infrastructure and other interventions to resolve transport deficiencies in and around Maylands in order to achieve economic growth. Once the infrastructure needs are met then there will be sharing of the retained income for use by the accountable bodies and Hertfordshire Local Enterprise Partnership, which will include Dacorum Borough Council.</p> <p><u>Value for Money</u></p> <p>Value for Money considerations are set out above.</p>
'Value For Money Implications'	
Risk Implications	<p>A risk assessment is attached as <b>Appendix 2</b> to the report.</p> <p>There is a risk that will need to be considered in the context of the St Albans Local Plan which, if stopped following the recent hearing on the meeting of its Duty to Cooperate, may well render the EZ unviable in terms of its ability to deliver the required level of resources for the infrastructure required in the Maylands and East of Hemel Hempstead area. If still an issue this matter will be considered in a further report to Cabinet before designation.</p>
Equalities Implications	No specific equalities impact assessment has been carried out at this point but will be factored into the business plan and actions of the EZ Board.
Health And Safety Implications	None applicable
Monitoring Officer/S.151 Officer Comments	<p><b>Monitoring Officer:</b></p> <p>The Enterprise Zone (EZ) will commence on 1 April 2017 unless specific intervention is made by the local authorities, the LEP or the Secretary of State prior to that date.</p>

The Memorandum of Understanding sets out the key objectives and commitments of the parties to work together in setting up and operating the EZ, but does not in itself designate the area which is approved by central government.

The MOU provides the framework for governance and future decision making but does not fetter the Council's own decision making processes in relation to agreements on key issues such as the use of the proportion of retained rates and borrowing to support investment, which will be subject to agreement between the parties and further internal authorisation.

Under the Enterprise Zone business rate discount scheme, the billing authority is the aid administrator for State Aid purposes and so is responsible for ensuring the rules are met and that the De Minimis allowances are not exceeded (currently 200,000 euro in a three year rolling period)

Further Monitoring Officer comments are contained in the Legal Structure and the Memorandum of Understanding section of the report.

#### **S.151 Officer**

The key decision facing the Council is whether the benefits of the transport infrastructure likely to be delivered if the EZ goes ahead outweigh the growth-related additional income the Council is likely to receive if the EZ does not go ahead.

This decision incorporates cashflows over a 25 year time horizon, and is affected by numerous variables over which there is currently much uncertainty, not least the implementation of a new Business Rates Scheme in 2020, on which Government has yet to release any detail.

In partnership with Hertfordshire County Council, St Albans and District Council and the LEP, Dacorum has commissioned specialist financial due diligence in order to inform Members' decision-making. The report is due for completion in January 2017, and it is recommended that a further report is brought to Members to consider the detailed financial position in February 2017.

The fact that this financial report would come to Members for consideration after the decision on whether to progress with the MoU does not fetter Members' discretion on the more fundamental decision as to whether to progress with the EZ. The MoU provides for all Accountable Bodies to apply for withdrawal from the EZ partnership, which enables Members to formalise a decision to progress with the EZ after the MoU has been signed.

Consultees:	James Doe Assistant Director Planning and Regeneration Hertfordshire Local Enterprise Partnership Hertfordshire County Council St Albans City and District Council
Background papers:	Enterprise Zone Prospectus 2011 Enterprise Zone Application Form 2015
Glossary of acronyms and any other abbreviations used in this report:	EZ Enterprise Zone DCLG Department for Communities and Local Government LEP Local Enterprise Partnership MoU Memorandum of Understanding BRE Building Research Establishment

## 1. Background

- 1.1 An application was made to the Department of Communities and Local Government (DCLG) in September 2015 by the Hertfordshire LEP (Local Enterprise Partnership) to establish an Enterprise Zone (EZ) in order to facilitate delivery of higher value employment growth through a focus on environmental technologies.
- 1.2 The bid was signed by Leaders and Chief Executives of the LEP, Dacorum Borough Council and St Albans City and District Council. Subsequently, Hertfordshire County Council (HCC) has agreed to join the partnership and has already secured formal approval to sign up to the Memorandum of Understanding (MoU). This report proposes that Dacorum Borough Council signs up to the Memorandum of Understanding. The MoU is attached as Appendix 1.
- 1.3 The Hertfordshire Enviro-Tech EZ was announced by the Chancellor of the Exchequer and approved by DCLG in November 2015, along with 18 others nationally. The Herts EZ is made up of three sites (maps of the sites are set out at the end of the report):
- Maylands Avenue in Hemel Hempstead (made up of land owned by Kier, Dacorum Borough Council, the Homes and Communities Agency (HCA) in Dacorum and Crown Estates in St Albans)
  - Rothamsted Research Centre in Harpenden (in St Albans)
  - The Building Research Establishment in Watford (in St Albans)
- 1.4 The initial EZ bid also included the site on Breakspeare Way owned by Aviva. However, this site has now been removed from the EZ, at the request of HM Government, due to its having been granted planning permission for retail premises rather than employment land. Government has deemed that retail is not a priority need within Hertfordshire, and that consequently it is not prepared to forgo its share of the Business Rates that the site will generate whilst in retail usage.
- 1.5 The Aviva site will instead be replaced by a slightly smaller site to the south of the Spencers Park Phase 2 development, which is not zoned for housing and is owned by the HCA. The inclusion of this site will, in part, mitigate the Business Rates lost to the EZ through the exclusion of the Aviva site.

1.6 The EZ takes forward one of the LEP's three strategic priorities for growth in Hertfordshire (M25/M1), and offers to deliver the following strategic benefits for the area and the County:

- The funding to allow resolution to the chronic transport problems that constrain Maylands (which is the largest single employment area within the County) adding to its overall attraction and ability to generate new employment and retain existing employers.
- Accelerated economic and jobs growth, directly providing 8,000 jobs with knock-on growth through supply chain development. Whilst some of this growth would take place without the formation of the EZ, it would be likely over a much longer period and, crucially, without the essential transport improvements.
- A focus within this growth on high value and high technology growth helping to add to the productivity of the Hertfordshire economy.
- The ability to open up major housing growth to the east of Hemel Hempstead in both St Albans and Dacorum, initially at 2500 homes, as well as approved growth in Hemel Hempstead.
- A key part of the overall A414 improvements and strategic growth priority.

## 2. How it works

2.1 Enterprise Zones enable local economies to unlock key development sites, consolidate and provide infrastructure, attract business and create jobs. All business rates growth generated by the Enterprise Zone in their 25 year lifespan is kept by the relevant local enterprise partnership and local authorities in the areas and reinvested in local economic growth. For the Hertfordshire EZ, this is anticipated to be for the 25 years from 2018. It also incentivises business growth within the area by granting Business Rates discounts of up to £275,000 to companies relocating to the zone within the first 5 years of the EZ. Business Rates discounts are funded by HM Treasury, and the EZ can designate what types of uses will qualify.

2.2 In addition, the Government is committed to working actively with Enterprise Zones to help to unblock any barriers to delivery, such as Department for Transport support on transport infrastructure, Defra support on addressing environmental issues and UKTI advice on marketing Zones to international investors.

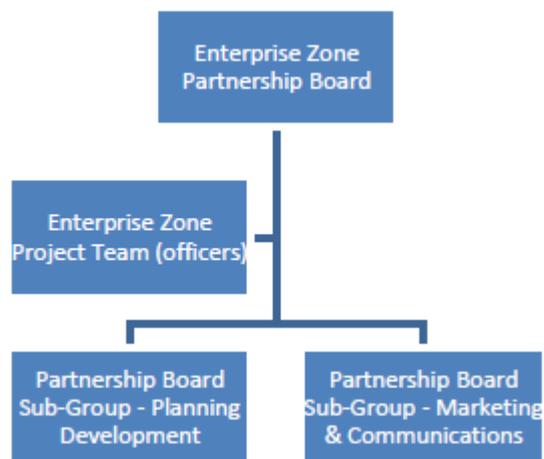
2.3 Initial modelling on the Hertfordshire EZ indicates that it would deliver:

- An overall uplift in land values of £120m (the bulk in St Albans but does include the Council's Maylands Gateway site) – based on figures developed independently by Cushman and Wakefield (previously DTZ). These figures included the Aviva site but presumed the use would be office and manufacturing – its removal and replacement with Spencers Park employment area will result in a marginal reduction in this figure.
- Over 8,000 new jobs, which will be concentrated in the high value environmental technology sector (direct jobs only).
- Over 800 new businesses.
- Around £200m of retained business rates growth over the period
- There are also a number of benefits for business to encourage them to locate within the zone:

- Up to 100% business rate discount worth up to £275,000 per business over a 5 year period
  - Simplified local authority planning, for example, through the use of Planning Performance Agreements giving more certainty to the timings on planning decisions for development within the enterprise zone.
  - Government support to ensure that superfast broadband is rolled out throughout the zone, and, if necessary, public funding
- 2.4 The assumption on Business Rates generated and retained with the EZ is based on the predicted land uses and their timing and the appropriate business rates multiplier for that use. This was carried out by local authority and LEP staff together with consultants Cushman and Wakefield.
- 2.5 The designation should come into place in April 2017 and would last until 2042. This will define the area in which the EZ rules will apply. To get to this point a Memorandum of Understanding will need to be agreed by all parties, i.e. the three local authorities (the accountable bodies), the LEP and DCLG (on behalf of HM Government). Whilst this sets out the objectives and proposed business plan of the EZ the agreement itself does not legally bind any of the accountable bodies to commitment of future resources or borrowing. It is assumed that this commitment will happen ( and it will need to happen for the EZ to be effective) but it will be within principles governed by the EZ Board itself and will allow proper risk assessment before commitments are made.

### **3. Governance**

- 3.1 Given the need to ensure that all partners who have an interest in the EZ are properly informed and engaged in the project, a specific partnership group has been set up which reports back up to the LEP Board. Senior representatives of all interested parties are represented on the Board, including, in the case of this authority, the Leader of The Council and the Corporate Director Housing and Regeneration (who acts as an observer). The EZ partnership group is chaired by the Chair of the LEP and includes the Leader of St Albans City and District Council and the Cabinet Member for Environment, Planning and Transport Environment at HCC, as well as a representative from Rothamsted, BRE and the University of Hertfordshire. The structure also includes specific officer and sub groups to support the detailed work needed to progress this project. The structure of the governance arrangements is set out below:



#### 4. Financial considerations of progressing the Enterprise Zone

- 4.1 The principle of retaining 100% of Business Rates growth for locally determined infrastructure priorities is clearly attractive to all bodies within the EZ. Initial modelling, in advance of the original EZ bid, suggested receipts of around £200m over a 25-year period to be retained and spent locally. This amount would make a significant contribution to the cost of the transport improvements required to ensure that growth in the Maylands area is sustainable in the medium- to long-term.
- 4.2 For HCC, as the Highways Authority, the prospect of this new funding stream means that the Maylands infrastructure improvements become more viable, and thus the project can be prioritised above those competing projects which would need to be funded directly by HCC. For Dacorum and St Albans, bringing forward the infrastructure improvements will unlock local growth potential more quickly and sustainably than without the EZ.
- 4.3 Whilst the potential benefits of the EZ scheme are clear, the key question for Dacorum, in considering whether to sign the MoU, is what it has to forgo in order to realise these gains.
- 4.4 The answer to this question is linked to Government's Business Rates Retention Scheme, and, in particular, how it is likely to operate following the implementation of Full Business Rates Retention in 2020/21. Government is yet to clarify how the Business Rates scheme will operate post-2020, but it is likely to retain a financial incentive for districts to deliver economic growth within their boundaries. On this basis, the decision facing the Council is whether the benefits of the infrastructure delivered under the EZ are likely to outweigh the growth-related additional income the Council is likely to receive if the EZ did not go ahead.
- 4.5 Driven by the local authorities involved, the LEP is currently procuring specialist financial advice in order to model the detailed financial implications of progressing the EZ. This model will incorporate more detailed assumptions than was possible at the time the original bid was modelled in November 2015, and as such is a key element of the due diligence that must be

undertaken prior to the Council's formal approval to progress with the EZ. All of the key variables will be incorporated within the model including, planning restrictions, likely levels of business rates reflecting likely type of business, timing of infrastructure investment to unlock the next parcel of land etc. This financial modelling is likely to be complete in early January 2017.

- 4.6 The completion of the financial model in January 2017 need not delay the recommendation of this report to progress with the signing of the MoU. The MoU provides for all parties to apply for their withdrawal from the agreement, and as such is able to progress whilst still enabling Members to finalise decision on progressing with the EZ after the detailed business case has been delivered.
- 4.7 It is recommended that an updated report is brought to Cabinet in February 2017 with more detailed financial implications of the EZ to enable Members to formalise the decision to progress with the EZ.

## **5. Legal Structure and the Memorandum of Understanding**

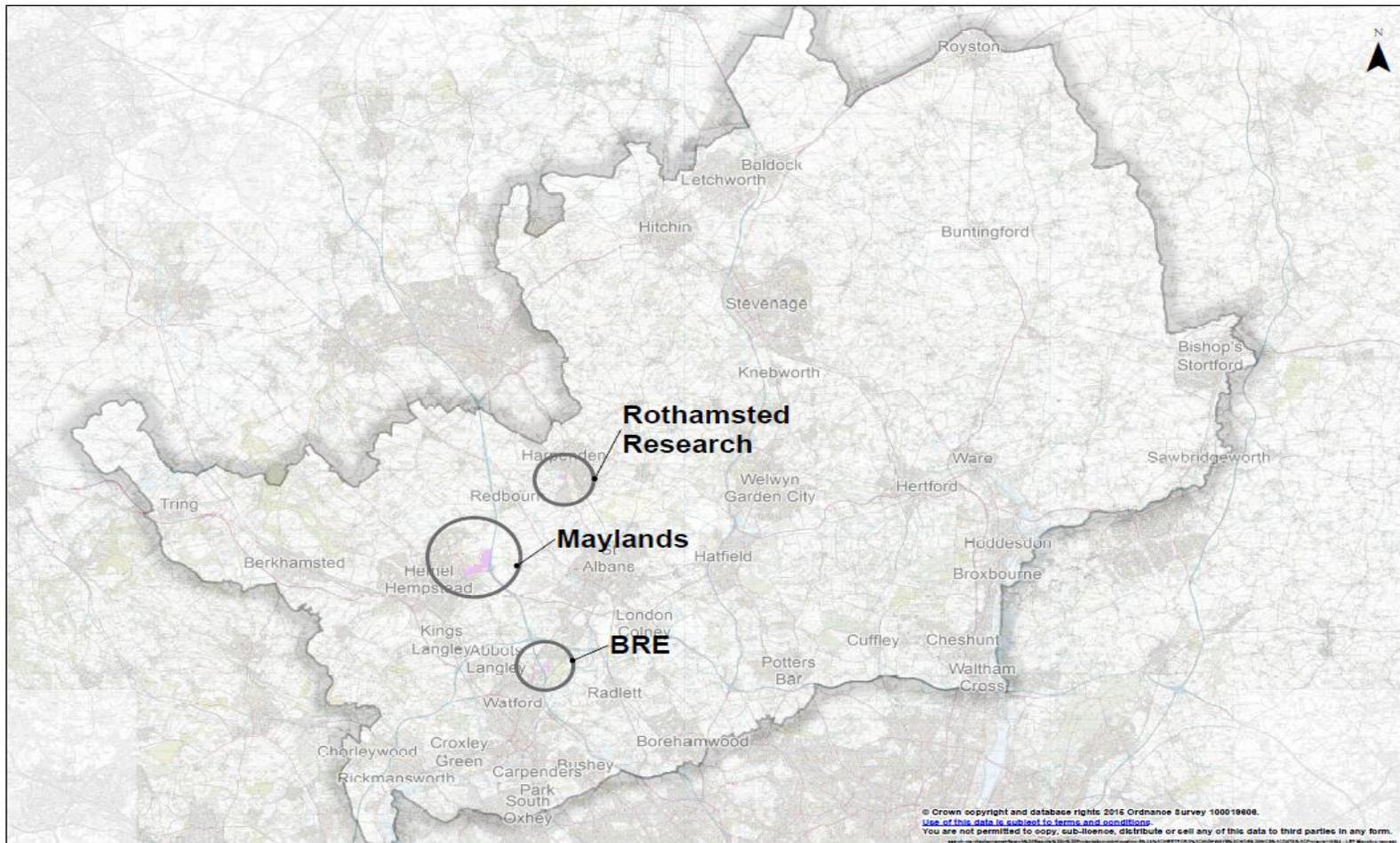
- 5.1 DCLG advise that prior to the EZ going live a Memorandum of Understanding (MOU) be signed with the LEP and all local authorities involved in the EZ, which includes the County Council – The MOU which has been agreed between the parties is set out at Appendix 1. The MOU is not a legal requirement for the EZ to commence but it is strongly advised that the MOU is signed to ensure that the strategic direction of the EZ and the governance structure for the organisation and operation of the EZ are agreed. The MOU runs until 31<sup>st</sup> March 2020 unless it is terminated by the Secretary of State, the LEP, or each of the local authorities. The Secretary of State is entitled to suspend or withdraw the right of the local authorities to market the EZ if it is of the view that that a party has acted in a way which significantly damages the reputation of the EZ or if there has been a material breach of the MOU. The local authorities and LEP are entitled to ask for the EZ status to be rescinded by submitted notice in writing to the Secretary of State.
- 5.2 The MOU can be renewed or its terms renegotiated after April 2020.
- 5.3 The EZ status gives the authorities and the LEP the right to benefit from the following business incentives.
  - Permitting the local authorities to retain 100% of any business rate increase which accrues for a period of 25 years from the commencement date (this being 1<sup>st</sup> April 2017 of the Enterprise Zone, providing that such sums are directed towards the development of the Enterprise Zones and thereafter towards the Local Enterprise Partnership's other identified growth priorities;
  - Central government will reimburse the cost incurred by the local authorities in providing a 100% business rates discount for a period of up to five years, to any business which sets up operations within the Enterprise Zone site before 31 March 2022, and is able to receive the support within the State Aid De Minimis threshold (200,000 euro over 3 year rolling period or other limitation applicable by law);

- 5.4 Given the significant investment required to unlock the land it is likely that all of the retained business rates would be required to reinvest in the infrastructure in the first few years. This is still subject to the formal agreement of all partners, alongside an agreement on how any residual retained business rates would be shared
- 5.5 Any borrowing arrangements made using the Retained Business Rates generated by the EZ will be governed by separate MOUs between the respective parties. These agreements would be subject to robust and independently verified business cases to minimize any financial risks and approval will be sought from Cabinet on these issues at the appropriate time.
- 5.6 The DCLG require the return of the completed MOU as soon as is practicable. As part of the Consultation on Retained Business Rates published on 5 July 2016, the DCLG has confirmed their intention that Enterprise Zones and other designated areas should continue to operate as now and will be guaranteed 100 per cent of business rates growth for 25 years. Whilst this MOU would signal all parties would act in good faith to work together, the delivery of the EZ has a number of other key dependencies:
- Agreement by the DCLG to the overall development proposals that make up the EZ
  - Planning approval for the developments
  - Securing investment for necessary infrastructure
  - Business take-up of the developments
- 5.7 These risks would be monitored and managed by the EZ project board and working groups and any key decisions which involved Dacorum Borough Council would be subject to the requirements of the internal decision making process of the Council, which may include further Cabinet process. The MOU provides safeguards for the authority in this respect.
- 5.8 It appears that the signing of the MOU is the only formal agreement that requires the EZ to proceed – once signed the EZ will go live in April 2017 unless the participating parties serve notice requesting that the EZ status be rescinded (in the case of the accountable bodies including the Council) or by the DCLG/Secretary of State specifically not putting it forward for designation. This would allow the Council to serve notice in advance of designation should circumstances require, or after designation though any Business Rates retained at this point would fall to the EZ Board to determine their use. A further report will be brought to Cabinet in advance of designation which – if the viability of the EZ was under doubt and/or the impact on the Council was judged to be negative – would allow for the Council to request that the EZ status be rescinded. If this were the case it is likely that the other Accountable Bodies would also be in agreement.

## 6. Risks

- 6.1 A Risk Register, drawn up from a DBC perspective, is attached as Appendix 1. The greatest immediate risk would seem to be whether or not the EZ can include the Crown Estate land, and this is dependent on the progress of the

St Albans Local Plan. All EZ partners will have a better grasp on this after the Inspector carrying out the Examination of the plan reports on the soundness of how St Albans have fulfilled their Duty to Cooperate, and this is expected before Christmas (i.e. before designation). If it cannot be included then all parties – including DCLG – would need to consider whether they are prepared to continue with a significantly smaller EZ and one that would not necessarily be able to generate the resources to pay for the required infrastructure. This will be dealt with in a further report to Cabinet to be brought prior to designation.





1Kier; 2 Aviva (now removed); 3 HCA; 4 DBC; 5 & 6 Crown Estate. Please note the Cemetery shown in the DBC site shown are not in the Enterprise Zone and the Hotel in the Keir site is also not in.