Annex 1

Driving prosperity in the M3 corridor

Enterprise M3 Multi-site Enterprise Zone: Draft Principles

Local Authority Steering Group Members are asked to **seek approval** from their respective decision-making boards to the proposals set out in this paper determining local arrangements that will underpin the development of the Enterprise M3 multi-site enterprise zone and form the basis of an MOU that needs to be signed and submitted to Government by 30 September 2016.

1. Background

1.1. EZs are part of the Government's plans to reduce burdens on the private sector to enable it to drive growth and job creation. The Government list four key principles guiding the new EZs[1]:

- Opportunity – "focusing on areas of genuine economic opportunity"
- Long-term viability – attempting to ensure the "long-term success of the area beyond the initial period of Government business rate subsidy"
- Strategic fit – LEPs "will develop and implement EZs which suit their local area and with tying EZs to their wider economic priorities"
- Minimising displacement – LEPs "will have a vital role in targeting the business growth that is genuinely additional"

1.2. The Department for Communities & Local Government (DCLG) require every EZ to put in place 'local arrangements'[2] that set out the local principles underpinning the Governments guidance EZ. These local arrangements will need to be signed by each of the Local Authorities (for the purposes of this document the term Local Authorities, LA's or EZLA includes both the County Councils and District and Borough Councils that form this Partnership) and the LEP but it is important that all steering group members contribute to the development of local principles.

[1] House of Commons Briefing Paper, "Enterprise Zones" (2016)
[2] Tom Walker, "Letter and outline MoU", Cities and Local Growth Unit (2016)

1.3. This paper captures the key elements that will be incorporated into a local agreement. In particular this agreement needs to permit Enterprise Zone Local Authorities (EZLA) to engage with the LEP to establish agreed investment priorities.

1.4. DCLG guidance for EZs also requires a 5 year Implementation Plan to be agreed by the EZLA's, the LEP and other key stakeholders (together the Partnership). The purpose of the Plan is to accelerate delivery and growth of the area and subsequently enable a greater return of business rates uplift over the life cycle of the EZ.

1.5. The aim of this paper therefore is to reach a mutually agreeable position across the EZ Partnership that outlines local arrangements that will not only further strengthen existing partnership working, but that also sets out a number of draft principles needed to underpin the development of the EZ.

1.6. Additionally Enterprise M3 and Hampshire County Council, as the Accountable Body for the LEP, will be required to sign a MOU with government. The MOU follows a standard format and a copy is attached at Appendix A along with the letter from Tom Walker setting out the expectations of government.

2. Draft Core Principles

The LEP and the LA's need to jointly commit themselves to a number of key principles in taking forward the development of the EZ that will ensure that the EZ Partnership maximises the collective economic impact by fostering new economic activity.

2.1. Displacing, or Replacing, Existing Activities

One of the government's four key principles outlined above guiding the new EZs relates to minimising displacement. In aiming to minimise displacement, the Partnership should consider the following:

- In developing the EZ all effort should be made to ensure that it avoids net local displacement whilst recognising the current constraints facing businesses within the area;

- Companies locating within the EZ should bring genuinely additional business growth and the marketing of the EZ should be targeted in that way;

- The EZ should support the LEP's wider economic priorities and relevant target sectors, seeking to maximise the LEP's strengths in the digital sector, leading to the development of new businesses, job creation and growth.

In this context:

- Local displacement is defined as a scenario whereby a business that is currently located within the adjoining areas and other parts of the country[3] relocates to premises within the EZ with no 'genuinely additional business growth'[4] (i.e. solely to benefit from the business rate discounts);
- If a local business (meaning "the LEP area" in this context) meets one or more of the following criteria then it will not be classified as displacement and so can benefit from business rates relief:
  - The company intends to expand its operations by taking up premises within the EZ;
  - The company wants to consolidate its operations;
  - The company wants to be close to other specific companies/research facilities to benefit the business, and/or
  - Any other justification for relocating judged to be sufficient by the Programme Steering Group.

2.2. Business Rates Collection

All business rates growth within the EZ for a period of 25 years should be retained by the LEP, to support the Partnership's economic priorities and ensure that Enterprise Zone growth is reinvested locally:

- Collection of business rates growth in an EZ should continue to be carried out by the District/Borough as the local billing authority, retaining responsibility for ensuring that all business rate liabilities are collected;
- All business rates growth receipts in an EZ collected by the local billing authority, less the cost of collection and administration of business rates discounts, should be transferred to HCC as the Accountable Body for the LEP who will provide the treasury management function for ring-fenced EZ

[3] Enterprise M3, "EZ Application Form", Question D.1, response to strategies that will be used to minimise deadweight or displacement from "adjoining areas and other parts of the country" (2015)
[4] House of Commons Briefing Paper, "Enterprise Zones" (2016) reference to: "Communities and Local Government, Enterprise Zone Prospectus (2011), 'Minimising displacement':

"Competition is healthy. Competition for business between cities and other centres of growth should lead to an improved environment for business across the country. Competition to attract foreign inward investment will be most highly valued of all. We are however keen to avoid much more localised competition, resulting in local displacement to little benefit for the areas overall. Local enterprise partnerships will have a vital role in targeting the business growth that is genuinely additional in the area, including by identifying the priority sectors to be targeted" funds;

- Subject to Governance outlined in section 2.5 below, and less any costs associated with the treasury management function, ring-fenced business rates growth receipts should be notionally allocated between the District/Borough and the LEP for the following uses:
  - The initial distribution of Business Rates growth will be on the basis of 50% / 50% between the Local Authorities and the LEP for place shaping and major infrastructure investment, but that
  - Distribution of the Business Rates growth will be reviewed by partners once the initial implementation plan has been developed.
- Furthermore, over the 25 year period of the EZ the LEP will use all reasonable endeavours to ensure that each Local Authority receives investment to the same value of the Business Rates growth they contributed.
- The LEP cannot use any of the EZ Business Rates growth outside of the three local authority areas without the agreement of the PSG.
- EZ LA representatives and other key stakeholders have been invited to sit as key members of the Enterprise M3 EZ interim Programme Steering Group. This allows for the LA to have oversight of the setting of economic priorities for the EZ and to agree with the LEP the priorities for spending the income generated by the EZ business rate uplift.

2.3. Allocation of Expenditure in the EZ

Harnessing future revenue streams arising from rates additionality will unlock the barriers that are preventing commercial investment, and thus lead to a greater return of business rates uplift over the life cycle of the EZ.

The EZ Partnership will need to carry out financial modelling, to produce strong evidence that makes the case for early investment in the EZ (outlining a prioritised and costed set of interventions, when these are required and by when) and the expected rate growth. These investment strategies will then form the basis of a 5 year implementation plan and on behalf of the LEP, HCC must submit this plan to the Secretary of State by no later than 31 March 2017[5]. The Partnership will commission a team of consultants to carry out the financial modelling and investment strategy.

A longer term detailed business case should also be developed clearly setting

[5] Tom Walker, "Letter and outline MoU", Cities and Local Growth Unit (2016)

out the ‘unlocked’ vision of the EZ over its 25 year life-cycle.

2.4. Core Funding Principle

It is recognised that in the early years of the EZ, receipts from business rates growth is likely to be modest, increasing as infrastructure is unlocked. However, to unlock infrastructure and stimulate an increase in business rates receipts, appropriate forward-funding arrangements such as prudential borrowing will need to be established.

It is likely that all projects associated with local place making and developments and major infrastructure requirements will have a lead local authority for the development and implementation of the scheme. Financing of individual projects will need to be considered on a case by case basis and may involve the use of prudential borrowing or other forms of capital resources as is appropriate for (and to be agreed by) the individual authority.

Depending on the composition of the scheme this may also include the use of a range of other funding resources from the authority itself, other partners and the LEP as appropriate.

Where it has been agreed that resources will be reimbursed from EZ business rate income, due to the uncertainty of future net income levels, as a minimum the following principles should be developed:

- An income safety margin should be set allowing for only a proportion of future income revenues to be borrowed against;
- Enterprise Zone revenue may be used to cover the costs of the borrowing or other forms of capital investment;
- The borrowing strategy will ensure that all borrowing and other funding is repaid within the Enterprise Zone period.

With this in mind, consideration should be given to funding the implementation plan, for example in the following way:

- Any borrowing or use of other resources against future business rates receipts should be reimbursed or paid back through retained business rates, before any remaining funds are used to support wider economic priorities;
- Once the Implementation Plan infrastructure has been delivered, the distribution of any remaining income will be determined by the LEP and partner local authorities;
- EZ LA’s will be represented on the LEP’s Programme Steering Group in order to shape future funding priorities; and

- Detailed arrangements will need to be set out in a business case that will form the basis of a legally binding agreement to provide security for the borrowing / funding authority for the life cycle of the EZ in line with Government policy.

2.5. Core Governance Principle

As part of the administration and governance of the EZ, the requirement to establish an Enterprise M3 interim Programme Steering Group (PSG) was outlined in the EZ application to Government[6]. This group was formally established after the LEP Board approved the Terms of Reference (ToR) and membership of the group on 24 May 2016.

This approach builds upon the successful management of current funding streams (including the Local Growth Fund, Growing Places Fund and other local funds) and will ensure strong and effective working relationships between the Enterprise M3 Board, key land and developer stakeholders, Government, partner Local Authorities, the Accountable Body and the wider business community.

A core responsibility for the PSG outlined in the ToR will be to oversee the development of the EZ Implementation Plan for approval by the LEP Board and to monitor its effective implementation as well as the allocation of funding generated by the uplift in business rates receipts through EZ business rates retention scheme. The group will also advise on the strategic direction and implementation of the programme, including investment strategies, policies, communications and processes across all areas impacted by the programme.

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[6] Enterprise M3, “EZ Application Form”, Question E.1 (2015)