

SURREY COUNTY COUNCIL**CABINET****DATE: 28 MARCH 2017****REPORT OF: MR PETER MARTIN, DEPUTY LEADER****LEAD OFFICER: TREVOR PUGH, STRATEGIC DIRECTOR FOR ENVIRONMENT AND INFRASTRUCTURE****SUBJECT: M3 ENTERPRISE ZONE****SUMMARY OF ISSUE:**

Enterprise Zones (EZ) are an initiative to support business growth, create new jobs and attract private sector investment to specific areas. Within the designated EZ boundaries newly located or expanded businesses are able to benefit from financial incentives, including reduced business rates. Business rate growth accruing from these new businesses funds investment to support the EZ.

The Government announced applications for a new round of EZs in July 2015. This was aimed at ensuring that all Local Enterprise Partnership (LEP) areas could benefit from an EZ and local authorities were encouraged to work with LEPs to develop bids.

EM3, in partnership with Basingstoke Borough Council, Runnymede Borough Council and East Hampshire District Council, submitted a successful application to Government for a multi-site EZ covering: Basing View in Basingstoke, Longcross Park in Chertsey, and Whitehill and Bordon's Louisburg Barracks. There is a Programme Steering Group overseeing the development of the EZ of which Surrey County Council is a voting member.

Cabinet agreed in December that the Enterprise M3 Local Enterprise Partnership (EM3) should sign a memorandum of understanding with the Government setting out the principles for establishing an Enterprise Zone. Cabinet are now asked to agree that EM3 submit an Implementation Plan (the Plan) for the EZ to Government which will allow it to be formally established from 1 April 2017

The M3 EZ will last for 25 years. The Plan sets out an investment programme to accelerate growth in the area and enable a greater business rates uplift and has to be submitted by EM3 by 31 March. There are no direct or immediate financial implications for the County Council and the investment and development in the zone will not involve the County Council's financial resources.

RECOMMENDATIONS:

It is recommended that Surrey County Council agrees that Enterprise M3 should submit the Implementation Plan (included in the Part 2 Annex) to Government.

REASON FOR RECOMMENDATIONS:

The M3 EZ is a major opportunity to support economic growth on one of the largest available sites for commercial development in Surrey and to secure additional investment in the area. Over 25 years the further detailed work for the Implementation Plan suggests that the EZ could deliver about 130 new businesses, over 10,000 new jobs and generate an additional £230 million in retained business rates. For the Longcross site there could be 32 new businesses, 4100 new jobs and 90,000 sqm of new floor space with the development generating over £140 million in additional business rate income over the full 25 year period.

Successful implementation of the EZ requires support from all the relevant local authorities. Agreement between SCC and Runnymede about the infrastructure and other interventions that are needed to maximise development on the Longcross site will ensure that the package of measures is well targeted.

DETAILS:

M3 Enterprise Zone

1. Enterprise Zones are geographically defined areas that offer a range of incentives to encourage private sector investment, including business rate relief. All business rate growth in the EZ area is retained locally for investment in place building schemes and infrastructure projects.
2. EM3, in partnership with Runnymede Borough Council, Basingstoke Borough Council and East Hampshire District Council, successfully submitted a proposal to Government for the second wave of Enterprise Zones. The multi-site Enterprise Zone, covering Longcross in Runnymede, Basing View in Basingstoke and Louisville Barracks in East Hampshire, will support economic growth, attracting new companies to the area and generating new jobs.
3. The Enterprise Zone will start from April 2017 and last for 25 years.
4. This paper seeks agreement to the Implementation Plan for the first 5 years of the EZ to be submitted to Government. The Plan includes an economic vision, an initial investment plan and governance arrangements. A marketing plan is also being developed.

Enterprise Zone Implementation Plan

5. The Department for Communities & Local Government (DCLG) require an Implementation Plan to be submitted by 31 March. The Plan gives both local partners and Government confidence about how the EZ will be developed. Accordingly, all partners need to be signed up to it. The Plan provides a clear statement of action for 5 years and a direction of travel for the following 20. Crucially this includes a clear view about what is needed by way of up-front

investment to accelerate delivery and make the sites viable for attracting businesses, thereby generating the increase in business rates that will fund much of the investment.

6. Cabinet agreed in December that EM3 should sign a formal Agreement between the LEP and DCLG which sets out principles for the operation of the Enterprise Zone and in particular the business rate collection and associated expenditure. These include minimising displacement of businesses from another area, including other parts of Surrey, into the EZ solely to take advantage of the available incentives. To be eligible for the incentives, any firms locating in the EZ must be intending to expand or consolidate their operations.
7. The key advantage of an Enterprise Zone is that once the initial upfront investment in the infrastructure/enabling works has been met, the full amount of the increase in business rates generated for the next 25 years is retained for the benefit of the EZ area, rather than this going back to Treasury. This, along with the additional reliefs offered to occupiers within EZs, makes the approach much more effective from the perspective of maximising investment in the area and supporting local business growth.
8. From a local authority perspective, EZs sit outside the business rate retention process and have legislative protection for 25 years against any future reset or distribution. They will not count towards an authority's business rate baseline income and, as a result, will not be used in the calculation for local authority top ups or tariff payments. On this basis, even with a wider business rate retention scheme as proposed by Government, there are significant advantages through the EZ arrangements because by being outside the reset and tariff arrangements the full growth in business rate is retained for the full period to the end of the EZ arrangements.
9. The latest draft of the Plan is in the Part 2 Annex because it includes a substantial amount of commercially confidential information about the sites. It includes:
 - An overview of each of the three sites in the EZ
 - The Economic Vision for each of the three sites which will be used as the framework for promoting their overarching strengths and distinctive offer
 - The main principles for implementation of the investment plan
 - A summary of the Investment Plan model setting out how the priority projects have been identified
 - Details of the priority projects identified for the EZ and the investment required at each site in order to accelerate delivery and optimise growth in business rates
 - Governance arrangements
 - The key risks identified in relation to development at each site
 - Outputs and monitoring.

10. More detail on some of these issues is provided in annexes to the Plan which include reports on the economic vision, the detailed investment plan and the property market. The latter two are in the Part 2 Annex because of the commercially sensitive nature of their contents.
11. The Plan has been tested through meetings with the senior officer leadership at each district/borough council and county council with an EZ site and with relevant portfolio holders. This process has identified priority interventions and the possible timing of development. These interventions are described in Implementation Plan although each will undergo further due diligence including how they should be funded. As such the current list of interventions reflects the maximum likely expenditure which would need to be funded from business rate growth. Chief Finance Officers are satisfied that even in the worst case scenario there should be a very significant financial surplus once these initial interventions have been implemented.
12. The governance structure included in the Implementation Plan builds on the principles that were agreed by the partners at the same time as the MOU with Government (and which are included as an annex to the Plan).
13. A formal Programme Steering Group (PSG) will be set up once the Enterprise Zone is approved (taking over from the interim PSG which has guided the development of the Implementation Plan). The development and promotion of specific intervention proposals for each site will be undertaken by local delivery teams including the relevant landowners. This will be completely separate from decision-making on funding of projects (including the allocation of the income generated through retained business rates) which will go through the same process of appraisal as for proposals to make use of Local Growth Fund.
14. The accountability arrangements for the use of retained business rates has been agreed between the Accountable Body (AB) (Hampshire County Council) and Chief Finance Officers. Business rates income will be held by the AB which will provide the treasury management function for the ring fenced EZ receipts as required by Government. EM3 has agreed that the notional allocation of Business Rates growth (notional in that the cash is held by the AB) will be on the basis of 50% / 50% between the Local Authorities and the LEP for place shaping and major infrastructure investment. This means that Runnymede Borough Council and Surrey County Council will have responsibility for making proposals for investing 50% of the retained business rates for Longcross in the local area. The intention is that over the period that the EZ is in operation the level of investment for each site should be equivalent to the amount of business rate income generated from that site. On that basis if the Longcross site generated in excess of £140 million in business rate growth, the expectation is that an equivalent amount would be retained for investment that benefits the area.
15. In the early years of the EZ, receipts from business rates growth are likely to be modest, increasing as infrastructure is developed. Putting the infrastructure in place will therefore require the use of forward-funding arrangements. Accordingly, it is likely that projects will have a lead local authority or other organisation for the development and implementation of a scheme. Financing of individual projects will be considered on a case by case basis and may involve the use of prudential borrowing or other forms of capital resources including other partners and the LEP. Some or all of these resources would then be reimbursed from EZ business rate income. Any borrowing against

future business rates receipts will be reimbursed or paid back from the EZ receipts before remaining funds are used to support wider economic priorities. The Implementation Plan does not require Surrey County Council to incur any up front expenditure or to undertake any borrowing.

16. The EZ does not affect the section 106 agreement that has been negotiated for the Longcross site.
17. A marketing plan is being developed. Local partners are well advanced in their plans for individually marketing their sites. EM3's role will be as a "wrap-around" activity supporting individual marketing efforts.

CONSULTATION:

18. The proposals in the report have been discussed with the Leader, Deputy Leader, Chief Executive and the Deputy Chief Finance Officer and have been presented to Cabinet members; with the Chief Executive of Runnymede Borough Council and the Director of the Enterprise M3 LEP.

RISK MANAGEMENT AND IMPLICATIONS:

19. There are no specific risks to SCC from the operation of the EZ. The Implementation Plan includes initial cost assumptions for proposed interventions and their relationship with new investment and development for the multi-use Enterprise Zone. Clear outcomes for job creation and business rate growth have been determined and included in the Implementation Plan along with the risks and opportunities associated with them. A risk register and mitigating actions is included in the Plan. These include risks that the business rates generated are lower in practice than has been anticipated and that there is an increase in development costs. However, there is a very substantial buffer in terms of the business rate income that is expected above the indicative costs which should be capable of absorbing even quite significant movements in income or costs.

Financial and Value for Money Implications

20. For the Longcross site the Implementation Plan suggests that there could be 32 new businesses, 4100 new jobs and 90,000 sqm of new floor space with the development generating over £140 million in additional business rate income over the full 25 year period. There are no direct or immediate financial implications for the County Council and the investment and development in the zone will not involve the County Council's financial resources.
21. The growth in business rates at Longcross is to be retained within the Enterprise Zone for the 25 year period, with 50% being allocated to the LEP, and 50% to the two local authorities for the Longcross area – Runnymede Borough Council and Surrey County Council. A memorandum of understanding between Runnymede BC and Surrey CC will determine the funding for place-making expenditure incurred by each authority within the Zone.

Section 151 Officer Commentary

22. The Enterprise Zone is expected to generate additional business rates growth. While there is a risk of some displacement, the principles of the

agreement referenced in paragraph 6 seek to address and minimise this risk. Business rates growth will be retained within the Enterprise Zone under the Government's conditions so any growth will not become part of the 100% Business Rates Retention Scheme. The current level of business rates is relatively low and an agreement with Runnymede Borough Council will ensure that costs incurred by the County Council on place making can be covered by the Councils' portion of the retained business rates.

Legal Implications – Monitoring Officer

23. LEPs are a voluntary grouping of businesses and local authorities established in 2010. The Council is able to support the work of Enterprise M3 and its proposals to create an EZ through its powers to promote the development and economic improvement of its area. Cabinet gave its support to the EZ proposals in December 2016 and is now being asked to approve the detailed implementation plan for submission to Government.
24. The governance proposals, as set out in the annex to the Plan, cover how decisions will be made concerning the development of the EZ in the future. The Council will have continued involvement through its membership of the Programme Steering Group (PSG) for the EZ.
25. As described in the previous Cabinet paper on the EZ, an MOU between the Council and Runnymede BC will be drawn up to cover the arrangements for developing more detailed proposals for using the retained business rates. This MOU is intended to protect the Council from additional financial burden on, for example, its highway infrastructure network as a result of the EZ's development. Legal Services will be involved in the drafting process for the MOU.

Equalities and Diversity

26. There are no identified negative equalities impacts. Where additional funding for infrastructure and transport schemes is secured, there will be positive impacts through increasing access to services and employment opportunities. Growth in businesses based on the Enterprise Zone site will in some cases generate additional jobs. Where applicable, equality impact assessments will be undertaken as a part of decisions on individual projects.

WHAT HAPPENS NEXT:

27. The activities relating to the Enterprise Zone set out in this paper will be developed through the Implementation Plan.
28. The County Council will continue to play an active role in the M3 Enterprise Zone to ensure that the local place making initiatives for the Longcross site, that are to be funded from the local authority allocation of retained business rates, are focused on agreed priorities.

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Consulted:

Leader

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Annexes:

Annex 1 - Report on Economic Vision

Plus part 2 report and annexes

Sources/background papers: Cabinet Report December 2016

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