
Report of: Stephen Catchpole, Managing Director

Report to: TVU Leadership Board

Date: 8th June 2011

Subject: Enterprise Zone Proposal

Item for: Approval

Purpose:

To seek the Board's approval in principle and subject to consultation to the submission of the preferred Enterprise Zone location as shown on the plan attached to this report (to follow) together with all supporting material to the Government.

Recommendation:

That the Board approves in principle and subject to consultation the submission of the preferred Enterprise Zone location as shown on the plan attached to this report together with all supporting material to the Government.

1.0 INTRODUCTION

- 1.1 The Board will know that in March the Government announced that the Tees Valley area would be one of the eleven areas awarded an Enterprise Zone to stimulate business and job growth in the private sector.
- 1.2 This was shortly followed by the issuing of Guidance by the Government (copy attached as Appendix 1).
- 1.3 The Guidance makes it clear that the Government wants the new wave of Enterprise Zones to be different from previous models particularly in respect of preventing displacement i.e. businesses moving within an area solely to obtain financial relief. Successful areas are encouraged to concentrate upon the opportunities that their particular locality has and ensure that the sectors identified have a real strategic fit with the economic development aspirations and policies of the area to ensure long-term viability.
- 1.4 In addition the Guidance goes on to say that Enterprise Zones will be broadly between 50 – 150 hectares in size. Page 6 of the Guidance sets out the financial benefits to be gained through the Enterprise Zone of which perhaps the most important in terms of business rates is the ability to retain them within the area for 25 years to support reinvestment in the local economic infrastructure. Of even greater significance for Tees Valley area is the single sentence about enhanced Capital Allowances for plant and machinery in certain cases.
- 1.5 Much of the content of the Guidance Note comes from the conversations and lobbying that Tees Valley had been engaged in with various Government departments since last summer.

2.0 DESIRED OUTCOME AND KEY GUIDING PRINCIPLES

- 2.1 Put simply the desired outcome to be obtained from the Enterprise Zone initiative in the Tees Valley area has always been to stimulate private sector growth in accordance with the priorities of economic development set out in the Statement of Ambition that was approved in 2010. For this reason existing business premises would be excluded from the regime if they are located on the site.
- 2.2 However to achieve this certain key guiding principles have been identified to underpin the identification of the actual location of the Enterprise Zone to ensure that the Zone would not adversely affect existing business locations. These principles can be summarised as follows:
 - a) The Enterprise Zone should offer a practical means of implementing the economic strategy identified in the Statement of Ambition (through the EZ regime itself and through the

additional funding to the area that will be provided by Government – equivalent to the business rates relief).

- b) The financial incentives available including Capital Allowances and Tax Incentive Finance as well as Business Rate incentives should be combined in a package that maximised the economic strategy identified in the Statement of Ambition.
- c) The sectors selected for occupation of the Enterprise Zones would be those that offered the ability to deliver the Statement of Ambition by providing new jobs and business growth in key areas of the economy so as to transform the area's economic prospects on a permanent and sustainable basis.
- d) Occupation of the Enterprise Zone by sectors/businesses would be controlled via planning and other means to ensure that displacement of existing businesses/jobs is prevented. This also extends to include distortion of the market to cover instances where a company would have relocated somewhere else but for the Enterprise Zone as well as simple relocation to the Zone from an existing business location.
- e) That the identification of the Zone offers real occupation opportunities in the timescales set out by the Government. This involves consideration of the market demand for space and the deliverability of the Zone in terms of ownership, planning, available infrastructure etc.
- f) That the financial consequences/benefits to the local area, the local authorities and the Government are identified so that appropriate cost/benefit analysis can be undertaken.

2.2 Initial discussions with Directors of Regeneration underpinned by these key guiding principles led to an early identification of a concept of a Zone that would support the achievement of Ambition 1 i.e. the transformation of the world class sectors of processing and energy from high carbon, high value to low carbon, high value. Such an approach would involve having sites that could support small and medium sized enterprises and micro businesses as part of this supply chain attracted there as a result of business rates incentive. Linked to these would be a range of larger sites that could attract either capital allowances or tax incentive finance schemes to ensure that the Tees Valley and Teesside in particular could compete on a global stage and continue to attract inward investment to consolidate and grow these world class sectors and the move into renewable energy activities such as off-shore wind.

2.3 To be competitive, there is a clear need to unlock existing development sites and provide the essential infrastructure to create future development sites so as to provide critical mass on a global scale.

Use of an innovative Enterprise Zone linking these elements into a cohesive and comprehensive offering would seem to be an obvious way forward. In addition to this the possibility of displacement activity whilst not removed completely is minimised by concentrating upon these specialised sectors.

- 2.4 However, it was recognised at an early stage that concentrating solely upon Ambition 1 would be likely to result in under achievement for the Enterprise Zone. Putting all our eggs in one basket would involve a real risk given the volatility of the sectors involved witnessed by the recent announcements by Tata with likely redundancies at Teesside and Hartlepool. Secondly demand for occupation by small or micro businesses to support these sectors would be unlikely to result in the take-up of the Zone in the first 5 years with a consequent shortfall in jobs and impact. As a result of this, proposals have been considered for an element of the Enterprise Zone for the provision of businesses connected with the new and growing Digital sector. The Regional Innovation Connector for the digital cluster is located in Tees Valley at Digital City, recognising the area's strength and potential in this cluster.
- 2.5 This would fit in with Ambition 2 to diversify the economy and also, subject to how it is to be achieved, limit the opportunity for displacement that other more general sectors of the economy could involve. In addition the Government has indicated that access to high speed broadband will be one of the advantages for Enterprise Zones and our selection of Digital fits nicely with this.
- 3.0 PROGRESS MADE
- 3.1 Given the complexity of considering what sites were best suited to provide the outcomes identified and meet the guiding principles established, Savills were appointed to assist with this exercise.
- 3.2 Savills developed a matrix of criteria together with a weighting and potential sites were then tested for suitability.
- 3.3 This approach has resulted in the **recommendation** of multiple sites to form the Enterprise zone rather than a simple one-site proposal. The sites produce a combination of incentives under the three elements of business rate incentive, capital allowances and tax incentive finance schemes. Savills have produced a plan that shows the sites and a copy of this is attached to this report as Appendix 2.
- 3.4 Savills also produced two other options. The first one identifies sites which offered best development/occupation rates. This is not recommended because it has less fit to strategic Statement of Ambition objectives and would be harder to prevent displacement. The last option would ensure that every Borough had sites and this again is not recommended for the same reasons as expressed above and would be seen by Government as a political fix.

- 3.5 The Board will note that the majority of the sites in relation to the business rate element are publically owned. However, for the capital allowance and TIF regime the majority are private sector owned and meetings have been taking place with the largest landowners to gauge their support for the possible inclusion of their land within the Enterprise Zone. All, to date, have indicated their support for the proposal and a willingness to send a letter of support with the application to Government. Indeed Sembcorp have gone further and agreed to provide a couple of worked-up examples on the impact of the financial incentives on two of their latest land transactions and the benefits that would have accrued to occupiers. This is really important firstly for Government to understand the financial consequences particularly in respect of capital allowances and two as a tipping point factor that would lead occupiers to conclude deals because of the financial incentives on offer.
- 3.6 Initial discussion with the Government has gone well although of course they will not commit themselves particularly to capital allowances until they understand the extent of the financial impact on Government finances. After an initial expression of concern that the potential proposal was not for a simple single site, the Government representatives started to see the merit of an innovative approach that met Tees Valley's strategic economic development aims. It was agreed that a plan showing the preferred option together with detailed financial assessments and the pipeline of deals that could benefit would be shared with them at the earliest opportunity. Finally they agreed to provide some high level planning expertise to work with the Borough's planners to look at the appropriate planning regime. This might include the use of Local Planning Orders in some areas but other planning tools and mechanisms to restrict use to avoid displacement will also need to be looked at in detail. A further meeting is due to be held with the Treasury and an update on this will be given at the Board meeting.
- 3.7 The Chamber of Commerce has met with TVU on several occasions and attached to this report as Appendix 3 is the paper that it produced on the selection of the Zone. The Board will see that its views seem to accord with the guiding key principles adopted to determine the best location(s). Savills are due to meet with the Chamber to explain the detail of the methodology used by them to judge particular sites and the outcome of this meeting will be reported at the Board meeting. Ideally by then the Chamber will have agreed to a joint press release with TVU acknowledging the robustness of the process used to select the site of the Zone.
- 3.8 Further work needs to be done on the detailed mechanisms which would be put in place to avoid displacement and distortion of the market (as described in 2.1(d) above), but these are likely to include:

- Planning restrictions – although in practice there is much doubt as to whether it will be possible to enforce tighter controls on occupiers than is normal through existing planning law; the government's general stance is to relax not to tighten planning control.
- Restricting the financial incentives only to those companies which fall within the specific target sector for the site.
- Land ownership control

3.9 Further work is also required on the interplay between the business rate and TIF mechanisms and local authority finances.

4.0 NEXT STEPS

4.1 In terms of the timetable, Government had asked that the proposal be submitted to them on 28th June and they have indicated that they would give approval by the end of July. However on 27th May, the Government indicated that it wanted all firstwave areas to answer standard questions about their zone on 9th June. We will comply but anticipate that it will still take several weeks for the Government to be in a position to approve given the complexity of our submission. This will enable a consultation exercise to be held from 9th June to 23rd June. Depending on issues raised as a result of that exercise there is Leadership Board due on 28th June that could finally sign-off proposal if needs be.

4.2 Savills will help draft the submission to Government. One of the key sections to be addressed in this submission will be the mechanisms for ensuring that displacement does not occur to the detriment of existing business locations.

4.3 Part of the solution will be to tightly define what will be permitted in terms of definition of sectors and activities to support those sectors. Of particular importance will be the definition of Digital and supporting activities to prevent more general office/service occupation. In addition there needs to be more substantial work on arrangements outside of the planning system to ensure that only permitted activities qualify for business rate relief in particular. Further consideration will be given to the governance and management arrangements to operate the Enterprise Zone and the ability to agree through land ownership/management only occupation which meets the definitions of permitted uses/activities. Discussion about sharing in uplift in land value and investment in infrastructure to support future growth will also need to be undertaken with private landowners.

4.4 Consideration needs to be given to the approach that will be taken to the allocation / investment of the additional funding the EZ regime provides (through the equivalent business rate relief being paid to Tees Valley by Government) and appropriate governance

arrangements put in place to oversee it (potentially through the Investment Board).

5.0 COMMUNICATION STRATEGY

- 5.1 Discussions with remaining landowners have been completed to ensure that support is available and that the particular sites can be delivered.
- 5.2 Further meetings with Government will be taking place at which support in principle for the Enterprise Zone is being sought. Detailed discussions on the financial incentives need to occur and on this the help of Sembcorp will be invaluable.
- 5.3 It is suggested that TVU organise a meeting with Ministers at which key private sector representatives say PD Port, Sembcorp, Corus/Tata, Impetus and the Chamber of Commerce to seek to persuade them of the value of the proposal.
- 5.4 In terms of Communication locally, an explanation of the consultation exercise (to be held over the two week period following Leadership Board), its scope and timescales together with the guiding principles has been put on TVU's and the local authorities' websites.
- 5.5 Arrangements have been made for coordinated press releases, media briefings for immediately after 8th June together with consultation events with Environment Agency, Natural England and the Highway Agency.

6.0 CONCLUSION

- 6.1 The work on identifying an Enterprise Zone that meets the economic needs of the area and does not merely lead to displacement of existing business activities has led to a complex but highly innovative draft proposal. This proposal combines the strategic ambitions particularly Ambition 1 of the Statement of Ambition with a clear land/financial incentive strategy to promote growth that is sustainable and transformational. Key to success will be persuading the Government that such a package of sites not only meets the criteria of not exceeding 170 hectares for business rate relief but offers a benefit not just for the area but for the country as a whole through export growth in key sectors.
- 6.2 Digital has been added as a vital sector for the future growth of Tees Valley's economy based on the undoubted success of Digital City. This not only gives a different opportunity to that offered by the sectors closely associated with Ambition 1 but also provides less room for displacement as long as the proper measures through planning and otherwise are put in place.

- 6.3 A robust methodology has been devised by Savills to counter the inevitable challenges that will arise from disgruntled landowners whose own sites have not been included. This methodology has led to the plan attached to this report showing the extent of the preferred Enterprise zone. As mentioned earlier, this may need to change slightly in respect of capital allowance sites but will not change in respect of the business rate incentive sites. Whilst there will be some criticism inevitably of the solution involving each Borough getting a site or sites, the key guiding principles together with the Savills exercise provide evidential support for this outcome that has nothing to do with political convenience.
- 6.4 Much more work needs to be done in a short period particularly on defining sectors and activities and governance and management structures but overall it is hoped that the Board will endorse the 'site' for the Enterprise Zone shown on the plan and the other recommendations set out in the report and recognise that this represents by far and away the most innovative Enterprise Zone proposal that has been submitted to Government.

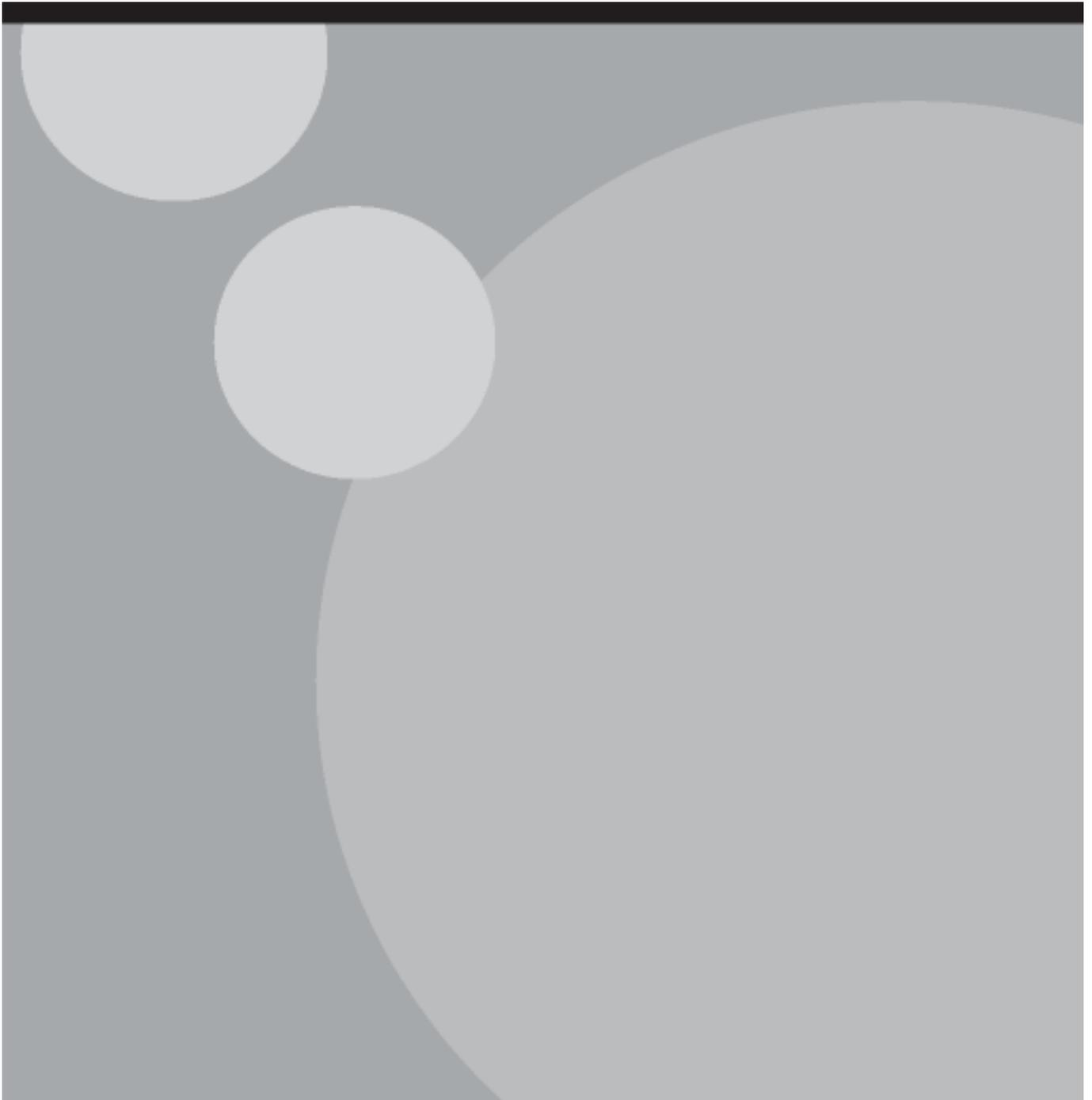
7.0 RECOMMENDATION

That the Board approves in principle and subject to consultation the submission of the preferred Enterprise Zone location as shown on the Plan attached to this report together with all supporting material to the Government.

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Enterprise Zone Prospectus



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Enterprise Zone Prospectus

Budget 2011 announced that Government would establish 21 new Enterprise Zones in local enterprise partnership areas in England. Budget named the first 11 local enterprise partnerships that would benefit from the Zones. A competition for a further 10 Enterprise Zones in the remaining partnership areas was also announced.

This prospectus gives more information to local enterprise partnerships, local authorities and partners about the Government's Enterprise Zone programme. It will be of use both in relation to Enterprise Zones that were announced at Budget and for those local enterprise partnerships considering applying for Enterprise Zone status through the competitive process. It will also be useful to the Devolved Administrations, with whom the UK Government is ready to work to implement Enterprise Zones if they so wish.

Introduction

The Budget set out the Government's pro-growth agenda for enterprise. As part of this, the Government's Growth Review reports on ways that Whitehall can remove the barriers that get in the way of sustainable, private sector-led, growth.

Securing economic growth requires local business, the public sector and communities to be able to act decisively to increase prosperity. The Government is embarked on a radical reform programme to enable this and to increase the focus locally on driving up economic growth. This is a far-reaching programme that tackles key barriers to local enterprise:

- providing strong positive financial incentives for local authorities and communities to support and encourage local housing and business growth
- supporting local enterprise partnerships to establish collaboration between public and private sector and between different authorities so economic decisions are more business-led to have the maximum impact on growth
- substantial planning reform to ensure planning policy supports growth, and wider reductions in regulations to make it easier to get things done and to drive local enterprise
- greater financial flexibility locally so that there is greater scope to support local economic growth through new instruments such as Tax Increment Financing
- providing direct support through the Regional Growth Fund to give further help to areas where there are particular challenges or opportunities for local growth.

Enterprise Zones are a powerful expression of this reform programme. Within enterprise zones much of this reform programme will be made available for the first time. This demonstrates the need to make progress fast so that local areas drive forward enterprise now.

A modern day approach

This generation of Enterprise Zones are about allowing areas with real potential to create the new business and jobs that they need, with positive benefits across the wider economic area. The core offer is around simplified planning and business rates discounts in Enterprise Zones areas, with the capability to develop innovative roles to address specific local economic challenges.

The new generation Enterprise Zones reflect the Government's core belief that economic growth and job creation should be led by the private sector. At the heart of these new Enterprise Zones is a desire to remove barriers to private sector growth through reduced burdens for businesses, particularly in terms of lower tax levels, planning and other regulatory and administrative burdens.

Learning from previous experience, this approach is about:

- **Opportunity** – focusing on areas of genuine economic opportunity, in order to maximise the positive effect that they have on the wider economic area. There are areas of real opportunity throughout the country. Targeting these opportunities to derive the maximum benefit for the wider economic area will be vital in supporting the Government's objective to achieve a balanced approach to growth.
- **Long-term viability** – involving business and local communities through local enterprise partnerships in the long-term success of the area beyond the initial period of Government business rate subsidy. The uplift in business rates receipts as a result of the introduction of the Enterprise Zone will be used by the local enterprise partnership for key economic priorities, related to the zone itself or elsewhere within the local enterprise partnership's boundaries.
- **Strategic fit** - local enterprise partnerships will have a key role in developing and implementing Enterprise Zones. In particular, we will look to the Partnerships to connect Enterprise Zones to economic priorities across the wider area. Government will offer a menu of options to Enterprise Zones to suit local economic needs, rather than a uniform central model.
- **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.

The 11 Enterprise Zones named at budget focus on city regions and those areas that have missed out in the last ten years. Our major cities, and areas of significant untapped potential in places that have been dependent on the public sector, will be key to achieving sustainable growth. But other areas have potential for growth too, so today

Government is launching a competition to identify a further 10 Enterprise Zones in England. The locations of the second wave of Enterprise Zones will be decided on those proposals which offer the best prospect of increased growth.

London has both significant economic opportunity as well as high levels of need. Economic development policy in London is devolved. The Government invited the Mayor to bring forward proposals for an Enterprise Zone in the capital and we will work with him to implement this.

Defining an Enterprise Zone

Enterprise Zones will be geographically defined areas, agreed between the local enterprise partnership and Government. There is no single size for an Enterprise Zone, but there are clearly limits imposed by the levels of funding that Government has been able to set aside to support the Zones. The Government anticipates that most Enterprise Zones would be broadly 50 – 150 hectares, although this will depend on a range of factors, including the size of the area covered by the local enterprise partnership, the nature of the site, the size of business likely to be attracted, and the level of rates that would be foregone as a result. Similar constraints do not apply with all elements of the potential Enterprise Zones package however. There may be a strong case for extending simplified planning approaches beyond the area covered by a Government-funded business rate discount.

We also want to ensure that Enterprise Zones help to support genuinely additional growth and create new businesses and new jobs. The Government therefore envisages that Enterprise Zones will generally be based on 'clean' sites with little or no business occupants. Targeting such sites will reduce the risks of simply favouring incumbent businesses with little added value to the economy of the area.

Evidence suggests that single ownership of land could have had a significant effect on the success of earlier Enterprise Zones. Local enterprise partnerships may also wish to consider the potential to use public sector land assets to support Enterprise Zones. This might include former Regional Development Agency or other central Government assets for example, which would need to be transferred to local authorities at market price.

Eligibility

For the second wave of Enterprise Zones, only the local enterprise partnership, on behalf of all its partners, will be able to bid for an Enterprise Zone. The Government hopes that those areas currently not in a local enterprise partnership are able to bring to a conclusion discussions that are currently underway so that they are able to take advantage of the opportunities set out in the Budget with respect to Enterprise Zones.

In general, only one designation will be made per partnership. This will ensure that the local enterprise partnership is able to prioritise across a functional economic area and that small areas aren't competing against each other to attract other businesses within the same partnership.

For the local enterprise partnerships already announced at Budget, we will work with you to confirm the specific sites and packages best suited to promoting growth.

The role of local enterprise partnerships

Local enterprise partnerships, as business-led partnerships with a goal of driving sustainable economic growth across local economic areas, are ideally placed to drive Enterprise Zones forward. Local enterprise partnerships cover, broadly, a 'functional economic area', and the partnerships can act as the coordinating centre for the constituent local authorities. The Government is looking for local enterprise partnerships to nominate the site of Enterprise Zones based on the economic rationale and potential of the zone.

The local enterprise partnership will need to agree the location, sectoral focus – if any - and range of incentives within an Enterprise Zone. This will be an important means through which to minimise local displacement of businesses and business rates. The Partnership's role will be to identify the barriers which are impeding the growth of the local economy and identifying necessary options from the menu on offer to overcome such barriers. Local enterprise partnerships will also be able to bring together a wider package of support, including working with local colleges, Work Programme providers and linking Enterprise Zones to current and planned infrastructure.

What local enterprise partnerships need to consider in bringing forward proposals

We are inviting short expressions of interest from all those partnerships not named in the first wave by the end of April – see the timetable at the end of this prospectus. The expression of interest stage will be light touch – we want to know firstly if you are interested in establishing an Enterprise Zone and secondly for an indication of any sites that you think may be suitable. Following that we will send out the key criteria against which all bids will be assessed. However, the sort of issues that Partnerships will want to consider include:

1. How your proposals will deliver genuine economic growth and employment, additional to that which would have been achieved in the absence of an Enterprise Zone, minimising displacement and deadweight costs
2. How many new businesses and additional jobs will your proposals create (with the Enterprise Zone itself and more widely across the functional economic area) and what is the estimated cost per job?
3. The barriers to growth you are facing and how do you intend to address them? What is the package of measures you could bring to the table to support this?
4. How do you intend to use the Local Development Order? Do you envisage promoting specific sectors through the Order?
5. What size do you envisage the zone as being; what is the mix (if any) of businesses within the zone and how much total commercial floorspace is envisaged? What are the advantages to the proposed size?

6. What are the links to the wider economy and opportunity, both in terms of existing infrastructure and how will the development of the Enterprise Zone benefit the wider community and economy.
7. Does the proposal have the full support of all the partners in the local enterprise partnership, including Planning Authorities?
8. How to ensure that the public purse doesn't pick up major long-term bills because of unsustainable planning pressures?
9. How will you ensure that incentives or subsidies encourage sustainable employment and business growth?

The menu of options

All Enterprise Zones will benefit from;

- A business rate discount worth up to £275,000 per business over a five year period
- All business rates growth within the zone for a period of at least 25 years will be retained by the local area, to support the Partnership's economic priorities and ensure that Enterprise Zone growth is reinvested locally
- Government help to develop radically simplified planning approaches for the zone using, for example, existing Local Development Order powers
- Government support to ensure that superfast broadband is rolled out throughout the zone, achieved through guaranteeing the most supportive regulatory environment and, if necessary, public funding.

The annex gives further information on these elements of Enterprise Zones.

Government will work with local enterprise partnerships on additional options, to suit local circumstances, including consideration of:

- Enhanced capital allowances for plant and machinery, in a limited number of cases and subject to State Aid, where there is a strong focus on manufacturing
- Tax Increment Finance to support the long-term viability of the area
- UKTI support for inward investment or trade opportunities in the zone.

Regional Growth Fund and the European Regional Development Fund

We intend to align the Regional Growth Fund and the European Regional Development Fund more closely in the second bidding round for the Regional Growth, currently planned for mid-April 2011. Local enterprise partnerships will want to consider how best they can make the link between Enterprise Zones and the two funds where relevant, and what else they, the local economic partnership, can do to support the Enterprise Zone. Further details on the Regional Growth Fund can be found on the Department for Business, Innovation and Skills website at <http://www.bis.gov.uk> and further details on the European Regional Development Funding can be found at the DCLG website on: <http://www.communities.gov.uk>

Timetable

THE FIRST WAVE OF ENTERPRISE ZONES

- **23 March: First 11 local enterprise partnerships to host enterprise zones to be announced**
- **24 March:** Four specific Enterprise Zone sites announced.
- **March 2011– summer 2011:** The Government will work with the first wave of local enterprise partnerships announced in the Budget, to agree the detail of the vanguard Enterprise Zones, agree the specifics about the sites and policy packages.
- **Late March/Early April 2011:** Workshop at DCLG for the first wave of local enterprise partnerships.
- **May 2011:** Local planning authorities will need to start to establish local development orders, once the specific sites are agreed, to create a simplified planning zone.

By April 2012: local authorities will have the power to discount business rates for specific businesses within the Enterprise Zone.

And by April 2013, subject to the Government's consideration of proposals from the Local Government Resource Review, new funding arrangements will be available to local authorities, allowing them to retain business rates and to deliver Tax Increment Financing schemes to develop infrastructure in support of Enterprise Zone development.

THE SECOND WAVE OF ENTERPRISE ZONES

The Budget also announced that we want the remaining local enterprise partnerships to come forward with proposals for enterprise zones.

- **March – April 2011:** By the end of April we would like to receive short expressions of interest from the remaining partnerships.
- **Mid-April:** All partnerships outside of the vanguards invited to DCLG for a workshop on Enterprise Zones.
- **May** – Once we have received expressions of interest, we write to all interested Partnerships with the criteria against which worked up bids will be assessed.
- **May – end June:** Local enterprise partnerships will develop their proposals and submit them.
- **July:** Government will assess the proposals against the criteria prior to announcing the successful bids.

October – March 2012: Planning authorities will need to establish local development orders to cover the zones and Government will work with the successful partnerships to agree the specific package required to address the local economic challenge.

Please contact Alun Hughes (alun.hughes@communities.gsi.gov.uk) for further information or clarification.

Annex A

The Localism Bill, currently before Parliament, contains provisions that will enable local authorities to introduce discounts on the rates bills of businesses in their areas. Subject to Royal Assent, local authorities should be able to grant such discounts with effect from April 2012.

Local authorities with an enterprise zone will provide discounts of up to 100% for every business within that zone, with the Government reimbursing the local authority the cost of the discount.

Discounts are limited by EU state aid law, up to a *de minimis* threshold of €200,000 over a rolling three-year period, the equivalent of approximately £55,000 per year. The relevant local authority will be required to ensure that businesses do not receive greater levels of support. Each business will receive discounts for five years from the start of its occupancy in the Zone, providing it enters the Zone by April 2015.

Businesses will therefore see a major reduction in their rates, and there will be no direct cost for those authorities who introduce the discount within an Enterprise Zone.

The benefits of a business rate reduction are numerous. Clearly the tax burden would be lower, but we also envisage that there would be a positive impact on business cash flow which could free up resources for further investment and/or employment. The discount will be instrumental in improving the economic performance of an area; delivering on commitment to localism; and promoting effective local authority/business relationships.

The Local Government Resource Review will consider proposals to allow authorities to keep their business rates and will deliver proposals by July 2011. A key objective of the Review will be to provide better incentives, through the business rates system, for local authorities to promote economic growth and benefit from the consequent growth in business rates.

The uplift in business rates receipts as a result of the introduction of the Enterprise Zone will be used to support the priorities of the local enterprise partnership. All business rate growth within the zone for a period of at least 25 years will be retained and reinvested in the local area, to support the local enterprise partnership's priorities.

Tax Increment Financing

The Local Government Resource Review will also consider how, in the context of changes to the business rate system, Tax Increment Financing can be introduced. Tax Increment Financing will require, and be subject to, primary legislation.

Tax Increment Financing enables borrowing against future increases in business rate receipts to help fund the development of infrastructure. Authorities considering Enterprise Zones will want to consider how the proposals to allow them to keep business rates and deliver Tax Increment Financing schemes could support the development of the Zone. For

example, local enterprise partnerships may want to consider their ability to buy infrastructure that supports growth and encourages private sector investment directly.

Simplified planning

Enterprise Zone status is conditional upon putting in place a genuinely simplified approach to planning, which should as a minimum cover the area zoned for business rate discounts. Local Development Orders are the most likely planning mechanism which can be used by local authorities to reduce planning control in Enterprise Zones. Local enterprise partnerships sponsoring Enterprise Zone proposals will need to work with their constituent authorities to identify places where greater freedom from planning control could benefit growth, and bring forward Local Development Orders in these areas.

Local Development Orders allow development to be undertaken without the need for planning permission to be obtained from the local planning authority. Local Development Orders can apply to a specific type of development or permit any development in a designated area, and may grant planning permission outright or with conditions. Planning authorities will therefore want to think about how they can use Local Development Orders to promote specific sectors to emphasise any comparative advantage that they may enjoy.

Local authorities already have the power to make Local Development Orders. There are four main stages involved - drafting the Local Development Order document itself, public consultation, notifying the Secretary of State, and adoption. Establishing an Local Development Order can be a swift process – from start to finish the process could take as little as two months.

Local Development Orders will support growth: the delay and cost of obtaining planning permission for development of commercial buildings can be a disincentive to business and therefore inhibit growth. The uncertainty of the planning process is also often cited as a disincentive to develop – businesses can be reluctant to invest time and money in the planning process when there is no guarantee that planning permission will be forthcoming.

In exempting certain development from the need to obtain specific planning permission, Local Development Orders can offer considerable benefits for business. Businesses will be able to proceed with the development permitted by a Local Development Order without needing to apply for specific planning permission, thereby saving on application costs and time delays. Perhaps most importantly, an Local Development Order can provide businesses with certainty that that development is acceptable and can be undertaken without the need for a planning application to be submitted.

Local Development Orders are already being used by local authorities to allow for certain physical development and change of uses to be undertaken in business premises without the need for specific planning permission to either encourage further growth or revitalise ailing areas.

By aligning the Local Development Order with other incentives, such as Business Rate discounts and deregulatory offers, the Government has created a pro-growth package that will reduce the barriers that impede the private sector to deliver jobs and growth. And by

targeting specific areas with real potential for growth, these benefits can spread more widely to support key city-regions and other areas.

Broadband roll-out

We will ensure that all businesses in Enterprise Zones that need superfast broadband will have access to it, with public funding where necessary.

The Government can play an important role in accelerating superfast broadband roll-out and it will invest over half a billion pounds over the next four years in order to create the best superfast broadband network in Europe by 2015. Superfast broadband is a key business enabler and Government will ensure that businesses in the flagship Enterprise Zones are not held up by lack of access to it.

ENTERPRISE ZONE IN TEES VALLEY

INTRODUCTION:

Overview

The Government announced plans to create 21 new Enterprise Zones (EZs) in England in its 2011 Budget. Ten of the EZs are to be located in separate Local Enterprise Partnership (LEP) areas including the North Eastern LEP (NELEP) area and in Tees Valley, with an additional EZ in London. Following this first round of 'pathfinders' up to ten further EZs will be established in a bidding round in which all LEPs in England can participate.

They envisage that the sites will be:

- Between 50-150 hectares in size
- Geographically defined areas, agreed between the LEP and Government
- Based on 'clean' sites with little or no business occupants
- Most successful if land is in single ownership

Specific single site locations have already been approved at :

- Royal Docks, London
- Mersey Waters, Merseyside, Liverpool
- Manchester Airport, Manchester
- Boots Campus, Nottingham

Benefits:

The prospectus on EZs outlines three principle benefits of the proposal, in addition to the necessary planning orders, commitment to superfast broadband and improved dialogue and support from government bodies:

- Business rate discount of up to £55,000 per annum for a maximum of five years.
- Enhanced capital allowances for plant and machinery, in a limited number of cases and with an unclear cap, perhaps equivalent to and in substitution for the business rate discount.
- Retention of all incremental business rate growth in the EZ area for 25 years.

ISSUES ARISING FROM PREVIOUS ENTERPRISE ZONES:

NECC members have experience of the past Enterprise Zones in Middlesbrough and Hartlepool and more recently in nearby Peterlee, Seaham and Tyne and Wear. The main benefits were assumed planning consents, rate free and 100% capital building allowances. In our view, the main issues from the northern Enterprise Zones have been:

Problems include:

- Displacement of businesses from outside to inside the Zone, especially by small businesses on short term leases.
- Increased rentals and land values inside the Zone with a corresponding drop outside.
- General confusion with the property market and the creation of a temporary artificial market.
- A reduced build quality and design of commercial industrial premises.
- Tax schemes for high earners were priority rather than the creation of fit for purpose premises.
- Teesside's property market stagnated during the recent "good times" without an Enterprise Zone in the last round whilst the nearby northern EZs took much investment that might otherwise have come to Teesside.
- EZ failure can create lasting damage and investment confidence to an area.

Successes include:

- Increased interest by new investors and businesses from outside the North East .
- Significantly raises an area's profile.
- Can stimulate huge capital investment and bring forward early business development.

Lessons include:

- Sites should be located in good secondary locations rather than poor locations as EZs can provide the small lift needed (North Tyneside) and poor locations will still fail (Seaham).
- There needs to be complementary regeneration initiatives to offset any displacement (Cobalt and Grangertown, Newcastle).
- An Enterprise Zone cannot magically produce a demand and much will depend upon business confidence, economic stability and growth.
- All grant assistance schemes which provide a different offer within a single business area will produce inequality (Darlington and Newton Aycliffe assisted area status).

ISSUES FOR THE TEES VALLEY ENTERPRISE ZONES

Nothing is straightforward and we note that:

1. There does not, at first glance, appear to be a consistency with the announced Zones as whilst they are all single large sites, they are both single and multi uses.
2. Of the incentives announced, the first two are clearly aimed at the individual business making the investment and represent a useful driver to stimulate and accelerate demand. However, the long term retention of business rates represents a much larger gain, though less certain and over a longer period, in financial terms to the local authority and the area. Is this a conflict?
3. Enterprise Zones are not the only policy available to Local Enterprise Partnerships to support the development of their areas. Though significant, the designation of any specific site or sites as an EZ could be of less consequence to the future economic development of the area than a supportive planning environment combined with a broader commitment to economic growth and private sector job creation. Business Premises Renovation Allowance is an example where 100% capital allowance is already available.
4. Three potential purposes for EZs in the North East exist to firstly generate a long-term financial yield for the LEP for economic development and regeneration investment, secondly to support globally mobile investment and foster new enterprise creation in specific priority sectors and thirdly to incentivise business investment in an area of depressed commercial property development.
5. The TV LEP should recognise that purpose rather than place/location should be the primary factor. Parochial compromises should be avoided and we do not get five solutions when one would be best.
6. Businesses could support a 'package' of initiatives including and alongside the zone that could:
 - Embrace a number of separate sites with one designated 'official', Government-funded zone supporting others.
 - Involve statutory consultees in minimising planning constraints on the EZ and any related sites either through a Local Development Order or other less prescriptive mechanisms such as an agreed Memorandum of Understanding.

- Create a single, high-yield zone with the goal to create a longer term regeneration 'endowment' for the LEP area.

The TVLEP's proposals has to explain the choice between the retention of significant business rate growth income within a broader package of incentives in the LEP area and the definition of an area in terms of sector specialisms that encourages the globally mobile investment and the creation of new enterprises.

The prospectus for the Government's new EZ policy outlines some clear and considerable challenges and specifically that the timescales surrounding the EZ are incredibly tight. This could lead toward recommending sites that are close to occupation or deliverable soon when some important potential benefits, such as the potential related capital allowances regime, remain ambiguous and difficult to quantify. Is this what we want?

TEES VALLEY UNLIMITED AND TV LEP:

We note the concentration of effort into economic development with the main ambition of driving transition to the high value low carbon economy and the creation of a more diversified economy.

This stresses the importance of investment in the petrochemicals, renewable energy and the various advanced and marine engineering sectors coupled with building on the strengths of the universities – especially digital media – and the service sector.

It would seem logical that the TV EZ must relate to and enhances this ambition.

CONCLUSIONS

NECC, as the largest multi sectoral business representative body in the greater Teesside area and north east, looks to work in partnership with the LEP in constructing the policy for our area. We would have welcomed being involved in the discussion of the methodology and of analysis of the initial's findings. NECC have been involved in more detailed and open discussions elsewhere.

This brief paper sets out our overview and initial comments which we hope will assist with the Leadership Board's considerations and particularly the private sector representations.

From past history, we expect the main considerations revolving around two main issues:

1. A corridor of sites within each local authority boundary with user linkage or one site specific to one of the agreed economic ambitions. If it is the latter and there is one site how are the benefits to be shared amongst the other four boroughs?
2. Should the emphasis be on EZ benefits going to businesses direct or to the local authorities? If it is the latter and there is one site how are the benefits to be shared amongst the other four boroughs?

NECC Tees Valley Committee met on the 26th May after the working group's meetings and fully endorsed the findings which they discussed in detail and also with Mr Catchpole following his presentation to the Committee.

Members who were unable to attend were also given the opportunity to comment.

NECC look forward to being an active partner in the discussions on this important part of our economic strategy.

27 May 2011