
ENTERPRISE ZONES

**Responsible Cabinet Member - Councillor Chris McEwan
Economy and Regeneration Portfolio**

Responsible Director – Richard Alty, Director of Place

SUMMARY REPORT

Purpose of the Report

1. To seek Cabinet’s consideration and endorsement of the proposals by the Tees Valley Local Enterprise Partnership, Tees Valley Unlimited (TVU) for the Tees Valley Enterprise Zone(s).

Summary

2. The Tees Valley Local Enterprise Partnership’s proposed response to the Government’s Enterprise Zone (EZ) invitation has been to develop an EZ “package” focused on high value/low carbon industries and digital industries where it is considered maximum benefits can be obtained for both the national and local economy.
3. Particularly those sites that link with “pipeline” major investments in Low Carbon industries including process, petrochemicals, biomedical, biotechnical, renewable energy have been identified. The overall proposed area of EZ-related sites is 958.2 hectares of which 170.6 ha is proposed to benefit from Business Rate Discounts, 542.9 ha would attract Capital Allowance Enhancements on plant and machinery and a 244.7 ha would benefit from Tax Increment Financing.
4. Within the EZ proposal, Darlington has been identified as benefitting from a “digital industries” EZ, covering ten hectares of Central Park. Although this is a relatively small proportion of the overall scheme, Central Park is Darlington’s key regeneration project and EZ status could help accelerate or encourage development.
5. In order for this proposal to be accepted by Government, it is necessary for each of the Tees Valley Local Authorities to endorse it. It is believed that this would send a positive message to Government that the LEP is working effectively to prioritise investment. There is no guarantee that all (or even any) of the proposed three EZ site packages will be acceptable to Government. TVU have had some discussions with Government about the approach Tees Valley is taking but it would take a local variation to the proposed EZ format for TV’s proposal to be accepted.
6. One of the biggest attractions of the EZ proposal is Tees Valley local authorities will benefit from the uplift in business rates for 25 years for re-investment within the LEP area (ie the business rates will not necessarily be retained by individual Local Authorities). This has

been estimated as £291m across Tees Valley. This means that Darlington will benefit from a share of business rates generated elsewhere within Tees Valley to support its employment initiatives. The overall scheme, including the creation of an investment fund should assist the promotion of Darlington's economic advantages, complementary to the Tees Valley inward investment offer.

7. Overall the proposals are considered to be the best strategic fit with the Tees Valley Statement of Ambition that delivers maximum benefits and minimises risks of displacement.
8. It is critical that there are controls and governance mechanisms to ensure that the EZ focuses on genuine growth and does not just create displacement of businesses and distortion of the development market.

Recommendation

9. It is recommended that :-
 - (a) Cabinet endorse Tees Valley Local Enterprise Partnership's Enterprise Zone proposal as set out in **Appendix A**.
 - (b) Cabinet agree Darlington's proposal for Central Park to be considered as an Enterprise Zone and officers are instructed to negotiate with the Central Park Developer Consortium its implementation should the Government accept the proposal.
 - (c) Officers are instructed to secure a scheme that minimises the risk of displacement to Darlington sites, business and inward investment to the Borough.

Reasons

10. The recommendations are supported by the following reasons :-
 - (a) Overall the proposals are considered to be the best strategic fit with the Tees Valley Statement of Ambition that delivers maximum benefits and minimises risks of displacement
 - (b) An Enterprise Zone at Central Park will require consequential changes to the Master Plan and Development Agreement in place with the Developer Consortium.
 - (c) To maximise the benefits and minimise the risks to the Darlington economy.

Richard Alty
Director of Place

Background Papers

Savills recommendations and analysis.

John Anderson : Extension 2501

S17 Crime and Disorder	No direct impact
------------------------	------------------

Health and Well Being	Economic prosperity of the sub-region and Darlington is central to the overall health and well being of its people. The Enterprise Zone proposals are an important initiative to boost the long term economic position of the Tees Valley.
Carbon Impact	The proposals should have a major impact on carbon reduction within the sub-region and place the Tees valley as a world leader in low carbon industries.
Diversity	The package is designed to maximise benefits to the whole of the Tees Valley supporting its diversity.
Wards Affected	Lingfield and Bank Top in which the Central Park Enterprise Zone is potentially located.
Groups Affected	No specific groups affected
Budget and Policy Framework	No direct impact on MTFP. Enterprise Zone would fit planning policy framework for Central Park.
Key Decision	No
Urgent Decision	No
One Darlington: Perfectly Placed	Economic prosperity of the Borough is central to the overall objectives of the Community strategy. The Enterprise Zone proposals are an important initiative to boost the long term economic position of the Tees Valley and should have benefits to Darlington in its pursuit of its economic objectives.
Efficiency	No direct impact on efficiency.

MAIN REPORT

Information and Analysis

The Government's Enterprise Zone Offer.

11. Tees Valley Unlimited have been coordinating Tees Valley's response to the Government's Budget announcement that Tees Valley is one of 11 "vanguard" Local Enterprise Partnership (LEP) areas eligible to benefit from an Enterprise Zone (EZ). The Enterprise Zone Prospectus was published in March 2011, setting out the policy rationale for EZs and how the Government expected EZs may work.
12. Initial guidance was that there could be only one EZ per LEP area, that an EZ should comprise a single site of between 50 - 150 hectares. Government also indicated that it was looking for "deliverable sites", possibly in public sector (uncomplicated) ownership with few or no existing business occupiers.
13. EZ guidance also recommended that Local Authorities should examine the use of existing planning tools to support not just proposed EZ areas but also wider areas. Local Development Orders (LDOs) are expected to be considered in EZ areas. A LDO is a planning tool that in effect grants planning permission, in the same way as the General Permitted Development Order, for certain types of development without the need to submit a planning application.

14. Government set out a “menu of options” that EZs may benefit from, these included:
 - (a) A business rate discount worth up to £275,000 per business over a five year period.
 - (b) All business rates growth within the zone for a period of at least 25 years to be retained by the local [LEP] area to support the LEP’s priorities and ensure that the EZ growth is invested locally.
 - (c) Government to help develop simplified planning approaches in EZ areas i.e. through Local Development Order powers.
 - (d) Government support to roll our superfast broadband throughout the EZ.
15. Guidance also suggested that other (enabling) financial tools should also be considered for EZ sites based on local circumstances, such as:
 - (a) Enhanced capital allowances for plant and machinery, where there is a strong focus on manufacturing.
 - (b) Use of Tax Increment Financing (TIF), which is a financial tool that enables Local Authorities to raise “up-front” funding to invest in sites with a view to securing an uplift in business rates which could initially be used to re-pay the funding for the initial investment, after which the benefit from the uplift in business rates could be retained by the Local Authority.
 - (c) UKTI support for inward investment or trade opportunities in the EZ.
16. The aim is to have business rate discount powers in EZs by April 2012 and, subject to the Government’s resource review, that new funding arrangements be available to Local Authorities allowing them to retain business rates and deliver TIF schemes to develop infrastructure in support of the EZ development.

Tees Valley Response to the Enterprise Zone(s)

17. Savills consultants were appointed to collate information on sites across Tees Valley and make recommendations to the Local Enterprise Partnership. In particular the Savills brief stressed the need to maximise the benefits of the Enterprise Zone to the economic ambitions of the Tees Valley.
18. Your officers first considered the sites identified in the council’s Employment Land Review that would meet the government’s criteria as set out in its prospectus. These sites were principally in two clusters. One around the employment sites in east Darlington from Salters Lane South/ Morton Palms and north to the Darlington Eastern Transport Corridor. The second around the Faverdale strategic site identified in the Regional Spatial Strategy. These areas were proposed as suitable for an expansion of our advanced engineering and manufacturing sectors. Faverdale is considered as a location possibly attractive for companies seeking to secure contract in the supply chains to Hitachi although it would remain a key site for logistics and distribution. Central Park was also identified as a potential Enterprise Zone for the Digital Industry sector given its relationship to the new Teesside University facility.

19. There was a consensus amongst Tees Valley Officers that it was imperative that the Enterprise Zone opportunity should maximise the economic growth and job potential of the Tees Valley and at the same time avoid the negative impacts of the first generation Enterprise Zones that largely encouraged the displacement of existing business with little growth benefits (ie businesses in the Enterprise Zones had mainly moved into the Zone from elsewhere or would have moved to a different area nearby had there been no EZ). It is therefore recommended that the Enterprise Zone proposals play to the unique strengths of the Tees Valley in the emerging high value/low carbon sectors and digital industries, as reflected in the Tees Valley Statement of Ambition
20. Having regard to these matters Savills devised a site scoring matrix that they believed reflected the LEP's instructions and relative priorities.
21. The result of this exercise was that the key opportunities for high value/low carbon growth are centred in and around the traditional processing and chemical industries located North and South of the River Tees in the other four Borough areas and Darlington sites scored relatively poorly for this sector development. Central Park did however score highly against growth opportunities in the Digital Sector together with two other sites at St Hilda's in Middleborough and Northshore in Stockton. The distribution of sites is shown on the plan attached at **Appendix A** to the report by Stephen Catchpole Managing Director of Tees Valley Unlimited approved by the Leadership Board on the 8th June 2011.
22. Savills' work has identified 22 sites. The sites fall into three categories:
 - (a) Business Rate Discount – for those sites which are aimed at fostering indigenous small and medium sized businesses which form the supply chain of the area's potential growth industries such as petro-chemicals, renewable energy, biomedical and biotechnical processes or which are part of the area's emerging and fast-growing digital sector.
 - (b) Capital Allowance Enhancements – for those sites which will attract large-scale inward investors, particularly Foreign Direct Investment (FDI) in the petro-chemical, renewable energy production and fabrication sectors.
 - (c) Tax Increment Financing – for those sites which require significant upfront site preparation and infrastructure in order to bring them forward for development within these targeted sectors.

Darlington Implications

23. It is recognised that the continued competitiveness of the petro-chemical and biotechnical industries north and south of the River Tees is critical to the long term wellbeing of the area and from which Darlington benefits, particularly in the support, technical and professional business sectors.
24. Whilst it is not surprising that Darlington's sites scored relatively poorly against the priority sectors low carbon/high value sectors it should be remembered that Darlington's sites are more attractive to wider and more diverse sectors including logistics, advanced engineering, manufacturing and office sectors and is complementary to the industrial structure of the Tees Valley. The focus of the Enterprise Zone schemes on sectors that are strong to the rest of the Tees Valley should also boost the attractiveness of Darlington sites to more footloose

businesses and play into Darlington's relative strengths of location and connectivity together with quality of life offer.

25. A significant benefit of the Enterprise Zone proposal is the generation of an investment fund based on the government's proposal to pass to the LEP funds equivalent to the business rate levied within the Enterprise Zones for further investment in economic regeneration. This is estimated to be £291 million over the life of the scheme. It is with this fund in mind that Darlington should benefit in terms of advancing its employment opportunities and tackle barriers to economic growth.
26. Officers are also conscious that to have had an Enterprise Zone in Darlington or elsewhere in the Tees Valley that encouraged any business development would have resulted in significant displacement risks and diluted the opportunity to genuinely grow new and emerging sectors. Indeed there is historical evidence from earlier Enterprise Zones that such unrestricted Zones have dramatically impacted on local markets and investments to the overall detriment of existing sites. In the Darlington context there would be concerns about the continued private sector investment in other strong sites if there were competing Enterprise Zones.
27. A major concern about the proposal is the risk of displacement. It is recognised that the targeted sectors will provide an opportunity to limit this risk but further work is required to define the sectors and put in place control mechanisms to manage this risk. Planning tools are likely to be too blunt and therefore reliance will need to be placed on land ownership and/or financial incentives. The best control to avoid displacement would be for the financial incentives to be available only to the defined sectors with cross-Tees Valley governance to ensure this is adhered to over the course of the EZ. Officers are strongly of the view that this is critical if Darlington's employment opportunities are to be supported by the Enterprise Zone proposals.
28. The proposal to identify Central Park as a possible Enterprise Zone will require further discussions and negotiations with the Developer Consortium to finalise matters such as the location and boundary of the Enterprise Zone within Central Park and any consequential adjustments to the Master Plan and Development Agreement. Again defining more precisely the Digital Industry sector will be important to avoid displacement in office use. A refreshed Master Plan for Central Park and revisions to the development agreement would be matters requiring Cabinet consideration at a future time.
29. **Outcome of Consultation**
30. The Development Consortium for Central Park has been informed the proposal for an Enterprise Zone in Central park and have initially welcomed the concept of the proposal as being helpful to kick start commercial development. It is recognised that detail discussions will need to take place to define the boundary of the Enterprise Zone
31. The Leadership Board of the LEP has agreed to seek comments from the business community and to consider those representations before submitting proposals to Government by the 28th June.

Conclusion

32. Tees Valley's proposed response to the Government's EZ invitation has been to develop an EZ "package" focused on sites within Teesside and particularly those which Savills believe link with "pipeline" major investments in Low Carbon industries including process, petrochemicals, and biomedical, biotechnical, renewable energy. The overall proposed area of EZ-related sites is 958.2 hectares of which 170.6 ha is proposed to benefit from Business Rate Discounts, 542.9 ha would attract Capital Allowance Enhancements on plant and machinery and a 244.7 ha would benefit from Tax Increment Financing.
33. Within the EZ proposal, Darlington has been identified as benefitting from a "digital industries" EZ, covering ten hectares of Central Park. Although this is a relatively small proportion of the overall scheme, Central Park is Darlington's key regeneration project and EZ status could help accelerate or encourage development.
34. In order for this proposal to be accepted by Government, it is necessary for each of the Tees Valley Local Authorities to endorse it. It is believed that this would send a positive message to Government that the LEP is working effectively to prioritise investment. There is no guarantee that all (or even any) of the proposed three EZ site packages will be acceptable to Government. TVU have had some discussions with Government about the approach Tees Valley is taking but it would take a local variation to the proposed EZ format for TV's proposal to be accepted.
35. One of the biggest attractions of the EZ proposal is Tees Valley local authorities will benefit from the uplift in business rates for 25 years for re-investment within the LEP area (i.e. the business rates will not necessarily be retained by individual Local Authorities. This has been estimated as £291m across Tees Valley. This means that Darlington will benefit from a share of business rates generated elsewhere within Tees Valley.
36. Overall the proposals are considered to be the best strategic fit with the Tees Valley Statement of Ambition that delivers maximum benefits and minimises risks of displacement. The overall scheme, including the creation of an investment fund should assist the promotion of Darlington's economic advantages and complementary to the Tees Valley inward investment offer.
37. In order that the EZ scheme does not just distort the development market, it is critical that appropriate controls are in place to control and govern displacement.