

AGENDA

General Overview & Scrutiny Committee

Date: **Wednesday 14 January 2015**

Time: **10.00 am**

Place: **The Council Chamber, Shire Hall, St. Peter's Square,
Hereford, HR1 2HX**

Notes: Please note the **time, date** and **venue** of the meeting.

For any further information please contact:

Ben Baugh, Governance Services

Tel: 01432 261882

Email: bbaugh@herefordshire.gov.uk

If you would like help to understand this document, or would like it in another format, please call Ben Baugh, Governance Services on 01432 261882 or e-mail bbaugh@herefordshire.gov.uk in advance of the meeting.

Agenda for the Meeting of the General Overview & Scrutiny Committee

Membership

Chairman **Councillor WLS Bowen**
Vice-Chairman **Councillor BA Durkin**

Councillor AM Atkinson
Councillor AJM Blackshaw
Councillor ACR Chappell
Councillor DW Greenow
Councillor EPJ Harvey
Councillor TM James
Councillor JG Jarvis
Councillor RL Mayo
Councillor PJ McCaull
Councillor AJW Powers
Councillor A Seldon
Councillor DB Wilcox

Co-optees
(education items)

Mr P Burbidge
Miss E Lowenstein
Mr P Sell

Roman Catholic Church
Secondary School Governor
Church of England

AGENDA

Pages

1. APOLOGIES FOR ABSENCE

To receive apologies for absence.

2. NAMED SUBSTITUTES (IF ANY)

To receive details of members nominated to attend the meeting in place of a member of the committee.

3. DECLARATIONS OF INTEREST

To receive any declarations of interest by members.

4. QUESTIONS FROM THE PUBLIC

To note questions received from the public and the items to which they relate.

(Questions are welcomed for consideration at a scrutiny committee meeting so long as the question is directly related to an item listed on the agenda below. If you have a question you would like to ask then please submit it no later than two working days before the meeting to the officer named on the cover of this agenda.)

Note: To ensure that the committee has sufficient time to consider the call-in, it is not intended that verbal questions will be received from the public at the meeting. Please submit questions in writing no later than **4.00pm on Friday 9 January 2015**; these should be relevant to the call-in notice, provided at page 11/12 of this agenda.

5. CALL-IN OF THE MARCHES LOCAL ENTERPRISE PARTNERSHIP JOINT EXECUTIVE COMMITTEE DECISION ON MARCHES ENTERPRISE ZONE

7 - 58

To consider the call-in of the Marches Local Enterprise Partnership Joint Executive Committee decision.

6. DATE OF NEXT MEETING

It is intended that the meeting scheduled for Wednesday 26 January 2015 be postponed to provide resources for this call-in meeting and to accommodate an additional meeting in relation to Edgar Street Football Ground, likely to be on the afternoon of Tuesday 10 February 2015.

A further meeting will be arranged during the week commencing 23 February 2015 to deal with other business in the work programme.

The Public's Rights to Information and Attendance at Meetings

You have a right to: -

- Attend all Council, Cabinet, Committee and Sub-Committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports at least five clear days before the date of the meeting.
- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all Councillors with details of the membership of Cabinet and of all Committees and Sub-Committees.
- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the Council, Cabinet, Committees and Sub-Committees.
- Have access to a list specifying those powers on which the Council have delegated decision making to their officers identifying the officers concerned by title.
- Copy any of the documents mentioned above to which you have a right of access, subject to a reasonable charge (20p per sheet subject to a maximum of £5.00 per agenda plus a nominal fee of £1.50 for postage).
- Access to this summary of your rights as members of the public to attend meetings of the Council, Cabinet, Committees and Sub-Committees and to inspect and copy documents.

Fire and Emergency Evacuation Procedure

In the event of a fire or emergency the alarm bell will ring continuously.

You should vacate the building in an orderly manner through the nearest available fire exit and make your way to the Fire Assembly Point in the Shire Hall car park.

Please do not allow any items of clothing, etc. to obstruct any of the exits.

Do not delay your vacation of the building by stopping or returning to collect coats or other personal belongings.

The Chairman or an attendee of the meeting must take the signing in sheet so it can be checked when everyone is at the assembly point.

Recording of Meetings

Anyone is welcome to record public meetings of the council using whatever, non-disruptive, methods you think are suitable. Please note that the meeting chairman has the discretion to halt any recording for a number of reasons including disruption caused by the recording, or the nature of the business being conducted. Recording should end when the meeting ends, if the meeting is adjourned, or if the public and press are excluded in accordance with lawful requirements.

Anyone filming a meeting is asked to focus only on those actively participating.

If, as a member of the public, you do not wish to be filmed please make a member of the governance team aware.

| | |
|-------------------------|--|
| MEETING: | General Overview and Scrutiny Committee |
| DATE: | 14 January 2015 |
| TITLE OF REPORT: | Call-in of Marches Local Enterprise Partnership Joint Executive Committee Decision on Marches Enterprise Zone |
| REPORT BY: | Governance Services |

1. Classification

Open.

2. Purpose

To consider the call-in of the Marches Local Enterprise Partnership Joint Executive Committee decision on Marches Enterprise Zone. The decision has been called in by three members of the committee: Councillors ACR Chappell, EPJ Harvey and A Seldon.

3. Recommendation

THAT the committee reviews the Marches Local Enterprise Partnership Joint Executive Committee decision and decides:

- a) **whether it accepts that decision with no further comment, or**
- b) **whether it wishes to accept the grounds on which the decision has been called-in and refer the decision back to the decision maker for reconsideration and, if so, what recommendations it wishes to make.**

4. Background

- 4.1 Call-in is a statutory right for members of the Council to review an executive decision after it is made but before it is implemented.
- 4.2 A decision cannot take effect pending consideration of the call-in by the General Overview and Scrutiny Committee.
- 4.3 After consideration by the General Overview and Scrutiny Committee, the decision maker may implement the original decision or reconsider it in the light of the committee's comments.
- 4.4 The committee has no power to overturn a decision of the Joint Executive Committee. It can only request the decision maker to reconsider its decision.

- 4.5 The Constitution (4.5.16.5) provides that call-in should only be used in exceptional circumstances including but not limited to;
- a where there is evidence which suggests that issues have not been handled in accordance with the decision-making principles set out in this Constitution;
 - b where a key decision has been taken of which notice was not given in accordance with the requirements in the Access to Information Rules (Part 4 Section 2), and is not subject to the urgency procedures set out in this Constitution; or
 - c where a decision is outside the Budget and Policy Framework.
- 4.6 The General Overview and Scrutiny Committee can either accept the Joint Executive Committee's decision with no further comment or accept the grounds on which the decision has been called-in and refer the decision back to the decision maker for reconsideration.

5. Reasons for call-in

- 5.1 In accordance with the Scrutiny Procedure Rules set out at Part 4 Section 5 of the Constitution, the Marches Local Enterprise Partnership Joint Executive Committee decision on 11 December 2014 concerning the Marches Enterprise Zone has been called-in for consideration by this committee.
- 5.2 The stated reasons for the call-in are given in Appendix A and are reproduced below:

'This call-in qualifies under 4.5.16.5 part a and c for the following reasons:

- a) where there is evidence which suggests that issues have not been handled in accordance with the decision-making principles set out in this Constitution
- and
- b) where a key decision has been taken of which notice was not given in accordance with the requirements in the Access to Information Rules (Part 4 Section 2), and is not subject to the urgency procedures set out in this Constitution;
- and possibly (see text below)
- c) where a decision is outside the Budget and Policy Framework

A report or reports which have been relied upon by officers to inform their opinion and recommendations to decision-makers have been referenced in the report but not listed and made available as background papers. These include, but are not limited to, 'the DTZ report'.

Without access to and sight of these documents it is not possible for councillors, and the public, to be assured that this decision has been made in accordance with the decision-making principles of the council's constitution, and that the decision is within the Budget & Policy Framework.

Specifically, failure to produce the supporting report/s goes against para 2.11.1.1(f) of the constitution which states: "When the Council takes a decision it will (f) explain what options were considered and give the reasons for the decision." In particular with regard to the detail of the financial implications of the options considered and the future commitment of public monies, incurring of risk, and the ongoing funding commitment to the LEP should the infrastructure project/s concerned not receive funding.

Further concerns regarding the substance of the decision and the options considered cannot be ruled out at this stage. Signatories to this call-in, and by implication the wider scrutiny committee, reserve the right to raise any such concerns as part of the call-in, once the background papers are made available.

We request that all information, reports and opinion relied upon by officers and decision-makers be referenced and made available in support of this decision and its call-in.

In the event that any of these documents are judged to contain exempt information - redacted versions of the documents should have been made available to the public, and unredacted versions made available - with appropriate assurances given regarding their handling, to councillors.'

- 5.3 The report considered by the Marches Local Enterprise Partnership Executive Committee (Appendix B) and the related Written Statement of a Key Decision (Appendix C) are attached.
- 5.4 Following receipt of the call-in notice, the Monitoring Officer provided advice to committee members about the position with background papers (Appendix D) and provided a redacted version of 'the DTZ report' (Appendix E). The report was also published in a supplement to the Marches Local Enterprise Partnership Joint Executive Committee agenda.

6. Appendices

- Appendix A Notification of Call-in for Submission to the Monitoring Officer
- Appendix B Marches Local Enterprise Partnership Joint Executive Committee, Marches Enterprise Zone Report
- Appendix C Written Statement of a Key Decision, Marches Enterprise Zone
- Appendix D Email from the Monitoring Officer to Committee Members, 18 December 2014
- Appendix E DTZ Report, Hereford Enterprise Zone (Redacted)

Links

Information about Marches Local Enterprise Partnership Joint Committee:

<http://councillors.herefordshire.gov.uk/ieListMeetings.aspx?CId=873&Year=0>

Marches Local Enterprise Partnership Joint Committee agenda, 11 December 2014:

<http://councillors.herefordshire.gov.uk/ieListDocuments.aspx?CId=873&MId=5299&Ver=4>

7. Background papers

- 7.1 None identified.

NOTIFICATION OF CALL-IN FOR SUBMISSION TO THE MONITORING OFFICER

| | |
|---|--|
| ITEM | Marches Enterprise Zone |
| Decision Maker and Reference Number | Marches LEP Joint Executive Committee 2014-15.Cab.022.Key |
| Date of decision | 11-12-14 |
| <p>This notification must state: Which decision or which part of a decision is being called in. The grounds for the call in as laid out in rule 4.5.16.5 (see overleaf)</p> | <p>This call-in qualifies under 4.5.16.5 part a and c for the following reasons:</p> <ul style="list-style-type: none"> a) where there is evidence which suggests that issues have not been handled in accordance with the decision-making principles set out in this Constitution <p>and</p> <ul style="list-style-type: none"> b) where a key decision has been taken of which notice was not given in accordance with the requirements in the Access to Information Rules (Part 4 Section 2), and is not subject to the urgency procedures set out in this Constitution; <p>and possibly (see text below)</p> <ul style="list-style-type: none"> c) where a decision is outside the Budget and Policy Framework <p>A report or reports which have been relied upon by officers to inform their opinion and recommendations to decision-makers have been referenced in the report but not listed and made available as background papers. These include, but are not limited to, 'the DTZ report'.</p> <p>Without access to and sight of these documents it is not possible for councillors, and the public, to be assured that this decision has been made in accordance with the decision-making principles of the council's constitution, and that the decision is within the Budget & Policy Framework.</p> <p>Specifically, failure to produce the supporting report/s goes against para 2.11.1.1(f) of the constitution which states: "When the Council takes a decision it will (f) explain what options were considered and give the reasons for the decision." In particular with regard to the detail of the financial implications of the options considered and the future commitment of public monies, incurring of risk, and the ongoing funding commitment to the LEP should the infrastructure project/s concerned not receive funding.</p> |

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| | <p>Further concerns regarding the substance of the decision and the options considered cannot be ruled out at this stage. Signatories to this call-in, and by implication the wider scrutiny committee, reserve the right to raise any such concerns as part of the call-in, once the background papers are made available.</p> <p>We request that all information, reports and opinion relied upon by officers and decision-makers be referenced and made available in support of this decision and its call-in.</p> <p>In the event that any of these documents are judged to contain exempt information - redacted versions of the documents should have been made available to the public, and unredacted versions made available - with appropriate assurances given regarding their handling, to councillors.</p> |
|--|---|

In accordance with Scrutiny Procedure Rules set out at Part 4 Section 5 of the Constitution we confirm that we wish to call in this decision.

| Signatory | Councillors |
|------------------|---|
| | 1. Chris Chappell 2. Alan Seldon 3. Liz Harvey |
| 1 | Chris Chappell |
| 2 | Alan Seldon |
| 3 | Liz Harvey |

Return to Monitoring Officer (c/o Democratic Services)

Received by Democratic Services.....Date 16 December 2014



MARCHES LOCAL ENTERPRISE PARTNERSHIP JOINT EXECUTIVE COMMITTEE

| | |
|-------------------------|--------------------------------|
| MEETING DATE: | 11 December 2014 |
| TITLE OF REPORT: | Marches Enterprise Zone |

Classification

Open

Key Decision

This is a key decision because it is likely to result in the councils incurring expenditure which is, or the making of savings which are, significant having regard to the councils' budgets for the service or function to which the decision relates.

Purpose

To consider the outcome of a review of options and agree mechanisms for accelerating delivery of the enterprise zone.

Recommendation(s)

THAT: the Joint Committee

- (a) approve Scenario 3, as outlined in this report, as the investment approach to take, with an amendment to provide £100k a year from the additional business rates to help meet LEP running costs from 2016/17 onwards for the duration of the model;**
- (b) business rates generated by the enterprise zone be used to fund the additional investment required;**
- (c) recognise that the enterprise zone funding stream is one of the potential sources for the Wye river crossing, but that this funding need not be quantified at this time; and**
- (d) ask Herefordshire Council to keep the Marches LEP board informed of progress with the implementation of the Herefordshire Local Development Framework.**

Summary

1. DTZ has been commissioned by the Department for Communities and Local Government (DCLG) to work with a number of enterprise zones across the country to encourage delivery propositions to accelerate take up and hence maximise financial returns to the parent local enterprise partnership (LEPs).
2. DTZ has prepared a detailed report for the Hereford enterprise zone. The DTZ report considered a range of intervention measures in enabling infrastructure and other site preparation works in order to optimise the performance of the enterprise zone.

3. DTZ noted the limitations that the broader infrastructure around the city will have on the success of the enterprise zone. In particular, they highlighted the development of a new Wye river crossing as critical to success. The implementation of this crossing will free up capacity on the existing road infrastructure to enable the zone to be developed out in full.
4. The DTZ report considered the financial position under three scenarios:
 - **Scenario 1 – ‘Base Case’.** This summarised the interventions by Herefordshire Council and outcomes to date, with £3.8m of committed expenditure likely to provide an estimated take-up of 35,525 sq m. If no further proactive interventions were adopted, the forecast rate of income over the 25 year life of the enterprise zone would be £21.3m. Following removal of costs, and allowing for a contingency, a net surplus of £7.5m would be generated over the 25 year period.
 - **Scenario 2 – Enterprise zone interventions partially implemented but river Wye crossing is not completed.** A range of further intervention measures (e.g. enabling works) costing £10.6m would increase take-up to an estimated 49,435 sq m. This would generate an estimated rates income of £33.3m, following removal of costs and allowing for a contingency, a net surplus of £7.8m would be generated over the 25 year period.
 - **Scenario 3 – Enterprise zone interventions fully implemented and river Wye crossing completed.** A bridge would enable an estimated take-up of 146,925 sq m at a cost of £17.3m. This would generate rates income of £79.4m, following removal of costs and allowing for a contingency, a net surplus of £40.9m would be generated over the 25 year period.
5. Officers from the three councils have heard from the experiences of the enterprise zone team in the light of two year’s practical experience of delivery and the financial circumstances that applied as a consequence, and had an opportunity to test the DTZ model’s assumptions and outputs in detail. Herefordshire Council also provided the LEP board with a detailed update on the progress with the Hereford relief road. This confirmed that the relief road was included within the Herefordshire Local Plan Core Strategy submission, and that Herefordshire Council had a range of funding opportunities at its disposal to fund the relief road including the enterprise zone business rates generation.
6. Officers concluded, and the Marches LEP Board accepted, that:
 - the DTZ model is good and robust and provides a good evidence base for actions and the consequences of those actions
 - the circumstances are far better understood now than in 2012 and the zone is not a simple ‘cash cow’. It has to be worked hard to generate a return, potentially not starting to make a return to the Marches LEP until 2022/23
 - Scenario 3, maximum intervention, provides by far the best potential scale of return for the Marches LEP, but requires certainty of a Wye crossing to achieve maximum impact
 - the model should be adjusted, to provide an earlier contribution to the Marches LEP running costs, in order to reflect the principle of an early first call established in 2012. This was proposed at £100k a year from 2016/17, when the current Government core funding commitment end

- the enterprise zone funding stream needed to remain one of the potential sources for the Wye river crossing, but that the overall situation would become much clearer once Herefordshire's Local Development Framework had been adopted.
7. The Marches LEP board considered and agreed a series of recommendations which it is now submitting to the joint executive committee for approval.
 8. Approval of individual investments proposed in scenario 3 will be subject to decisions by Herefordshire Council, informed by business cases.

Financial implications

9. Under the legislation establishing enterprise zones, business rates that are generated by new businesses occupying space on the zone can be allocated by the Marches LEP to use for economic activity in the LEP area.
10. The DTZ model shows how this funding stream can be maximised over the life of the enterprise zone to 2038 by investing in infrastructure. The recommendation is that Herefordshire Council will fund the interventions specified in Scenario 3 and the other two authorities agree that those investments and associated costs are repaid from the business rates accrued.
11. £100k a year from the additional business rates will be used to meet the running costs of the Marches LEP from 2016/17 onwards.
12. If the Wye river crossing does not progress it is estimated that the additional investment will accrue an additional £7.8m over the 25 year life of the enterprise zone. This will be available for re-investment by the LEP, this amount includes the £100k allocated for running costs.
13. If the Wye river crossing does progress it is estimated that the additional investment will accrue an additional £40.9m over the 25 year life of the enterprise zone. This will be available for re-investment by the LEP. This amount includes the £100k allocated for running costs.

Legal implications

14. The business rate relief retention concession is set out in Government legislation and regulation.
15. The agreement on the investment approach will need to be followed up with a formal agreement between the three authorities on collection and usage of the rates relief.
16. Herefordshire Council will follow its own established procedures in resourcing and procuring the interventions approved.

Risks, opportunities and impacts

17. The principal risk to the model's success is the failure to deliver the river Wye crossing which would limit the extent of development on the enterprise zone. This will be mitigated by the adoption of the Core Strategy in 2015 and the on-going collaboration between key public bodies and developers to ensure the delivery of the growth planned in the core strategy and the associated transportation infrastructure.
18. An associated risk lies with Herefordshire Council in terms of making the interventions without the consequent business take up on the zone and business rate

generation. This is mitigated by the experience of the first two years of operation, and a thorough and independent evaluation of assumptions by DTZ in order to develop a realistic intervention and take up scenario.

19. There is a significant reputational risk for the Marches LEP if a decision were taken not to seek to develop the zone out in full. In particular central Government would question why an opportunity was not grasped to maximise the economic benefit of the enterprise zone and to generate significant income locally for use by the Marches LEP to create further economic benefit.
20. Scenario 3 provides a significant opportunity to generate a net benefit of over £40m of funds for the Marches LEP's usage over the enterprise zone's lifetime, as well as £100k a year to meet running costs.
21. The impact of Scenario 3 is expected to be a significant component of the success of the Marches LEP. Using standard econometrics, full development and occupancy would result in £180m of new construction work, almost 1.5m sq ft of new workspace, over 4,000 gross jobs and a consequent £100m a year boost to the Marches 'gross value added' – the nationally adopted measure of the contribution to the economy of each individual producer, industry or sector.

Consultation

22. The subject of this paper has been considered at two Marches LEP board meetings, with a detailed review and consideration by officers from the three authorities within the Marches LEP between meetings.

Additional Information

- None

Appendices

- None

Background papers

- None

WRITTEN STATEMENT OF A KEY DECISION
MARCHES LOCAL ENTERPRISE PARTNERSHIP JOINT EXECUTIVE
COMMITTEE

| | |
|--|---|
| ITEM: | MARCHES ENTERPRISE ZONE |
| Date of Decision: | 11 December 2014 |
| Exempt: | No |
| Confidential | No |
| This is a key decision because | |
| It is likely to result in the Councils incurring expenditure which is, or the making of savings which are, significant having regard to the Councils' budget for the service or function to which the decision relates. | |
| A notice was served in accordance with Part 3, Section 9 (Publicity in connection with key decisions) of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. | |
| Urgency/Special Urgency: (As defined in Constitution) | No |
| Purpose: | To consider the outcome of a review of options and agree mechanisms for accelerating delivery of the enterprise zone. |
| Decision: | <p>THAT: the Joint Committee</p> <p>(a) approve Scenario 3, as outlined in this report, as the investment approach to take, with an amendment to provide £100k a year from the additional business rates to help meet LEP running costs from 2016/17 onwards for the duration of the model;</p> <p>(b) business rates generated by the enterprise zone be used to fund the additional investment required;</p> <p>(c) recognise that the enterprise zone funding stream is one of the potential sources for the Wye river crossing, but that this funding need not be quantified at this time; and</p> <p>(d) ask Herefordshire Council to keep the Marches LEP board informed of progress with the implementation of the Herefordshire Local Development Framework.</p> |
| Reasons for the Decision: | To ensure benefits of an enterprise zone within the Marches LEP area are maximised. |
| Options Considered: | The alternative scenarios explored by DTZ were set out in the |

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| | report. |
| Conflict of Interest ■ (See below): | |
| Date the key decision is due to take effect: | Herefordshire Council 17 December 2014 |
| Date the key decision is due to take effect: | Shropshire Council 19 December 2014 |
| Date the key decision is due to take effect: | Telford & Wrekin Council 19 December 2014 |

COUNCILLOR AW JOHNSONDate: 11 December 2014
Chairman - Marches Local Enterprise Partnership Joint Executive Committee

- a record of any conflict of interest declared by any executive member who is consulted by the member which relates to the decision;

And

- in respect of any declared conflict of interest, a note of dispensation granted by the relevant local authority's head of paid service.

From: Norman, Bill
Sent: 18 December 2014 08:55
To: Bowen, Sebastian (Cllr); Durkin, Barry (Cllr); Atkinson, Andrew (Cllr); Attwood, Carl (Cllr); Blackshaw, Adrian (Cllr); Chappell, Chris (Cllr); Greenow, Dave (Cllr); Harvey, Liz (Cllr); James, Terry (Cllr); Jarvis, John (Cllr); Mayo, Richard (Cllr); McCaull, Peter (Cllr); Powers, Anthony (cllr); Seldon, Alan (Cllr); Wilcox, Brian (Cllr)
Cc: Johnson, Anthony (Cllr); Matthews, Bob (Cllr); Norman, Felicity (Cllr); Hughes, Geoff; Baugh, Ben; Brookes, Annie; Pearce, Mark; Proctor, Ben
Subject: GOSC - Call-in - Marches LEP Joint Executive Committee - Marches Enterprise Zone (Decision 11 December 2014) - 'Background Papers'
Attachments: Hereford Enterprise Zone Travelling Draft 10 - REDACTED.DOCX

Dear Members of GOSC

You will all be aware that this decision has been called in by three Members of GOSC and you should all have received a copy of the Call-in Notice.

The Call-in Notice notes that:

‘A report or reports which have been relied upon by officers to inform their opinion and recommendations to decision-makers have been referenced in the report but not listed and made available as background papers. These include, but are not limited to, ‘the DTZ report’

The relevant law on background papers is set out in section 1 of the Local Government (Access to Information) Act 1985 (‘the 1985 Act’), which adds a number of additional sections to the Local Government Act 1972 (‘the 1972 Act’) (after section 100 in that Act, as section 100a, 100b, etc.). It is section 100d of the 1972 Act that relates to background papers. A copy of section 1 of the 1985 Act can be seen via the following link: <http://www.legislation.gov.uk/ukpga/1985/43>

Section 100d(5) of the 1972 Act states that:

(5)For the purposes of this section the background papers for a report are those documents relating to the subject matter of the report which —

(a)disclose any facts or matters on which, in the opinion of the proper officer, the report or an important part of the report is based, and

(b)have, in his opinion, been relied on to a material extent in preparing the report,

but do not include any published works.

Subject to what I say below, ‘the DTZ report’ would be a background paper, as it is referred to on a number of occasions in the officer report on the Marches Enterprise Zone. In other words, the DTZ report **was** relied upon to a material degree by the report author. However, Appendix C to the DTZ report sets out individual company names for completed sales but, more importantly, contains company names for sales which are under negotiation or where interest has been registered. This is commercially sensitive information - and the future reputation and success of the Enterprise Zone (and the council) depends on it remaining so. As such, it is Exempt Information under the 1985 Act (and, for that matter, under the Freedom of Information Act 2000). Section 100d(4)(a) of the 1972 Act therefore applies. That states that:

‘(4) Nothing in this section —

(a) requires any document which discloses exempt information to be included in the list referred to in subsection (1) above’

In other words, if a document which is relied upon by a report author contains exempt information, that document is not required to be included in the list of background papers. Accordingly, the DTZ report was not legally required to be listed as a background paper. The council's Constitution also adopts this approach – see paragraph 4.2.9.1 of the Constitution, which expressly excludes from the definition of background papers documents which contain Exempt Information.

Whilst the above provides a legal explanation as to the application of a 1985 statute, I do not consider that it is an approach which accords with the spirit of modern thinking on the desirability of openness and transparency in public life. In my opinion, a better approach would have been to have listed the DTZ report as a background paper, but to make clear that it is a document containing some exempt information. An appropriately redacted version could then be supplied to any member of the public who desired to see it. In saying this I am making no criticisms of colleagues who have acted in line with our Constitution.

In light of the above, I am attaching to this email a copy of the DTZ report for your information. This version has Appendix C redacted; but the summary information from that appendix is included in the main body of the report, so its removal does not affect the flow and conclusions of the narrative in any way. However, if any Member considers that they 'need to know' the redacted details, please tell me and I will consider such a request. I have also asked that the redacted version of the DTZ report is made available on the council's website and as a Marches LEP Joint Executive Committee document.

Once you have had the opportunity to consider the DTZ report, please let Ben Baugh and me know if there are any matters on which you would like further information from officers. If this is done well before the Call-in meeting (which is likely to be held on 14 January 2015) this should ensure that the Committee will have all relevant information before it when it meets.

Regards

Bill



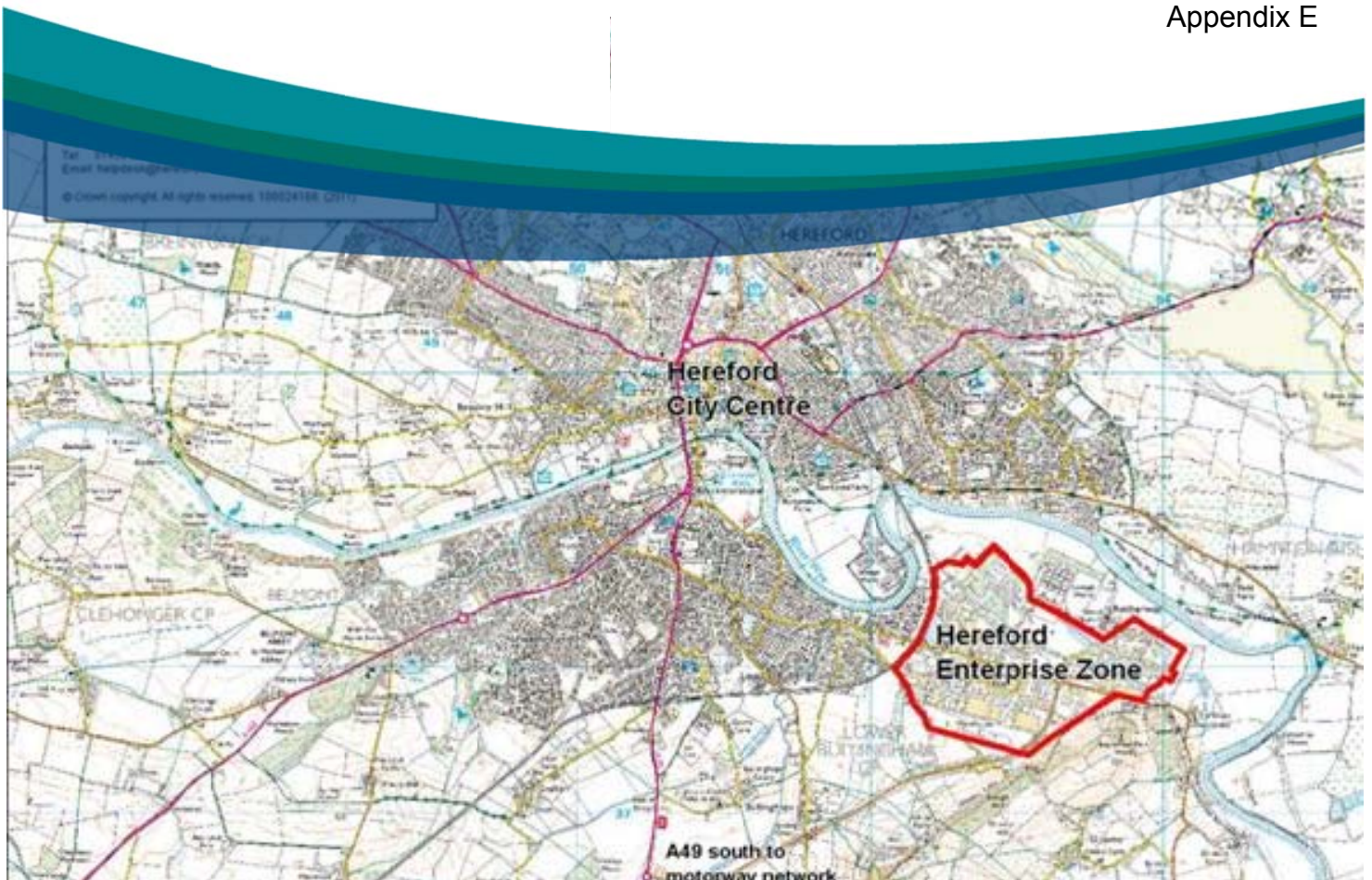
Bill Norman

Assistant Director, Governance

Tel: 01432 260200

email: bill.norman@herefordshire.gov.uk

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Hereford Enterprise Zone

Accelerating Delivery: Investment Strategy

Prepared on behalf of
DCLG
10 October 2014

DTZ, a UGL company

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Executive summary

The Rotherwas Industrial Estate was formally awarded Enterprise Zone (EZ) status on 17th August 2011. The site was nominated by the Marches Local Enterprise Partnership (LEP) with an aspiration to develop part of the site into a centre of excellence for the defence and security sector with additional employment hubs focused on advanced technologies, environmental technologies and food and drink technologies. The Marches LEP anticipates that the scheme will become a catalyst for enhanced economic growth throughout the Marches through the creation of highly skilled jobs and encouragement of overseas investment into the area.

The Estate is the largest estate in the Hereford City “sub area” and the county as a whole, extending to 125 hectares (300 acres). In terms of speculative new build industrial and warehouse units and land to be brought forward for development, the vast majority of supply for the city lies within the Rotherwas estate.

This report considers a range of intervention measures in enabling infrastructure and other site preparation investments in order to optimise the performance of the Enterprise Zone.

Although intervention by the Council to fund enabling and infrastructure works will accelerate development to a degree, critical to the success of the EZ is the completion of the River Wye Crossing by 2021. Without this key investment, the constraints on the highway network mean net new floor-space within the Zone will be limited to approximately 50,000 sq m.

The development of the River Wye Crossing is critical to the success of the EZ as without it almost 100,000 sq m of the total floor space proposed cannot be developed. This translates into an estimated loss of potential business rates income to the LEP of c. **£33.1m** over the life of the Enterprise Zone.

The LEP has already successfully applied for £27m funding via the Strategic Economic Plan (SEP) to build a road link in the South of the city between the A49 and A465. This represents the first leg of a potential full western relief road around the city. The following segment between the A465 and A438, which includes the River Wye Crossing, will cost an estimated additional £67m. Further investment is required to fund these works and this study considers the extent to which the income from business rates growth could contribute to this.

To illustrate the importance of the River Wye Crossing and the impact its construction would have on the business rates growth income, this report considers the financial position under three scenarios:

- **Scenario 1: ‘Base Case’**– summarises interventions and outcomes to date with no further proactive intervention then adopted.
- **Scenario 2: EZ Interventions partially implemented (River Wye Crossing is not completed)** – considers a range of further intervention measures designed to improve the performance of the EZ but on the understanding that the construction of the River Wye Crossing does not occur.
- **Scenario 3: EZ Interventions fully implemented and River Wye Crossing completes** – considers a full range of further intervention measures designed to optimise the performance of the EZ on the understanding that the River Wye Crossing will go ahead – and considers the capacity of the EZ to contribute to the cost of the crossing.

The table below summarises the total income and expenditure under each scenario and highlights that there is a significant risk that the later phases of development will not go ahead without the construction of the River Wye Crossing. This will have significant ramifications for LEP’s expected rates revenues.

| | Scenario 1 (£m) | Scenario 2 (£m) | Scenario 3 (£m) |
|--|-----------------|-----------------|-----------------|
| PROJECTED RATES INCOME* | 21.3 | 33.3 | 79.4 |
| CONTINGENCY (ON INCOME) @ 10% | (2.1) | (3.3) | (7.9) |
| Capital Receipts | 0.7 | 0.8 | 3.5 |
| Net Capital Expenditure | (3.8) | (10.1) | (17.3)** |
| Financing costs (4%) | (2.0) | (5.9) | (8.6) |
| GROSS CAP EX. (INCL. FINANCE COSTS @ 4% AND CAP RECEIPTS) | (5.1) | (15.2) | (22.4)** |
| REVENUE EXP. | (3.5) | (3.9) | (5.1) |
| SURPLUS/DEFICIT (INCL. CONTINGENCY) | 10.6 | 10.8 | 43.9 |

*includes deduction of 3% to allow for bad debt and 2% allowance for rates reliefs

**Figure does not include contribution to River Wye Crossing

Figure 1: Net income summary

Figure 2 below shows the net income position under each Scenario over the 25 year appraisal period. This demonstrates that although it takes longer for the net income received under Scenario 3 to become positive due to the increased level of investment, once a positive position is reached, take-up increases rapidly and the income from year eight onwards is significantly greater than the anticipated net income under Scenarios 1 and 2.

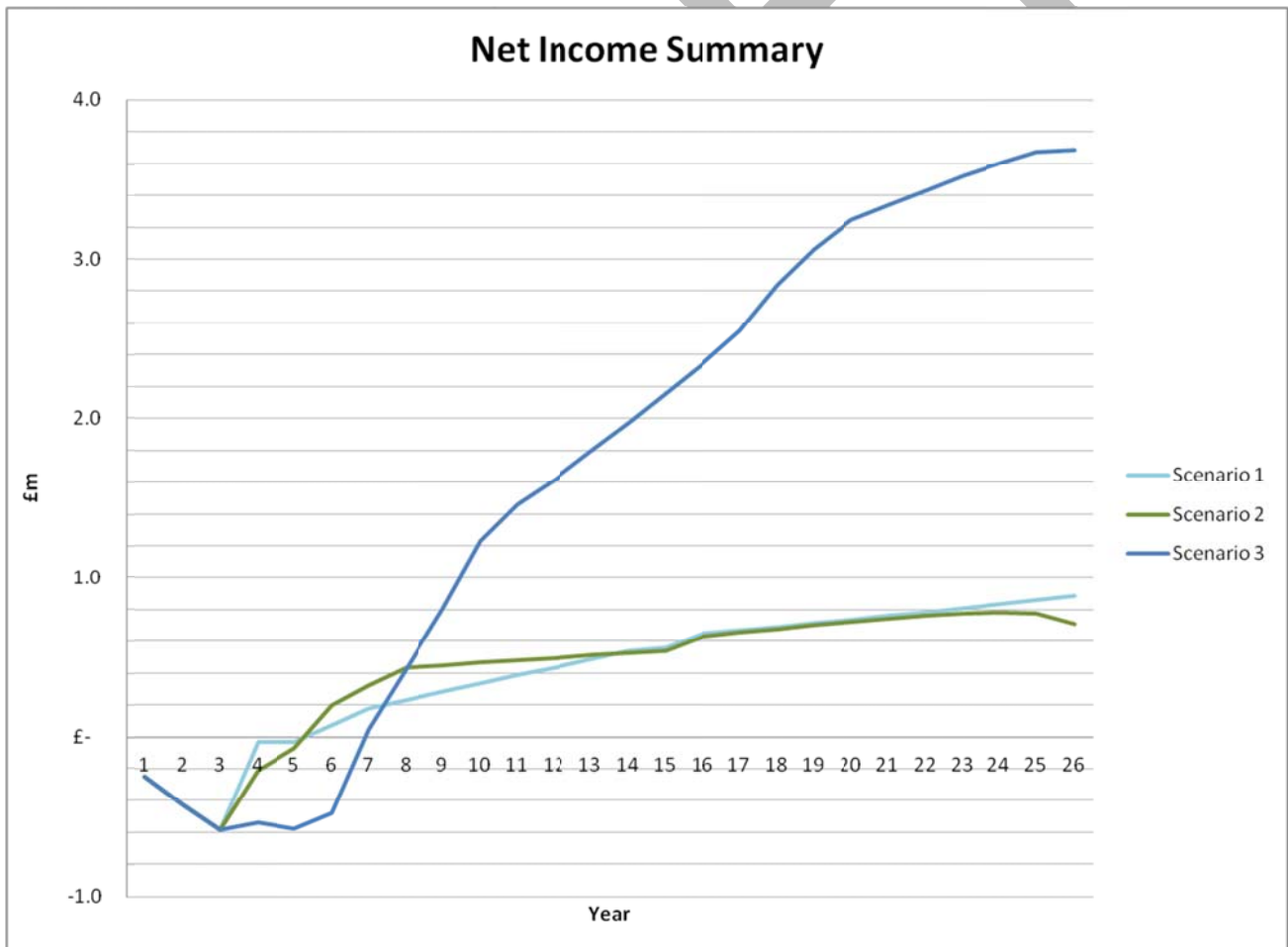


Figure 2: Net income summary chart

The net income position under each scenario is further illustrated by Figure 3 below. This graph demonstrates the significant increase in income which could be achieved under the Scenario 3 assumptions.

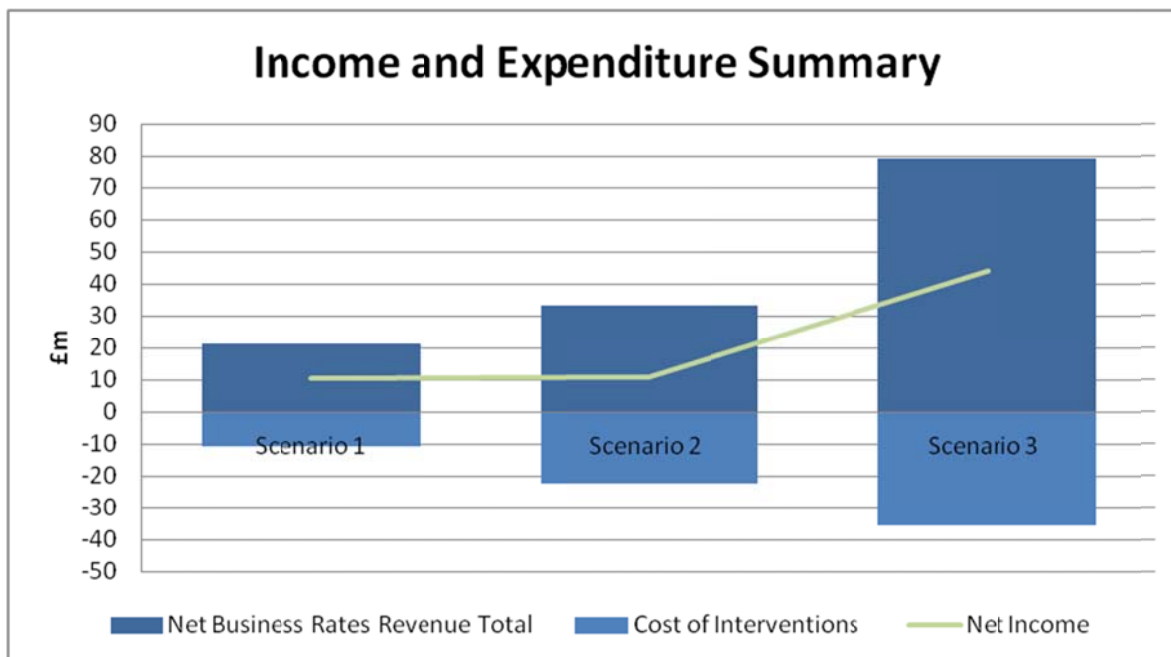


Figure 3: Income and expenditure summary

As is illustrated by Figure 1, the difference in net income under Scenario 1 and Scenario 2 is marginal at just under £250k over the 25 year appraisal period. If viewing this in purely financial terms, the risk of committing to the level of investment proposed may be considered to be too great for the return. However, the wider economic benefits should also be considered. The number of jobs created under each scenario can be outlined as follows¹:

| | Scenario 1 | Scenario 2 | Scenario 3 |
|----------------------------|------------|------------|------------|
| Jobs created prior to 2021 | 986 | 1,858 | 3,965 |
| Total jobs created | 1,211 | 1,858 | 5,887 |

Figure 4: Jobs created

As shown in Figure 4, the number of jobs created in the period to 2021 under Scenario 1 is only half the total reached under Scenario 2 by this date. Job creation is therefore taking place at a much slower pace under Scenario 1. Furthermore, there is a significant difference in the overall jobs created over the life of the EZ of 647 between Scenarios 1 and 2. Figure 4 also serves to highlight the significant economic benefits to be realised by implementing the recommendations proposed under Scenario 3. In addition to the jobs created the EZ interventions would leverage commercial development worth an estimated value of up to £86.4m. This is summarised for each scenario in Figure 5.

| | Scenario 1 | Scenario 2 | Scenario 3 |
|---|------------|------------|------------|
| Estimated value of commercial development | 20.3 | 30.0 | 86.4 |

Figure 5: Estimated value of commercial development

¹ Job creation figures based on the per sq m rates outline in the Homes and Communities Agency's *Employment Densities Guide* (2010). See **Appendix A**

Both Scenarios 2 and 3 will also attract significantly more new businesses to the area than under the Scenario 1 assumptions and through the development of a greater level of innovation space will encourage more start-up activity in the region which will further contribute to the local economy.

The approach to modelling each of the scenarios relies on HC taking a risk on the investments in advance of the business rate income as the LEP is not permitted to borrow. It is then assumed that the cost of funding the interventions will be reimbursed to HC from the LEPs business rates growth income.

One approach to funding these interventions could be to insist that all business rates growth income is directed towards the priority repayment of borrowings for the interventions approved. However, if this approach were adopted then all revenues from rates income growth available to the LEP under Scenario 3 would be committed until 2026 and no further investment could be considered until the approved investments were cleared.

The above analysis has therefore been prepared on the basis that the approved interventions are all financed using annuity loans over the remainder of the life of the EZ such that all debts are fully paid down by the time these expire (i.e. 2038). An interest rate of 4% has been used. Adopting this approach, the forecast rates growth income under Scenario 3 exceeds the cost of funding the interventions (but not including the River Wye Crossing) from 2018 onwards so that there is an estimated surplus of **£43.9m** over the 25 year life of the EZ which can either be accumulated or used by the LEP for other purposes.

RECOMMENDATIONS

This study has identified several issues to which we recommend further consideration should be given. These can be summarised as follows:

1. There is a causal link between the development of the River Wye Crossing and the level of rates income the LEP can expect to achieve over the life of the EZ. Consideration should be given to using these expected revenues as part of the funding package for the River Wye Crossing. The level of contribution appropriate requires further consideration from the LEP in view of alternative sources. Clearly it will be preferable for DfT to fund the full cost.
2. Herefordshire will require an undertaking from the LEP in order to carry out the interventions proposed. The LEP should therefore consider the balance of cost, risk and return and the extent to which these represent value for money and are appropriate for the socio-economic outcomes achieved.
3. Whilst the difference between Scenarios 1 and 2 in terms of the net business rates income receivable is minimal at an estimated £250k over the life of the EZ, the economic benefits to be realised by implementing the interventions assumed under Scenario 2 are substantial. The value to the region of the anticipated jobs created, the increased value of commercial development and investment in the region through the re-location of new businesses to the area should all be considered in any future discussions around the appropriate level of intervention required and how this will be funded.
4. Since the Resource Review and proposals for authorities' to retain 50% of rates growth between rebase periods, Herefordshire Council could lose out on this income in relation to new development within the EZ where the income goes to the LEP. Furthermore, Herefordshire Council will also incur further administrative time and costs in dealing with the EZ and is taking a risk on the investments in advance of the business rate income. The LEP should consider making provision to recognise the impact on the Council. It is understood

that this has been agreed at the Bristol and West of England EZ and has been raised as an issue in a number of other Zones.

DRAFT

1 Introduction

DTZ has been appointed to assess the robustness of the business rate growth income projections for the Hereford Enterprise Zone. This report outlines projections of Business Rate Growth Income (BRGI) across the Zone and reviews the scope of EZ Business Rate Income to cover the cost of financing investment in enabling works and intervention measures.

1.1 ENTERPRISE ZONE RATES ADDITIONALITY MECHANISM

Under the EZ regulations, the Marches Local Economic Partnership (LEP) is entitled to retain all additional business rates generated within the EZ boundary annually for a period of 25 years. The LEP is entitled to redistribute these business rates across the LEP area according to their economic objectives and priorities. The business rate income therefore represents an important source of funding for local economic development.

However, the scale of this additional funding depends on the delivery, and crucially, the timing of delivery of new development and therefore business rate income within the EZ boundary. This is because the business rate retention provision is time limited for a fixed period of 25 years, which started at April 2013. As this 25 year programme is already running and diminishing with time, there is extra incentive on LEPs to accelerate the delivery process so as to maximise the amount of money in the business rate pool.

The delivery of development within the EZ is therefore critical to both unlocking and maximising business rate additionality. Accordingly, some Local Authorities are looking to borrow against the projected business rate income to forward fund infrastructure and enabling works, using prudential borrowing or loan finance from revolving investment funds. This form of Tax Increment Finance (TIF) can be used to unlock barriers to development and accelerate the delivery process.

1.2 HEREFORD ENTERPRISE ZONE



The Hereford Enterprise Zone is a 71 ha site to the south east of the city, centred around the Rotherwas Industrial Estate.

The EZ is divided into seven distinct but linked mini zones and already benefits from the Rotherwas access road which completed in June 2008 and provides the estate with direct access to the A49, and therefore the M50 and the rest of the motorway network.

Each of the sites across the Zone are in various states of development readiness relating to other on and off site infrastructure requirements. £3.8m has already been committed in the site through business rate income which has helped to overcome a number of the barriers to development. However, there remain some significant constraints affecting the immediate development of large areas of the remainder of the EZ land area with a level of intervention required to address the barriers to development varying across each of the sites.

The on-site infrastructure requirements can be summarised as follows:

- **Significant Intervention required:**
 - North Magazine: The development of this 20 hectare “mini zone” relies on a significant investment in utilities diversions, especially electricity across the River Wye, currently estimated at £1.5m
 - Chapel Road – high demolition costs
- **Limited intervention required:**
 - Straight Mile South Magazine – close to main road and utilities, just requirement for access roads in places
 - South Magazine : Limited investment in utilities and broadband; access roads already in place

In order to address these issues, the Council has identified a package of intervention measures totalling **£17.3m**. Full details of the proposed interventions can be found in **Appendix B ‘Intervention Measures – B3 Scenario 3 Interventions’**.

The agreed package of intervention measures is ‘game changing’ in that it addresses barriers to occupation for at least a significant amount of the EZ land and will promote immediate development of units for occupiers. This study works on the basis that the present package of interventions is certain and considers further actions that the LEP/Local Authority can take to promote the acceleration of economic growth within the EZ to avoid the momentum being lost.

However, irrespective of the pace of enabling infrastructure and other site preparation investments in the immediate environment of the Zone, a critical investment is completion of the River Wye Crossing by 2021 which will link the EZ with the primary road network. Without this key investment, the constraints on the highway network will mean net new floor-space at the EZ will be capped through the LDO at approximately 50,000 sq m. A significant programme of investment in the relief road is planned between 2016 and 2023, but the River Wye Crossing is required by 2021, and a contribution from the Zone may facilitate other investment.

2 Market commentary

To inform our view on take up throughout the life of the EZ, we have reviewed the nature of the commercial property market in the City.

2.1 CONTEXT

The Rotherwas industrial estate is over 125 hectares in size and has over 125 companies operating within it. This site was formerly a war time munitions factory which has been subject to piecemeal development since the 1970s. The entire site is covered by policy E5 in the Unitary Development plan (UDP) as safeguarded employment land and buildings. However, a number of specific sites within the estate are allocated as E1 sites for new B1, B2 and B8 development. Available development land within the estate can be divided into the following four areas:

- Various plots within the estate, predominantly fronting 'The Straight Mile' (Holme Lacy Road);
- The Southern Magazine site, accessed from an extension to a local estate road (Haugh Road);
- Phase 3: The Northern Magazines site, accessed via a new link road from Vincent Carey Road;
- Phase 4: The Chapel Road area.

Alongside the allocations set out in the UDP, the site is also subject to the Herford Enterprise Zone Local Development Order (LDO) which was adopted in April 2013. The LDO provides for the following:

- Granting developers planning permission subject to conditions for development within Classes B1, B2 and B8. New development is effectively capped through the LDO at 50,000 sq m due to highways constraints.
- Removing the need to submit some information in relation to statutory environment, flood and transport impact assessments
- Withdrawing the need to contribute towards necessary infrastructure
- Withdrawing the requirement to pay for pre-application advice for proposals complying with the LDO

The Rotherwas Industrial Estate was formally awarded Enterprise Zone (EZ) status on 17th August 2011. The site was nominated by the Marches Local Enterprise Partnership (LEP) with an aspiration to develop part of the site into a centre of excellence for the defence and security sector with additional employment hubs focused on advanced technologies, environmental technologies and food and drink technologies. The Marches LEP anticipates that the scheme will become a catalyst for enhanced economic growth throughout the Marches through the creation of highly skilled jobs and encouragement of overseas investment into the area.

2.2 MARKET BASELINE

The baseline is that employment land take up in Hereford is low, which in part is related to the area's peripheral position. This constrains interest to a relatively local market, which, in DTZ's view would make it rare for take up to regularly exceed 50,000 sq ft per annum. Notwithstanding this, there is also evidence that demand is constrained by a lack of supply – there are relatively few vacancies across the Rotherwas Industrial Estate considering its large size, which led the most recent Employment Land Review to suggest that interest in the site is high.

Indeed, regarding potential development land in the environs of the estate, all of it to varying degrees has been encumbered by supply constraints:

- Land around the Straight Mile and Southern Magazine is most readily available for development, offering a range of plot sizes and with new road infrastructure recently to serve new development within the Phase 2 Southern Magazine site.
- The Northern Magazine site is considered to be a medium term proposition requiring the provision of infrastructure and addressing existing environmental site constraints such as ground contamination (given the former munitions factory use) and ecology (including the potential for great crested newts and bats).
- The Chapel Road area is seen as a long term opportunity, with an aspiration to redevelop existing 'Romney Huts' and other existing buildings of poorer quality.

Notwithstanding site level development constraints, demand that might have driven further development at Rotherwas has been further constrained by what has been perceived as the wider geographic limitations of its position "south of the river", where demand has traditionally been more limited than to the north. Despite this the ELR [Employment Land Review], Drivers Jonas Deloitte 2012] revealed that the development community considered that a southern by-pass was highlighted as being an infrastructure project that would be particularly beneficial. Given the cap of 50,000 sq m, the development of the River Wye Crossing is essential to the success of the EZ.

The ELR reported that the view of agents regarding Rotherwas on supply is mixed. Some agents consider that the supply is sufficient to meet current demand (apparently based on historical take up rates, other agents however suggested that supply is restricted [by an inherent lack of available land due to fundamental infrastructure constraints].

The fundamental premise of the EZ is that investment in addressing the site's development constraints, both macro (access to the strategic road network, including the relief road and River Wye Crossing), and micro (various infrastructure capacity issues around the Estate and generally variable development readiness at the site level) will release development sites to address demand.

2.3 PROSPECTS FOR GROWTH

2.3.1 General market conditions

Overall, development at the site has been constrained by a number of factors:

- Fundamental Development Viability Constraints: Demand in Hereford is predominantly for small scale premises from local businesses, which serves to constrain rentals, drive unfavourable development yields, and hence result in capital values not sufficient to make speculative development viable; whilst these same businesses are not of a scale to be able to fund their own be-spoke developments
- Significant **Micro** or "Site Based" Infrastructure Constraints; Notwithstanding the above, opportunities for progressing potential gap funding schemes involving a developer have been constrained by the significant upfront costs of delivering site enabling infrastructure pushing up the viability gap to such a level of grant requirement to make the scheme untenable
- The fundamental **Macro** infrastructure constraint - the overall poor accessibility of the Rotherwas Industrial Estate derived from being "south of the river" and the cap placed on development of 50,000 sq m which has been put in place until the completion of the River Wye Crossing.

2.3.2 Impact of the Enterprise Zone

The constrained nature of supply means that it is difficult to accurately forecast demand. The creation of the EZ and associated availability of employment sites appears to have had the affect of stimulating activity, possibly unlocking 'pent-up'/latent demand. Three plots have already sold and another seven or eight are under detailed discussions.

2.3.3 Competing sites

The Turner and Company Market Demand Report (August 2013), highlighted the potential competition from the Moreton Park, to the north of the city, but concluded that early development at Rotherwas would establish the location ahead of Moreton Park: -

“important to note that there could be competition to any development in the Rotherwas Industrial Estate Enterprise Zone area. Moreton Park has planning permission for 550,000sqft of accommodation and some of this space could be developed to compete with the Enterprise Zone and any prospective small employment unit schemes within the area. Of course, there are some land allocations also north of the river, such as around the new cattle market area which may realise some competition in time.

However, we believe that if development within the Enterprise Zone can take place in the reasonably near future it should be able to capitalise on the established credentials of Rotherwas Industrial Estate and get ahead of the competition. In so doing, the Rotherwas area will enhance and improve its own standing locally and become an even bigger draw to local businesses, even in relation to those who prefer the northern side of the city at the current time”.

2.3.4 Market summary

The site faces numerous development constraints:

- The nature of the market is that speculative development to serve the local company base, is not viable
- Site related infrastructure constraints serve to push up development cost so as to make potential gap funding support to developers of speculative space, untenable
- Further growth of the Rotherwas Industrial Estate from potential outside investors has been constrained by the fundamental accessibility constraint of being “south of the river”
- Development will be limited to approximately 50,000 sq m until the completion of the River Wye Crossing.

Notwithstanding this, proposed Enterprise Zone interventions will directly address these constraints;

- Herefordshire Council as direct developer of a number of business space schemes for sector specific, small businesses, enabled by “gap funding” from the EZ
- Site Specific infrastructure interventions (detailed below)
- The funding of the River Wye Crossing to ensure delivery by 2021

On this basis, the EZ has been able to build a significant development pipeline of known requirements, which are at various stages of the development process. The schedule of known take up requirements is a dynamic schedule and gives a good degree of confidence as regards take up in the initial years of the EZ.

3 Scenario modelling

The performance of the EZ in terms of the new development and job creation achieved will be dependent on the approach taken by Herefordshire Council. To date, the Council has adopted a proactive approach to promoting the EZ through a range of positive intervention measures. In the following section we consider scenarios reflecting a range of intervention measures to further enhance the performance of the EZ.

- **Scenario 1: 'Base Case'**– summarises interventions and outcomes to date with no further proactive intervention then adopted.
- **Scenario 2: EZ Interventions partially implemented (River Wye Crossing is not completed)** – considers a range of further intervention measures designed to improve the performance of the EZ but on the understanding that the construction of the River Wye Crossing does not occur.
- **Scenario 3: EZ Interventions fully implemented and River Wye Crossing completes** – considers a full range of further intervention measures designed to optimise the performance of the EZ on the understanding that the River Wye Crossing will go ahead – and considers the capacity of the EZ to contribute to cost of the crossing.

The schedules below have been constructed with HC with due consideration given to the timing and pace of the EZ infrastructure programme, the scale and pattern of known investments to date, and what take up is likely to revert to in the longer term, once initial “pent up” / latent demand for space from local businesses (in the target sectors) has been essentially satisfied.

The geographical pattern of investment is closely related to the likely availability of serviced land across the EZ, which will be a function of the scale of infrastructure investment required.

- Land around the Straight Mile and Southern Magazine is most readily available for development, offering a range of plot sizes and with new road infrastructure to serve new development within the Phase 2 Southern Magazine site.
- The Northern Magazine site is considered to be a medium term proposition requiring the provision of infrastructure and addressing existing environmental site constraints such as ground contamination (given the former munitions factory use) and ecology (including the potential for great crested newts and bats).
- The Chapel Road area is seen as a long term opportunity, with an aspiration to redevelop existing ‘Romney Huts’ and other existing buildings of poorer quality.

DTZ has devised a model which brings together the overall financial impacts of the EZ including business rates additionality arising from new development set against investment in interventions and administrative / revenue costs of running the EZ. The model can be used to analyse a range of scenarios for intervention by the LEP. This can be done on a site-by-site basis or information aggregated for the EZ as a whole. The model enables the LEP to demonstrate the value of intervention and returns on any upfront investment required to ensure new development starts. This analysis enables the LEP to develop an investment plan or package of intervention measures that will optimise the performance of the EZ and considers the following:

1. Forecast business rates income
2. Land receipts
3. Investments/intervention measures
4. Revenue Expenditure

We have developed the model for the Hereford EZ to include:

- Projected business rate income from each anticipated hereditament
- Site by site infrastructure / enabling investment requirements
- Modelling of scenarios to show the impact on business rate income of accelerating development.

The key assumptions applied to the model are as follows:

- Inflation has been applied at 2.5% in-line with the Bank of England's target rate of inflation
- Evaluation period of 25 years.
- start date of 1 April 2013
- Multi site model to calculate income and expenditure profiles
- Each site phased, based on an assumed take up profile linked to market analysis
- Discounted cash flow analysis to calculate net present costs, using a nominal discount rate of 6.09% (real discount rate of 3.5% in accordance with HM Treasury Green Book)
- Contingency of 10% applied to all business rate growth forecasts, further allowances bad debt and reliefs totalling 5%.

All estimates of future take up and rates revenues are agreed with HC. These are estimates only and there can be no guarantee of future development or future business rates growth income.

3.1 SCENARIO 1: BASE CASE

The Base Case scenario assumes that no further investment is made in the site beyond the intervention measures already implemented. Whilst this is not being considered as an option by the Council, it has been included within this report for the purposes of comparison.

3.1.1 Take-up assumptions

Whilst the current package of interventions identified for the EZ is sufficient to enable development across a small portion of the site, without further investment in the wider EZ, it is likely that this momentum will be lost and future development will be delayed. The assumption has therefore been made that all future development beyond 2015 will be delayed if no further investment is made. Additionally, there will be elements of the proposed development which will not take place at all due to the significant investment required in specific parts of the EZ. This includes the development of Skylon Court 2, Fuse House, and the Food Technology Centre, all proposed development on Chapel Road and the North Magazine site. These sites have therefore been removed completely from the take-up assumptions and assumed to produce nil rates income over the life of the Enterprise Zone.

Based on the assumption that no further interventions are made beyond those already committed, the following level of take-up can be anticipated:

| Year | (Take-up Sq m) |
|------|----------------|
| 2014 | 1,600 |
| 2015 | 15,550 |

| Year | (Take-up Sq m) |
|--------------|----------------|
| 2016 | 0 |
| 2017 | 1,775 |
| 2018 | 3,000 |
| 2019 | 1,800 |
| 2020 | 1,600 |
| 2021 | 1,450 |
| 2022 | 1,550 |
| 2023 | 1,450 |
| 2024 | 1,375 |
| 2025 | 1,375 |
| TOTAL | 32,525 |

Figure 6: Scenario 1 Take-up

The figures to 2018 are based on known enquiries, tailing off to circa 1,375 sq m in 2025. As the cumulative take-up of space increases year-on-year, the level of business rates income becomes greater. This is illustrated by the projected business rates income shown in Figure 10.

3.1.2 Land receipts

With the development of each new Hereditament will also come a land receipt to Herefordshire Council as owner of the land. A portion of the land receipt will consist of “betterment” value created through the proposed interventions, and it is this “betterment” which is recycled into the EZ model upon the sale of the land, with Herefordshire Council retaining the “pre-betterment” land value.

The pre-betterment value has been calculated by Herefordshire Council on the basis of the approach of:

Serviced Land Value (S) less Cost of additional infrastructure works required (R) = Betterment (B)

The timing and values of these receipts are inherently linked to the take-up of space and will therefore vary under each scenario. The following assumptions have been made under the Base Case scenario:

| Year | Capital Receipt (£000) |
|--------------|------------------------|
| 2013 | 23 |
| 2014 | 296 |
| 2015 | - |
| 2016 | - |
| 2017 | 60 |
| 2018 | 67 |
| 2019 | - |
| 2020 | 53 |
| 2021 | - |
| 2022 | 53 |
| 2023 | 51 |
| 2024 | 51 |
| TOTAL | 654 |

Figure 7: Scenario 1 land receipts

A more detailed breakdown of these receipts can be found in **Appendix C**.

3.1.3 Interventions

To date, **£3.8m** of investment has been made to promote immediate development of units for occupiers as follows:

| Year | Cost of interventions per annum (£000) |
|------|--|
| 2012 | 994 |
| 2013 | 1,317 |
| 2014 | 1,462 |
| | 3,773 |

Figure 8: Scenario 1 interventions

Under the Base Case no further interventions/investments are planned. As for all options the analysis has been undertaken on the basis that these works are funded over the life of the EZ using annuity loans at an interest rate of 4% such that all investments are fully paid down by 2038. This is illustrated in Figure 10.

A more detailed breakdown of the expenditure can be found in **Appendix B**.

3.1.4 Revenue expenditure

In order for development to occur in-line with the take-up assumptions outlined above, the Council will need to resource the project appropriately to manage development. Revenue expenditure of **£2.9m** for staffing and operational costs has been identified. This effectively represents a management of the existing surge of activity in terms of the sales and construction and then a modest tick over to deal with enquiries and interest.

| Year | Annual Revenue Expenditure (£000) |
|--------------|-----------------------------------|
| 2012 | 200 |
| 2013 | 300 |
| 2014 | 400 |
| 2015 | 200 |
| 2016 | 200 |
| 2017 | 150 |
| 2018 to 2026 | 900 (100 pa) |
| 2027 to 2037 | 550 (50 pa) |
| TOTAL | 2,900 |

Figure 9: Scenario 1 revenue expenditure

For all options, these costs are treated as revenue expenditure in year. This is illustrated in Figure 10.

3.1.5 Financial analysis

Figure 10 below shows the income and expenditure profile of the Enterprise Zone in each year over the life of the EZ. Based on current projections, affordability of finance will be an issue in the early years with a positive net income only being received from 2017 onwards. However, beyond 2017 the EZ produces a surplus in each year for the remainder of the life of the EZ.

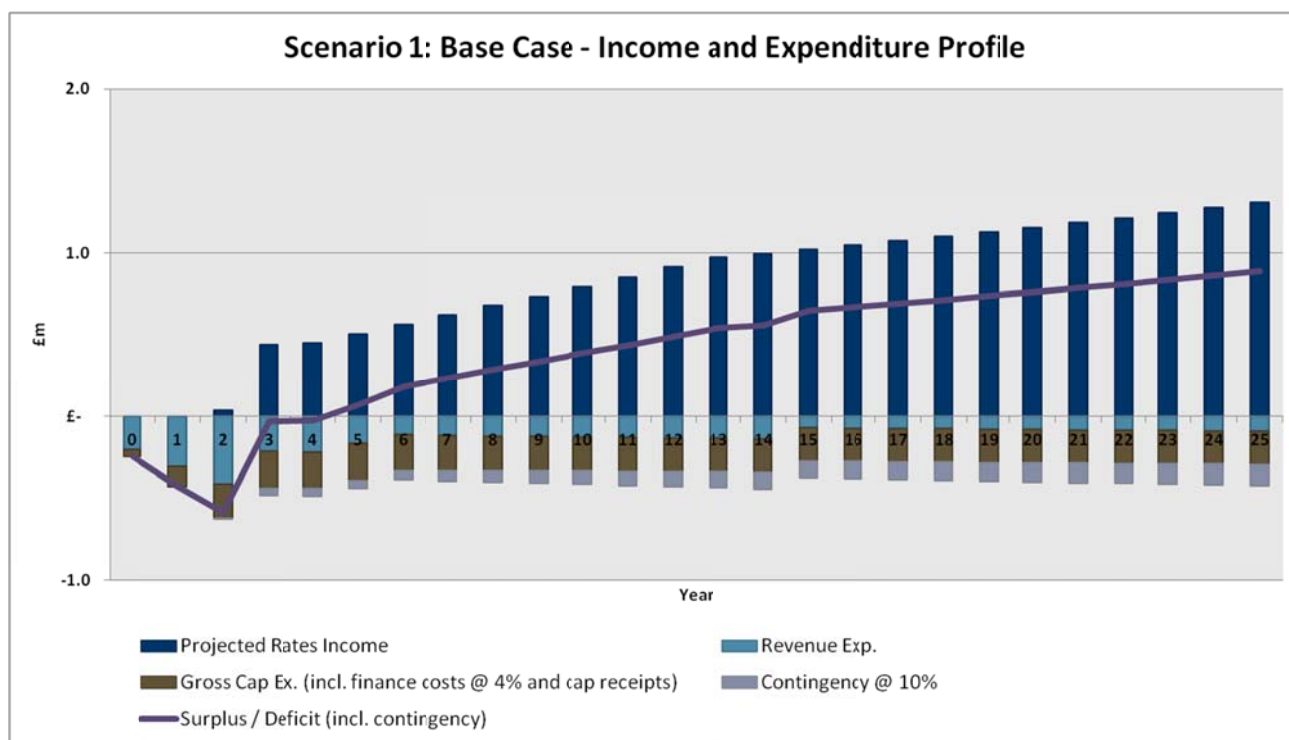


Figure 10: Scenario 1 income and expenditure profile

As accountable body for the EZ, HC is financing the interventions and revenue funding required. It is expected these costs will be recovered from rates growth income although as the graph indicates, there could be a near term cash flow requirement. HC will bear financing costs but terms should be agreed between HC and the LEP to minimise this risk by ensuring a priority call on business rates growth income. Further consideration of such arrangements is provided in section 4.2 below and in Appendix D.

Figure 11 below shows the aggregate position. Under the assumptions made in Scenario 1, the Hereford EZ would generate a surplus of **£10.6m** over the 25 year appraisal period.

| | £m |
|--|--------------|
| PROJECTED RATES INCOME* | 21.3 |
| CONTINGENCY (ON INCOME) @ 10% | (2.1) |
| Capital Receipts | 0.7 |
| Net Capital Expenditure | (3.8) |
| Financing costs (4%) | (2.0) |
| GROSS CAP EX. (INCL. FINANCE COSTS @ 4% AND CAP RECEIPTS) | (5.1) |

| | |
|--|--------------|
| | £m |
| REVENUE EXP. | (3.5) |
| SURPLUS/DEFICIT (INCL. CONTINGENCY) | 10.6 |

*includes deduction of 3% to allow for bad debt and 2% allowance for rates reliefs

Figure 11: Scenario 1 net income summary

3.2 SCENARIO 2: EZ INTERVENTIONS SCENARIO (WITHOUT RIVER WYE CROSSING)

This scenario assumes that the Council makes further interventions to accelerate the delivery of development within the EZ but that the River Wye Crossing is not built. Both the levels of intervention and take-up are greater in this scenario than under the Base Case assumption but given the cap placed on development by the planning framework, there are certain sites within the EZ which will not be developed unless the River Wye Crossing is constructed. The total quantum of development is therefore constrained and the intervention measures proposed reflect this (i.e. no investment is proposed in sites which cannot be developed if the construction of the River Wye Crossing does not take place).

3.2.1 Take-up assumptions

Due to the current pressures on the road network the Local Development Order effectively sets a cap of 50,000 sq m. Although this cap would be lifted if the River Wye Crossing was built, the take-up assumptions in this scenario assume that the construction of this element of the relief road does not take place and therefore no further development takes place beyond 2018 when this cap is reached.

Based on the assumption that the interventions outlined below are implemented but the construction of the River Wye Crossing does not take place, a total of **49,438 sq m** of development is anticipated which can be broken down as follows:

| Year | (Take-up sq m) |
|--------------|----------------|
| 2014 | 1,600 |
| 2015 | 15,947 |
| 2016 | 12,607 |
| 2017 | 12,835 |
| 2018 | 6,450 |
| TOTAL | 49,438 |

Figure 12: Scenario 2 Take-up

As the cumulative take-up of space increases year-on-year, the level of business rates income becomes greater. This is illustrated by the projected business rates income shown in Figure 16.

It should be noted that discussions are ongoing with the Highways Agency to increase the traffic trip numbers for the Zone which would equate to moving from a cap of 50,000 sq m to 65,000 sq m of development. Were an agreement to be reached at this level the rates income position would be significantly improved, however, as it is not certain whether the Highways Agency will agree to increase this, this study assumes the lesser figure of 50,000 sq m.

3.2.2 Land receipts

Figure 13 sets out the assumptions that have been made in relation to the anticipated land receipts. These receipts reflect the timing and scale of development assumed under this scenario and total **£781K** which is broken down as follows:

| Year | Capital Receipt (£000) |
|--------------|------------------------|
| 2013 | 23 |
| 2014 | 296 |
| 2015 | 350 |
| 2016 | 70 |
| 2017 | 42 |
| TOTAL | 781 |

Figure 13: Scenario 2 land receipts

A more detailed breakdown of these receipts can be found in **Appendix C**.

3.2.3 Interventions

In addition to the, £3.8m of investment already committed, the Council has identified a further package of intervention measures to accelerate development of the Enterprise Zone bringing the total investment to **£10.1m**. The works proposed under this scenario take into consideration the assumption that the River Wye Crossing will not be built and consequently the scale of development of the EZ will be restricted and therefore the Council's opportunity to intervene to accelerate development is limited.

The works identified under this scenario are as follows:

| Year | Cost of interventions per annum (£000) |
|---------------------|--|
| 2012 | 994 |
| 2013 | 1,317 |
| 2014 | 1,462 |
| 2015 | 1,701 |
| 2016 | 1,970 |
| 2017 | 750 |
| 2018 | 500 |
| 2019 | 200 |
| 2020 | 100 |
| 2021 | 100 |
| 2022 | 100 |
| 2023 | 100 |
| 2024 to 2026 | 300 (100 pa) |

| Year | Cost of interventions per annum (£000) |
|--------------|--|
| 2027 to 2037 | 550 (50 pa) |
| | 10,144 |

Figure 14: Scenario 2 interventions

It is assumed that these works are funded over the life of the EZ using annuity loans at an interest rate of 4% such that all investments are fully paid down by 2038. This is illustrated in Figure 16.

A more detailed breakdown of the proposed investments can be found in **Appendix B**.

3.2.4 Revenue expenditure

In order for development to occur in-line with the take-up assumptions outlined above, the Council will need to resource the project appropriately to manage development. This includes an intensification of effort into 2016/17 to reflect the number of direct developments in place. Figure 15 outlines the assumptions that have been made and reflects the fact that there will be no further development beyond 2018 in this scenario. Revenue expenditure of **£3.3m** for staffing and operational costs has been identified.

| Year | Annual Revenue Expenditure (£000) |
|--------------|-----------------------------------|
| 2012 | 200 |
| 2013 | 300 |
| 2014 | 400 |
| 2015 | 300 |
| 2016 | 300 |
| 2017 | 200 |
| 2018 | 200 |
| 2019 to 2026 | 800 (100 pa) |
| 2027 to 2037 | 550 (50 pa) |
| TOTAL | 3,250 |

Figure 15: Scenario 2 revenue expenditure

The above costs are treated as revenue expenditure in year. This is illustrated in Figure 16.

3.2.5 Financial analysis

Figure 16 below shows the income and expenditure profile of the Enterprise Zone in each year over the life of the EZ based on the assumption that the interventions outlined in section 3.2.3 take place. Although the level of expenditure is significantly greater under this scenario than under Scenario 1, the income received increases at a much faster rate than under the base case assumption. However, it should be noted that the affordability of finance remains an issue in the early years with a positive net income only being received from 2017 onwards.

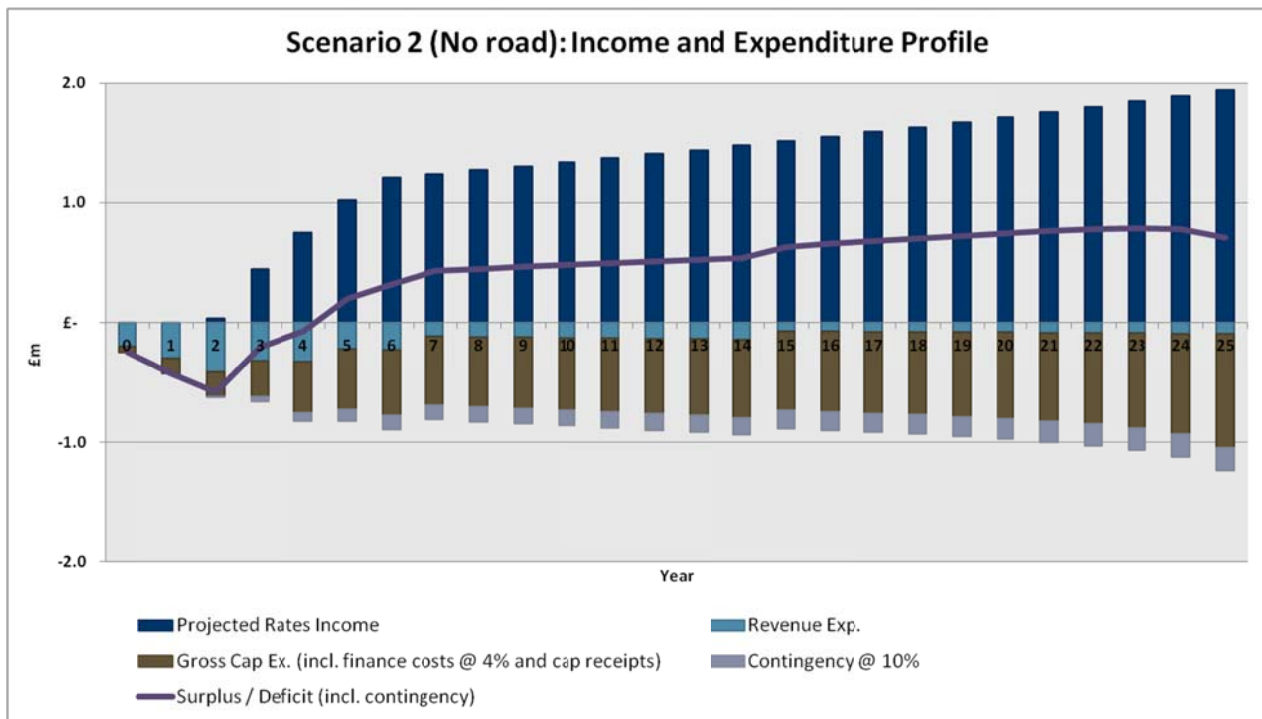


Figure 16: Scenario 2 income and expenditure profile

Figure 17 shows the aggregate position. Under the assumptions made in Scenario 2, the Hereford EZ would generate a surplus of **£10.8m** over the 25 year appraisal period.

| | £m |
|--|---------------|
| PROJECTED RATES INCOME* | 33.3 |
| CONTINGENCY (ON INCOME) @ 10% | (3.3) |
| Capital Receipts | 0.8 |
| Net Capital Expenditure | (10.1) |
| Financing costs (4%) | (5.9) |
| GROSS CAP EX. (INCL. FINANCE COSTS @ 4% AND CAP RECEIPTS) | (15.2) |
| REVENUE EXP. | (3.9) |
| SURPLUS/DEFICIT (INCL. CONTINGENCY) | 10.8 |

*includes deduction of 3% to allow for bad debt and 2% allowance for rates reliefs

Figure 17: Scenario 2 net income summary

3.3 SCENARIO 3: EZ INTERVENTIONS (RIVER WYE CROSSING COMPLETES 2021)

As previously covered in this report, there are certain sites within the EZ for which development hinges on the construction of the River Wye Crossing. Under this scenario it is assumed that this section of the relief road is completed and that in conjunction with this, the Council implements its full package of proposed interventions to maximise development within the EZ.

On this basis, the initial future investments are focused at the South Magazine, which is the area most readily available for development, before progressing to the Northern Magazine and then Chapel Road as these two areas are

opened up completely by the accelerated infrastructure investment programme proposed by the EZ that will see **£17.3m invested** (excluding the proposed investment in the River Wye Crossing) over the life of the EZ. The importance of this accelerated programme of infrastructure investment cannot be underestimated, on the basis that by the early opening up of the whole of the EZ, it allows each of the “mini zones” to play to their respective strengths early in the life of the EZ.

3.3.1 Take-up assumptions

Based on the assumption that the interventions identified below are implemented and the construction of the River Wye Crossing takes place, a total of **146,925 sq m** of development is anticipated which can be broken down as follows:

| Year | (Take-up sq m) |
|--------------|----------------|
| 2014 | 1,600 |
| 2015 | 15,947 |
| 2016 | 14,273 |
| 2017 | 15,733 |
| 2018 | 16,648 |
| 2019 | 13,600 |
| 2020 | 11,300 |
| 2021 | 11,500 |
| 2022 | 11,850 |
| 2023 | 6,825 |
| 2024 | 4,875 |
| 2025 | 4,875 |
| 2026 | 4,875 |
| 2027 | 4,875 |
| 2028 | 4,875 |
| 2029 | 3,275 |
| TOTAL | 146,925 |

Figure 18: Scenario 3 Take-up

Starting off in 2014, with the establishment of the Beck Group in the EZ, take up picks up substantially in 2015 with eight of the “pipeline” firms taking occupation in the EZ, alongside the establishment and 95% of take up of space at Skylon Court. The momentum is maintained into 2016, 2017 and 2018 with the establishment of further Herefordshire Council funded rented speculative space for small businesses at the Innovation Centre, Skylon Court 2, and the Food Technology Centre, alongside development in the South and then North Magazine.

The Enterprise Zone has received a number of enquiries from small businesses looking to rent rather than buy and the private sector is not meeting that demand at the moment. Furthermore Herefordshire is home to number of small scale producers that require next stage space to expand and grow further and cost of this is inhibitory. There is also a desire to encourage more start up activity through the provision of innovation space and again the nature of the business audience is that it is not attractive for the private sector to meet those requirements.

Herefordshire Council intend that these developments will target different and non-related occupier sectors and as such do not expect the three facilities to compete for occupiers. Moreover, these three facilities will target small enterprises who cannot afford to buy and build their own units, and so Herefordshire Council are of the view that take

up of space within these facilities will not be at the expense of plot take up at the North and South Magazines which will be taken by larger firms able to fund their own space.

Take up is expected to gradually tail off from 2018 onwards as the Herefordshire Council speculative space becomes fully occupied, and the initial pent up demand for space within the Enterprise Zone apparent in the early years of its life is addressed, such that from 2022 onwards annual take up is closer to the circa 50,000 sq ft take up per annum DTZ would ordinarily expect it to be in Hereford prior to the awarding of the Enterprise Zone.

As the cumulative take-up of space increases year-on-year, the level of business rates income becomes greater. This is illustrated by the projected business rates income shown in Figure 22.

3.3.2 Land receipts

Figure 19 sets out the assumptions have been made in relation to the anticipated land receipts. These receipts reflect the timing and scale of development assumed under this scenario and total **£3.5m** which is broken down as follows:

| Year | Capital Receipt (£000) |
|--------------|------------------------|
| 2013 | 23 |
| 2014 | 296 |
| 2015 | 350 |
| 2016 | 70 |
| 2017 | 560 |
| 2018 | 286 |
| 2019 | 682 |
| 2020 | 551 |
| 2021 | 638 |
| TOTAL | 3,456 |

Figure 19: Scenario 3 land receipts

A more detailed breakdown of these receipts can be found in **Appendix C**.

3.3.3 Interventions

In addition to the, £10.1m of investment already proposed under Scenarios 1 and 2, the Council has identified a further package of intervention measures to accelerate development of the Enterprise Zone bringing the total investment requirement to **£17.3m**. The works assumed under this scenario represent the full package of intervention measures proposed by Herefordshire Council on the assumption the River Wye Crossing is constructed and the maximum level of development is permitted. The works identified under this scenario are as follows:

| Year | Cost of interventions per annum (£000) |
|-------------|--|
| 2012 | 994 |
| 2013 | 1,317 |

| Year | Cost of interventions per annum (£000) |
|--------------|--|
| 2014 | 1,462 |
| 2015 | 3,951 |
| 2016 | 4,720 |
| 2017 | 2,000 |
| 2018 | 1,000 |
| 2019 | 500 |
| 2020 to 2028 | 100 |
| 2029 to 2037 | 50 |
| | 17,294 |

Figure 20: Scenario 3 interventions

It is assumed that these works are funded over the life of the EZ using annuity loans at an interest rate of 4% such that all investments are fully paid down by 2038. This is illustrated in Figure 22.

A more detailed breakdown of the interventions proposed can be found in **Appendix B**.

3.3.4 Revenue expenditure

In order for development to occur in-line with the take-up assumptions outlined above, the Council will need to resource the project appropriately to manage development including an intensive period of infrastructure investments and direct developments. Figure 21 outlines the assumptions that have been made. Revenue expenditure of **£4.3m** for staffing and operational costs has been identified.

| Year | Annual Revenue Expenditure (£000) |
|--------------|-----------------------------------|
| 2012 | 200 |
| 2013 | 300 |
| 2014 | 400 |
| 2015 | 500 |
| 2016 | 500 |
| 2017 | 500 |
| 2018 | 300 |
| 2019 | 200 |
| 2020 | 200 |
| 2021 TO 2028 | 800 (100 pa) |
| 2022 to 2037 | 450 (50 pa) |
| TOTAL | 4,350 |

Figure 21: Scenario 3 revenue expenditure

The above costs are treated as revenue expenditure in year. This is illustrated in Figure 22.

3.3.5 Financial analysis

Figure 22 below shows the income and expenditure profile of the Enterprise Zone in each year over the life of the EZ based on the assumption that the River Wye Crossing is built and the full list of interventions is made. Based on current projections, affordability of finance will be an issue in the early years with a positive net income only being received from 2018 onwards. This is one year longer than under either Scenarios 1 or 2 due to the higher level of investment in the earlier years. However, this early investment leads to a significant increase in revenues to the LEP totalling **£33.1m**.

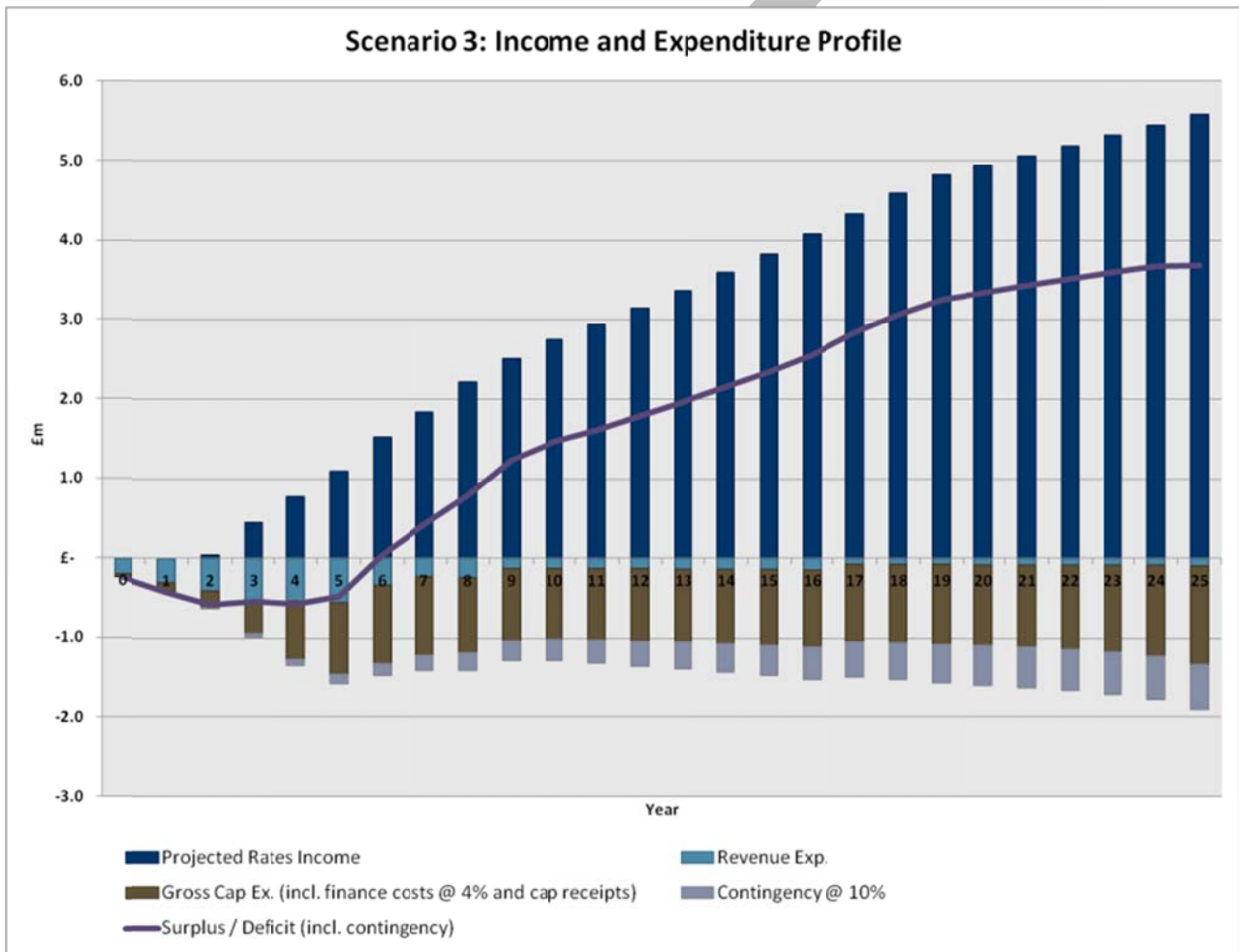


Figure 22: Scenario 3 income and expenditure profile

Figure 23 shows the aggregate position. Under the assumptions made in Scenario 3, the Hereford EZ would generate a surplus of **£43.9m** over the 25 year appraisal period.

| | £m |
|--------------------------------------|--------------|
| PROJECTED RATES INCOME* | 79.4 |
| CONTINGENCY (ON INCOME) @ 10% | (7.9) |
| Capital Receipts | 3.5 |

| | £m |
|--|-----------------|
| Net Capital Expenditure | (17.3)** |
| Financing costs | (8.6) |
| GROSS CAP EX. (INCL. FINANCE COSTS @ 4% AND CAP RECEIPTS) | (22.4)** |
| REVENUE EXP. | (5.1) |
| SURPLUS/DEFICIT (INCL. CONTINGENCY) | 43.9 |

*includes deduction of 3% to allow for bad debt and 2% allowance for rates reliefs

**Figure does not include contribution to River Wye Crossing

Figure 23: Scenario 3 net income summary

This surplus of £43.9m will only be achieved if the River Wye Crossing is built. This piece of infrastructure is required by 2021, and a contribution from the Zone may facilitate other investment and ensure that these works are carried out.

In order to demonstrate the impact that making a contribution to the cost of building the crossing would have on the net income position, a further scenario has been modelled. This scenario is based on the same assumptions as Scenario 3 but includes an investment/contribution of £10m towards the cost of the Wye Valley Crossing in 2019.

Figure 24 below shows the income and expenditure profile of the Enterprise Zone in each year over the life of the EZ based on the assumption that the River Wye Crossing is built and the full list of interventions are carried out including a £10m contribution towards the cost of the crossing.

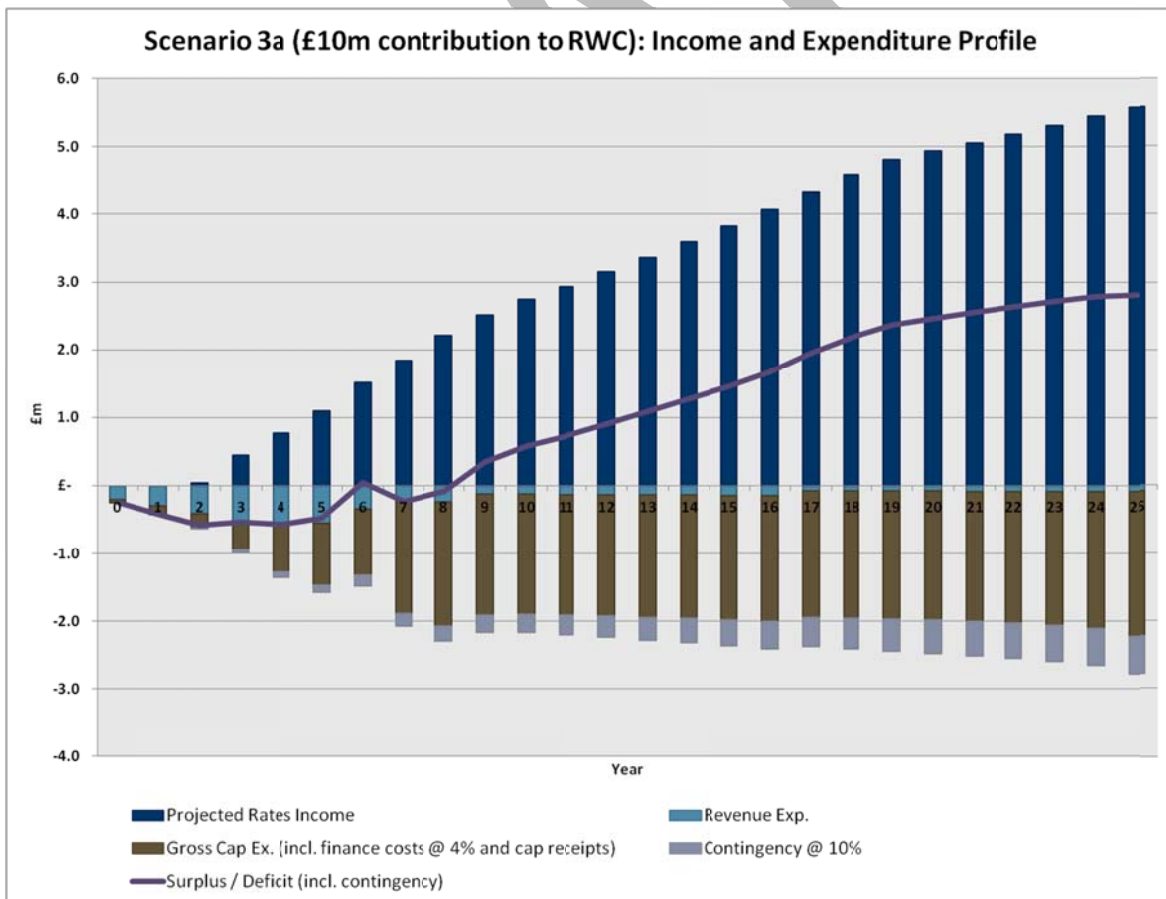


Figure 24: Scenario 3a income and expenditure profile

Figure 25 shows the aggregate position. Under the assumptions made in Scenario 3a, the Hereford EZ would generate a surplus of **£27.4** over the 25 year appraisal period.

| | £m |
|--|---------------|
| PROJECTED RATES INCOME* | 79.4 |
| CONTINGENCY (ON INCOME) @ 10% | (7.9) |
| Capital Receipts | 3.5 |
| Net Capital Expenditure | (27.4)** |
| Financing costs (4%) | (15.0) |
| GROSS CAP EX. (INCL. FINANCE COSTS @ 4% AND CAP RECEIPTS) | (38.9) |
| REVENUE EXP. | (5.1) |
| SURPLUS/DEFICIT (INCL. CONTINGENCY) | 27.4 |

*includes deduction of 3% to allow for bad debt and 2% allowance for rates reliefs

Figure 25: Scenario 3a net income summary

Although the net income position is **£16.5m** less than under Scenario 3, the forecast business rates growth under Scenario 3 will not be received without the construction of the River Wye Crossing. Ideally the Department for Transport (DfT) would finance the full cost of these works, in which case the full £43.9m can be used to fund other projects in the region. However, the funding position is not yet clear and the LEP should therefore consider what positive action can be taken on its part to facilitate other investment and ensure that the Enterprise Zone can be developed-out to its full potential. If making a contribution to the River Wye Crossing ensures that it is completed on time then this investment should be considered to provide value for money for the LEP. Based on an investment of £10m in 2019, the LEP would still receive a total of **£16.6m** more in business rates growth income over the life of the EZ than under Scenario 2 where it is assumed that the road is not built and development is capped at 50,000 sq m.

4 Findings & conclusions

4.1 Performance of the Enterprise Zone

The performance of the EZ differs significantly between each of the scenarios both in terms of the wider economic benefits achievable and also the net income generated from business rates income for the LEP.

Figure 26 below summarises the potential economic benefits to be realised under each option. The benefits achievable under Scenario 3 are significantly greater than those achievable under Scenarios 1 and 2, highlighting the importance of the development of the River Wye Crossing in order to maximise the success of the Enterprise Zone.

| | Scenario 1 | Scenario 2 | Scenario 3 |
|------------------------------|------------|------------|------------|
| New workspace created (sq m) | 32,525 | 49,438 | 146,925 |
| Jobs created | 1,211 | 1,858 | 5,887 |
| Gross Development Value (£m) | 20.3 | 30.0 | 86.4 |

Figure 26: Economic benefits

This point is further emphasised by the financial analysis undertaken which shows the potential for rates additionality for the LEP to be significant. Based on the above projections, the net revenues from the accelerated development under Scenario 3 would equate to **£43.9m** in total over the life of the EZ. This compares to Scenario 1 which is forecast to generate **£10.6m** and Scenario 2 which is forecast to generate **£10.8m**.

| | Scenario 1 (£m) | Scenario 2 (£m) | Scenario 3 (£m) |
|--|-----------------|-----------------|-----------------|
| PROJECTED RATES INCOME* | 21.3 | 33.3 | 79.4 |
| CONTINGENCY (ON INCOME) @ 10% | (2.1) | (3.3) | (7.9) |
| Capital Receipts | 0.7 | 0.8 | 3.5 |
| Net Capital Expenditure | (3.8) | (10.1) | (17.3)** |
| Financing costs (4%) | (2.0) | (5.9) | (8.6) |
| GROSS CAP EX. (INCL. FINANCE COSTS @ 4% AND CAP RECEIPTS) | (5.1) | (15.2) | (22.4)** |
| REVENUE EXP. | (3.5) | (3.9) | (5.1) |
| SURPLUS/DEFICIT (INCL. CONTINGENCY) | 10.6 | 10.8 | 43.9 |

*includes deduction of 3% to allow for bad debt and 2% allowance for rates reliefs

**Figure does not include contribution to River Wye Crossing

Figure 27: Hereford EZ net income summary

There remains significant risk that the later phases which are reliant on the development of the River Wye Crossing will be delayed or in fact, not happen at all which would have significant ramifications for LEP's expected rates revenues as illustrated by Figure 27.

Figure 28 below further highlights the differences in take-up for each scenario and serves to illustrate the risk position and significant reliance on the completion of the River Wye Crossing.

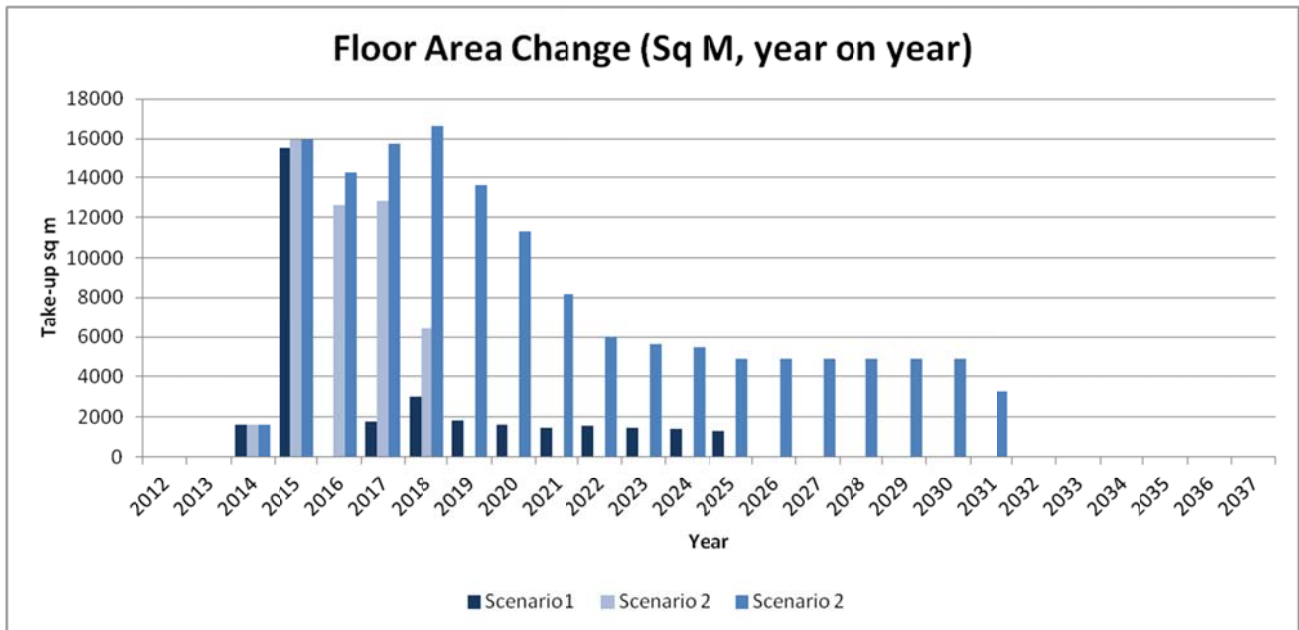


Figure 28: Hereford EZ take-up summary

Figure 28 illustrates the importance of the construction of the River Wye Crossing and the impact this will have on the take-up of space within the EZ. The cap currently placed on development of 50,000 sq m will significantly restrict take-up and therefore rates revenues for the LEP resulting in an estimated loss of income from business rates of **£33.1m**. As this income will not be received without the construction of the River Wye Crossing, the LEP should consider what positive action can be taken on its part to ensure that the Enterprise Zone can be developed-out to its full potential and the extent to which the anticipated growth in business rates income can be used to provide funding towards the River Wye Crossing.

4.2 APPROACH TO FUNDING

The above analysis has been prepared on the basis that the approved interventions are all financial using annuity loans over the remainder of the life of the EZ such that all debts are fully paid down by the time these expire i.e. 2038, an interest rate of 4% has been used.

Adopting this approach, we can see the forecast rates growth income exceeds the cost of funding the interventions in each year so that there is a faster revenue surplus which can either be accumulated or used by the LEP for other purposes.

The surplus revenue can be used to address further interventions desired and not yet approved.

An alternative approach could be to insist that surplus revenues are all directed towards the priority repayment of borrowings for the interventions approved. If this approach were adopted then all revenues from rates income growth available to the LEP would be committed until 2026. This is shown in Figure 29 below.

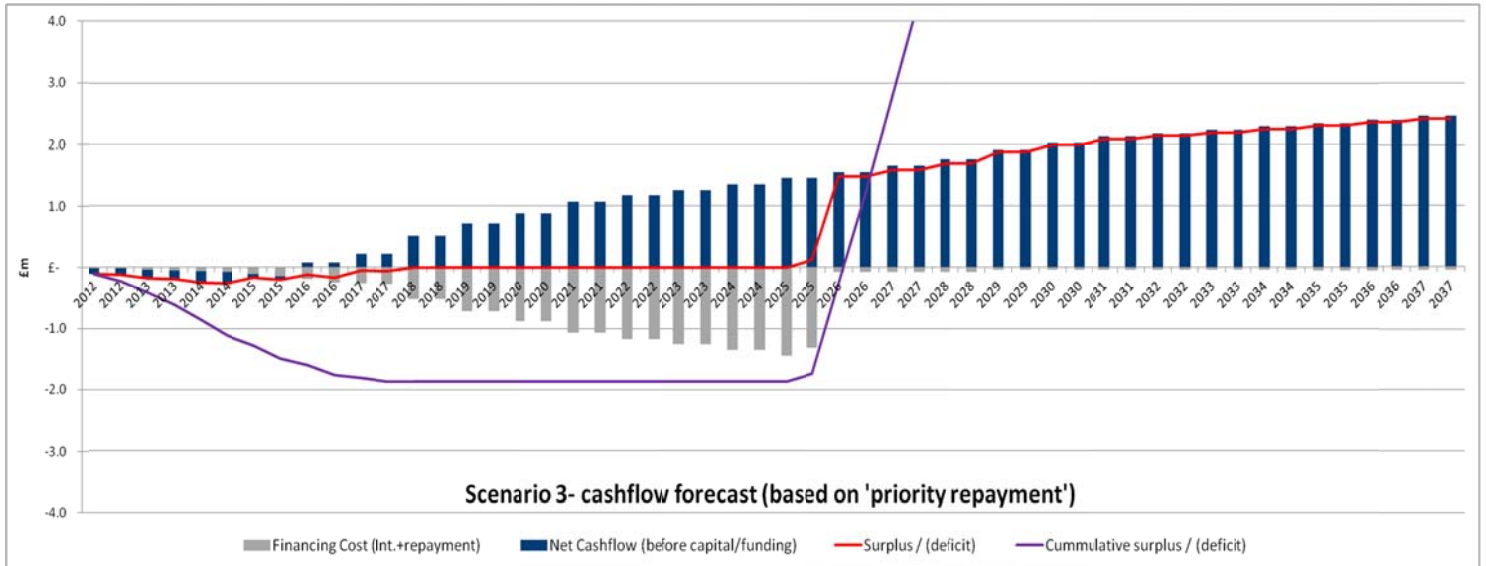


Figure 29: Priority repayment cashflow forecast

Alternatively, as modelled throughout this study, funding of approved interventions could be on the basis of annuity loans to be repaid from rates growth income such that the balance is fully paid down over the remaining life of the EZ. HC should seek assurance from the LEP that if it approves the interventions the LEP will guarantee to provide revenues from the rates growth income in order to meet these future loan costs. This would free-up a revenue stream that the LEP could use to support further interventions, for example to partially fund the River Wye Crossing. This is shown in Figure 30 below.

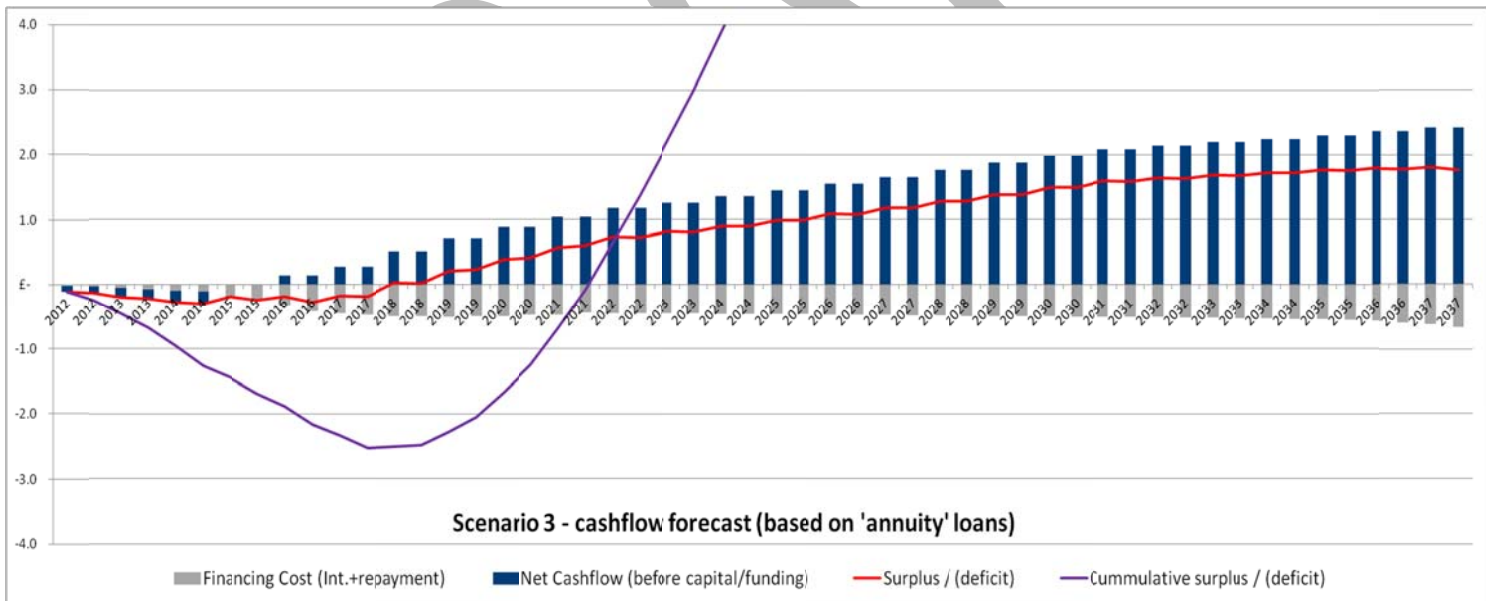


Figure 30: Annuity loans cashflow forecast

A summary of the cashflow forecast for each of the options can be found at Appendix D.

4.3 RECOMMENDATIONS

RECOMMENDATIONS

This study has identified several issues to which we recommend further consideration should be given. These can be summarised as follows:

1. There is a causal link between the development of the River Wye Crossing and the level of rates income the LEP can expect to achieve over the life of the EZ. Consideration should be given to using these expected revenues as part of the funding package for the River Wye Crossing. The level of contribution appropriate requires further consideration from the LEP in view of alternative sources. Clearly it will be preferable for DfT to fund the full cost.
2. Herefordshire will require an undertaking from the LEP in order to carry out the interventions proposed. The LEP should therefore consider the balance of cost, risk and return and the extent to which these represent value for money and are appropriate for the socio-economic outcomes achieved.
3. Whilst the difference between Scenarios 1 and 2 in terms of the net business rates income receivable is minimal at an estimated £250k over the life of the EZ, the economic benefits to be realised by implementing the interventions assumed under Scenario 2 are substantial. The value to the region of the anticipated jobs created, the increased value of commercial development and investment in the region through the relocation of new businesses to the area should all be considered in any future discussions around the appropriate level of intervention required and how this will be funded.
4. Since the Resource Review and proposals for authorities' to retain 50% of rates growth between rebase periods, Herefordshire Council could lose out on this income in relation to new development within the EZ where the income goes to the LEP. Furthermore, Herefordshire Council will also incur further administrative time and costs in dealing with the EZ and is taking a risk on the investments in advance of the business rate income. The LEP should consider making provision to recognise the impact on the Council. It is understood that this has been agreed at the Bristol and West of England EZ and has been raised as an issue in a number of other Zones.

Appendix A: HCA employment density guidelines

| Use Class | Use Type | Area per FTE (m ²) | Floor Area Basis | Comment on potential variation |
|---|--------------------------------------|---|------------------|--|
| Industrial | | | | |
| B2 | General | 36 | GIA | Range of 18 - 60 m ² |
| B1(c) | Light Industry (Business Park) | 47 | NIA | |
| Warehouse & Distribution | | | | |
| B8 | General | 70 | GEA | Range of 25 - 115 m ² The higher the capital intensity of the business, the lower the employment density |
| B8 | Large Scale and High Bay Warehousing | 80 | GEA | |
| Office | | | | |
| B1(a) | General Office | 12 | NIA | Includes HQ, Admin and 'Client Facing' office types |
| B1(a) | Call Centres | 8 | NIA | |
| B1(a) | IT/ Data Centres | 47 | NIA | A blended rate of the above B1(a) uses where they are found in out of town business park locations |
| B1(a) | Business Park | 10 | NIA | |
| B1(a) | Serviced Office | 10 | NIA | |
| Densities within separately let units are c.7 m ² per <u>workstation</u> but 30% of a facility's total NIA for shared services reduces the overall density | | | | |
| Retail | | | | |
| A1 | High Street | 19 | NIA | Town/ City Centre |
| A1 | Food Superstores | 17 | NIA | |
| A1 | Other Superstores/ Retail Warehouses | 90 | NIA | |
| A2 | Financial & Professional Services | 16 | NIA | Includes the back office function area as well as the customer facing areas |
| A3 | Restaurants & Cafes | 18 | NIA | |
| Range of 10 - 30 m ² | | | | |
| Leisure & Visitor Attractions | | | | |
| C1 | Budget Hotels | 1 employee per 3 bedrooms plus casual staff | | |
| C1 | General Hotels (3 star) | 1 employee per 2 bedrooms | | |
| C1 | 4/ 5 Star Hotels | 1 employee per 1.25 bedrooms | | |
| D1 | Cultural Attractions | 36 | GIA | Very wide range exists, so use with caution. Excludes external areas |
| D2 | Cinemas | 90 | GIA | |
| D2* | Amusement & Entertainment Centres | 70 | GIA | Range of 40 - 100 m ² - excludes external areas |
| D2 | Sports centres and Private Clubs | 65 | GIA | Range of 30 - 100 m ² |

Appendix B: Intervention measures

B1 - SCENARIO 1 INTERVENTIONS

| Year | Cost of interventions per annum (£000) | Items of Expenditure | Cost (£000) |
|------|--|---|---------------|
| 2012 | 994 | Flood attenuation works Master planning Site works and studies Utilities work and studies Estate management | Total = 994 |
| 2013 | 1,317 | Site works and studies Utilities work and studies Access Road Demolition of buildings Estate management | Total = 1,317 |
| 2014 | 1,462 | Site works and studies Utilities work and studies Access Road Demolition of buildings Estate management | Total = 1,462 |
| | 3,773 | | |

B2 - SCENARIO 2 INTERVENTIONS

| Year | Cost of interventions per annum (£000) | Items of Expenditure | Cost (£000) |
|------|--|---|---------------|
| 2012 | 994 | Flood attenuation works Master planning Site works and studies Utilities work and studies Estate management | Total = 994 |
| 2013 | 1,317 | Site works and studies Utilities work and studies Access Road Demolition of buildings Estate management | Total = 1,317 |
| 2014 | 1,462 | Site works and studies Utilities work and studies Access Road Demolition of buildings | Total = 1,462 |

| Year | Cost of interventions per annum (£000) | Items of Expenditure | Cost (£000) |
|--------------|--|--|---------------------------------|
| | | estate management | |
| 2015 | 1,701 | Access Road - plot C1 Broadband ducting General utilities work General costs to bring sites forward for development Gap funding for Skylon Court 2 | 150 100 250 250 951 |
| 2016 | 1,970 | Plot works including ground remediation and levelling General utilities and costs bringing other sites forward Small scale interventions Gap funding for Fuse House | 300 250 200 1,220 |
| 2017 | 750 | General utilities and costs bringing other sites forwards Plot works including ground remediation and levelling Small scale interventions | 250 250 250 |
| 2018 | 500 | General utilities and costs bringing other sites forward Small scale interventions | 250 250 |
| 2019 | 200 | Cost to bring sites forward for development | 200 |
| 2020 | 100 | Small scale interventions to bring sites forward for development | 100 |
| 2021 | 100 | Small scale interventions to bring sites forward for development | 100 |
| 2022 | 100 | Small scale interventions to bring sites forward for development | 100 |
| 2023 | 100 | Small scale interventions to bring sites forward for development | 100 |
| 2024 to 2026 | 100 | General site care and maintenance | 100 |
| 2027 to 2037 | 50 | General site care and maintenance | 50 |
| | 10,144 | | |

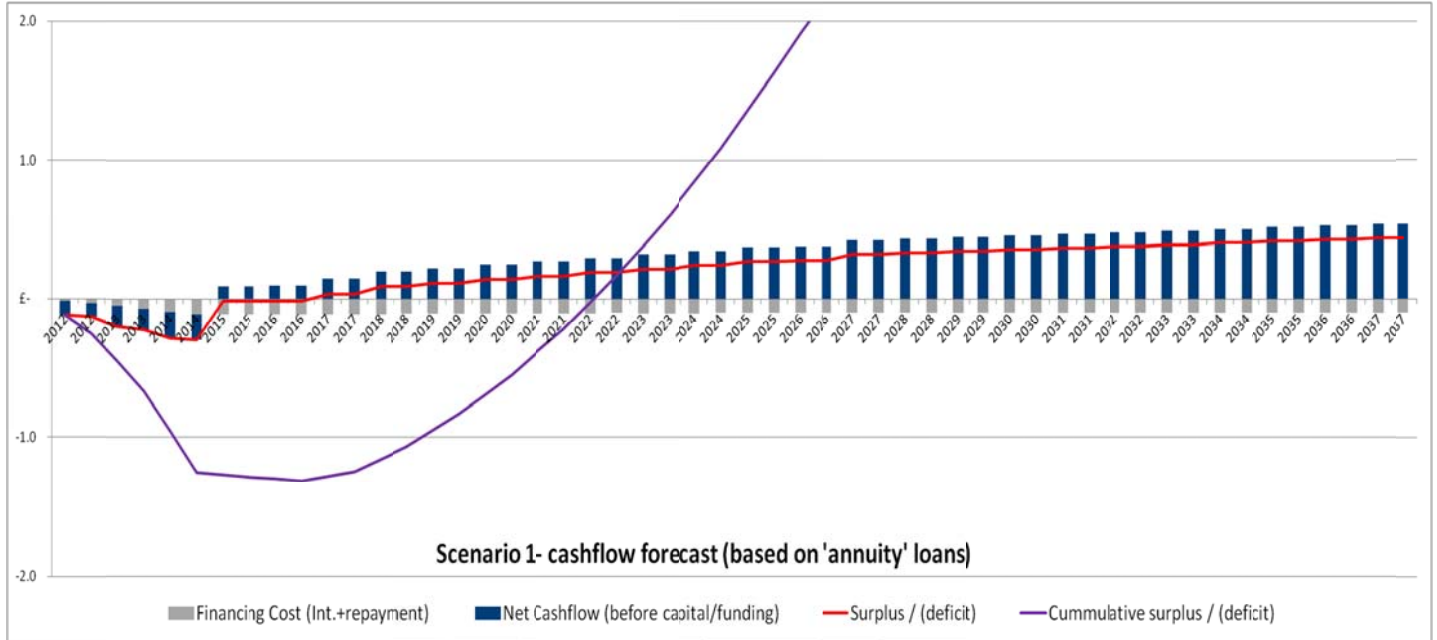
B3 - SCENARIO 3 INTERVENTIONS

| Year | Cost of interventions per annum (£000) | Items of Expenditure | Cost (£000) |
|------|--|---|---------------|
| 2012 | 994 | Flood attenuation works Master planning Site works and studies Utilities work and studies Estate management | Total = 994 |
| 2013 | 1,317 | Site works and studies Utilities work and studies Access Road Demolition of buildings Estate management | Total = 1,317 |

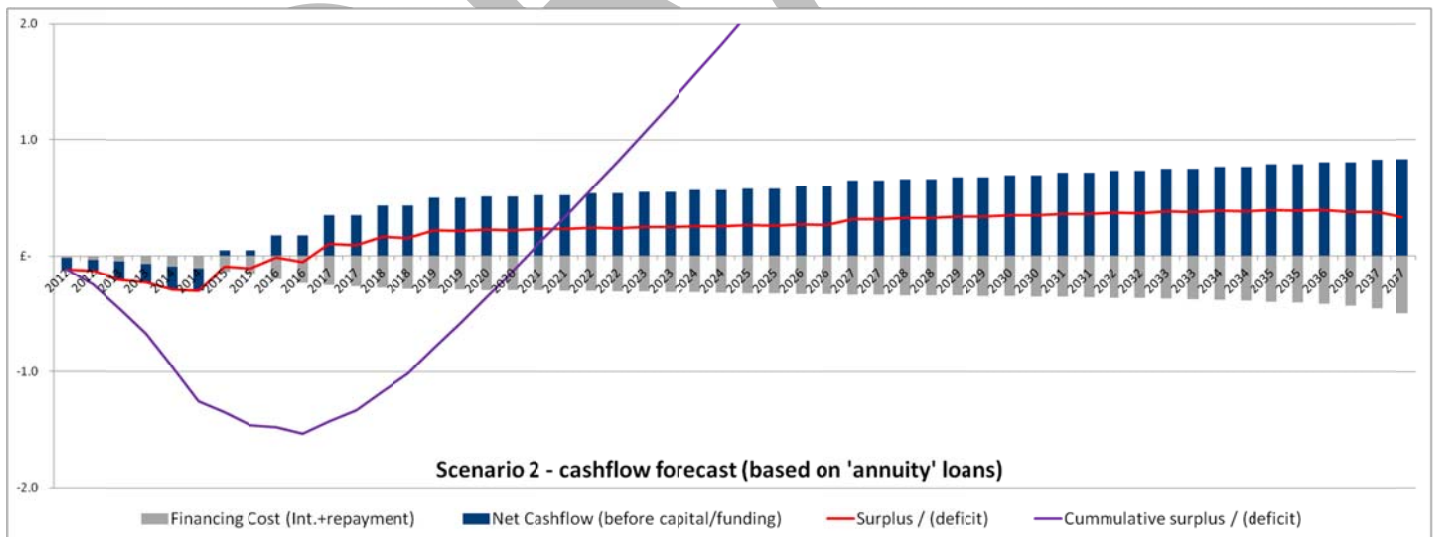
| Year | Cost of interventions per annum (£000) | Items of Expenditure | Cost (£000) |
|--------------|--|--|---|
| 2014 | 1,462 | Site works and studies Utilities work and studies Access Road Demolition of buildings Estate management | Total = 1,462 |
| 2015 | 3,951 | North Magazine electricity works Removal of NM spoiled heap NM pumping station Access road - plot C1 Broadband ducting General utilities work Gap funding for Skylon Court 2 | 1,500 500 500 150 100 250 951 |
| 2016 | 4,720 | North Magazine access road and landscaping Chapel Road demolition works Plot works including ground remediation and levelling General utilities and costs bringing other sites forwards Small scale interventions Gap funding for Fuse House Gap funding for Innovation Centre | 400 250 400 250 200 1,220 2,000 |
| 2017 | 2,000 | Chapel Road demolition General utilities and costs bringing other sites forwards Plot works including ground remediation and levelling Small scale interventions Gap funding for Food Technology Centre | 250 250 250 250 1,000 |
| 2018 | 1,000 | Chapel Road site preparation and infrastructure costs General utilities and costs bringing other sites forward Small scale interventions | 500 250 250 |
| 2019 | 500 | General cost to bring sites forward for development | 500 |
| 2020 to 2028 | 100 | General care and maintenance costs | 100 pa |
| 2029 to 2037 | 50 | General care and maintenance costs | 50 pa |
| | 17,294 | | |

Appendix D: Financing Arrangements

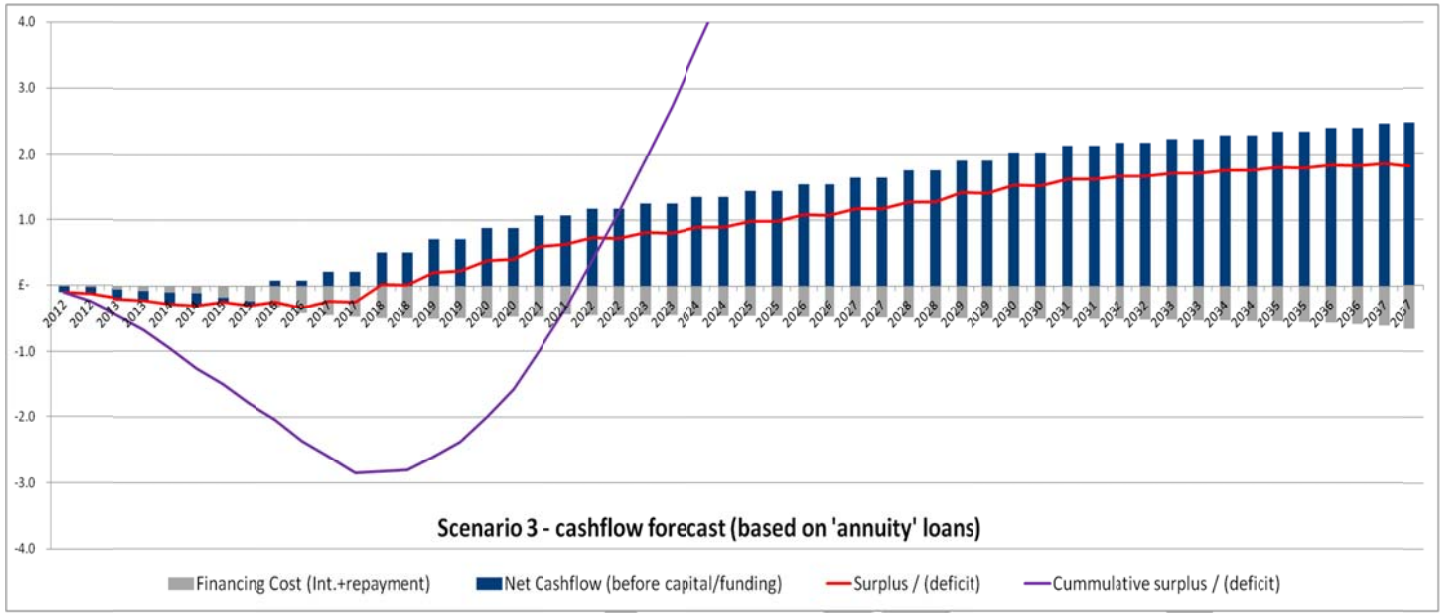
D1 - SCENARIO 1 REPAYMENT PROFILE



D2 - SCENARIO 2 REPAYMENT PROFILE



D3 - SCENARIO 3 REPAYMENT PROFILE



DRAFT