

Decision maker:	Cabinet Member Environment, Economy and Skills
Decision date:	Monday 5 October 2020
Title of report:	To approve the spending of £5,432k LEP funding that was allocated to further develop the Hereford Enterprise Zone
Report by:	Enterprise Zone Capital Programme Manager

Classification

Open

Decision type

Key

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500k is regarded as significant.

Notice has been 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.

Wards affected

Dinedor Hill;

Purpose

The council has been successful in bidding for and securing £5,432k Growth Deal funding from The Marches Local Enterprise Partnership (LEP) to undertake additional infrastructure work at Hereford Enterprise Zone (HEZ). This report seeks approval for the funds to be spent to deliver that additional infrastructure.

Recommendation(s)

That:

- (a) the spending of £5,432k funding from Marches LEP on HEZ infrastructure works as detailed within this report is approved.**
- (b) The Enterprise Zone Phase 5 budget allocation is then reduced by £1,053k as these funds are no longer required; and**
- (c) The Director of Economy and Place be authorised to implement recommendation (a) including the procurement and commissioning of new projects in consultation with the S151 Officer.**

Alternative options

1. Reject decision to spend the £5,432k funding and do not accept funds from The Marches LEP. Continue to prepare the North Magazine as a whole using the existing allocated council funds and without scope for inclusion of the sustainable travel measures.
2. The existing council allocated HEZ budget will be sufficient to install the basic infrastructure to the North Magazine to enable it to be sold as a single plot, but not to assist the sub-division of the area, ready to meet known investment interest.
3. If the spend of the Growth Deal funding is not approved as suggested, there is potential for reputational impact to the council, of the relationship with the local community, The Marches LEP, and Government, each of whom are stakeholders in the broader HEZ project. The Marches LEP and Government are likely to ask for an explanation for the decision and an assessment of and impact on objectives. The consequence would be to not carry out the full works or make the case to the full Council for additional council money to fund these works.

Key considerations

4. The HEZ is the Government's designated government Enterprise Zone for the Marches Local Enterprise Partnership. The primary objective for Enterprise Zones is to become a catalyst for enhanced economic growth.
5. A specific company, Hereford Enterprise Zone Limited was set up to oversee progress with a private sector led Board. The council are represented on the Board by both elected members and by senior officers. The aim has been to maximise private sector investment and generate higher value jobs, using the Enterprise Zone status, profile and benefits to do that.
6. Considerable progress has been made in the HEZ. At the end of 2019/20, over 51 acres of land had been sold or was committed to development. 56,500 sqm of workspace had been developed or committed. 43 businesses have moved onto the HEZ and these businesses are currently employing 792 people. A further 1,000 job opportunities are expected to be generated from the total project investment to date. One of the principal reasons for that success has been the prior preparation of the land so it is development ready. This has meant that investors can purchase the land with the confidence that they can move on immediately and concentrate on building construction and then occupation.
7. This land preparation has been carried out utilising a £16m council capital programme, approved in 2014, to be funded through capital receipts, in making land ready for start of construction onsite once an occupier has concluded a purchase.
8. On 15 August 2019 Cabinet approved the Phase 5 budget for the HEZ infrastructure project, approving the allocation of the remaining £5.231m of the £16m total budget from the capital programme.

9. The HEZ has had discussions with the full range of market interests over the past 7 years. These have included private businesses wanting to buy and develop out their own plots (end occupiers); property developers who would buy tracts of land to develop out multiple buildings to sell on and rent and institutional investors who would look to support comprehensive development schemes through joint investment packages. End occupiers in the 300,000 + sq ft plus category tend to have greater logistical requirements, particularly more certain access to the motorway network, and would make a greater call on the local labour market than can easily be supplied. Property developers are discouraged by the high level of investment required to make the land development ready, and both developers and institutional investors are dis-incentivised by the likely rate of return and total quantum likely to be generated. Land values, and building values are relatively low in Hereford compared to other parts of the country, and the total potential end value of the North Magazine site (£20 to £30 million) is insufficient to attract institutional investors, unless bundled together with several other, potentially more lucrative projects elsewhere in the city.
10. Over the next 12 months, all the other investment ready land at HEZ will be developed or under development or under negotiation to be sold and developed. Continuing to hope for a single purchase for the North Magazine site will serve to delay capital receipts, consequent development and occupation, slowing business sector and job growth at the HEZ.
11. In contrast, there is substantial interest in smaller scale investments in the 1-3 acre category from end occupiers. Taking a more demand led approach in response to the needs of identified businesses would provide greater certainty moving forward and enable greater speed of sale, construction and occupation.
12. The development of this site will result in an additional 10 hectares of employment land with 500 additional jobs profiled to be created.
13. The Marches LEP funds will be used to invest in the infrastructure needed to subdivide the North Magazine into smaller plots and make these plots ready to meet the market demand.
14. An engineering masterplan is being undertaken to identify constraints, and to then design the infrastructure needed. Specific surveys, ground investigations, analysis and reports will be undertaken. Access routes will be developed and installed for vehicles, cyclists and pedestrians. Ground moving and raising will be conducted as necessary to establish the plots and to meet flood mitigation strategy requirements. A comprehensive Sustainable Urban Drainage scheme will be installed to serve the access and plots. All utility networks (gas, electricity, water, foul and broadband) will be extended to provide the capacity and connection points for plots. A landscape enhancement strategy and signage will be devised and installed.
15. The HEZ and the Council look to maximise sustainable travel in and out of the Rotherwas area; creating and supporting the implementation of a specific Rotherwas Travel Plan. As investment and employment growth continues, it is vital that the HEZ works within the Local Development Order traffic cap, minimising the impact of new development on peak time traffic through encouraging continued uptake of cycling, walking and other Active Travel Measures. A particular objective for this LEP investment will be to improve such connectivity for the nearest local communities to the west of Rotherwas, supporting the design and delivery of two of the schemes previously identified in the South Wye Transport Package.
16. The project will also help deliver a number of the priorities detailed within the County Plan 2020 – 2024 including Grow Jobs and keep unemployment rates low; Increase the number of short distance trips by sustainable modes of travel; Increase local wealth creation. The completion of the Shell Store Business Incubation space and the Midlands Centre for Cyber Security in 2020 on the Enterprise zone will also provide a catalyst to the development of new

businesses and higher value jobs. Construction is also due to commence of NMITE's Skylon Park campus buildings on the North Magazine in 2020, including their development of the Centre for Advanced Timber Technology and the Centre for Automated Manufacturing. These developments will ensure the HEZ is also well placed to contribute to the 'Skill-up – Encourage continuous investment in our local workforce and a culture of lifelong learning in our community' County Plan priority.

17. The LEP requires £3 million of match funding by 2022/23 (already in place) and the delivery of 7 ha of built out employment land and 500 jobs by the end of 2024/25. The LEP investment will make the land development ready by mid-2021, and given the significant interest shown, we anticipate built out from 2021 and 2024, generating these outputs.

Community impact

18. Through the direct facilitation of company growth by providing land and premises for expansion and relocation of businesses, the HEZ contributes to the council's County Plan 2020-24 and the economy section specifically where it meets the following ambitions:
 - a. Develop environmentally sound infrastructure that attracts investment
 - b. Use council land to create economic opportunities and bring higher paid jobs to the county
19. It is also a priority project within the Herefordshire Economic Vision and it could significantly support the goals of the scheme including growing the local economy, creating higher value jobs and supporting a great environment. The project will also support the goals for The Marches Strategic Economic Plan including Supporting Business and Physical Infrastructure.
20. Failure to proceed with these interventions will mean that council owned land may not be fully serviced or accessible. Experience on the HEZ (and elsewhere across Herefordshire) has demonstrated that there is no demand for employment land that is not fully serviced, and there is a chance that the council owned land would not be sold.
21. The council is committed to providing a healthy and safe environment for all individuals impacted by its coordinated activities. As a result the council endeavours to ensure that the work they and their partners undertake, does not adversely affect the health, safety or welfare of members of the public or visitors. Therefore, partners are required to work to the same high health and safety standards and approved codes of practice, as the council, as far as is reasonably practicable and any contracts will reflect this.
22. The Local Transport Plan 2016 – 2031 highlights that as well as reducing congestion and emissions, switching to walking, cycling and public transport will also improve public health, fitness and well-being. By improving public transport infrastructure and providing a more pedestrian and cycle friendly environment it is intended there will be less congestion and a benefit to wide range of people and groups within the business and resident community.
23. Projects supported through the Marches LEP grant funding will support the use of different transport modes and routes, and will provide more convenient or viable alternative modes of travel.

Equality duty

24. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

25. The development of the HEZ will support the council's commitment to equality by advancing equality of opportunity, with the potential of increased job opportunities.

26. The impact of these proposals on some people within the nine protected groups as defined by the 2010 Equality Act is expected to be such that an Equality Impact Assessment will be required. A stage 1 EqIA screening assessment will be undertaken to confirm this.

Environmental Impact

27. The North Magazine is a previously developed (brownfield) industrial site. Developing this out will allow business investment and development in a coordinated and efficient way making use of the existing transport network and infrastructure utilising close proximity to the city centre and avoiding development on greenfield land. Extensive remediation work is taking place including materials screening, asbestos removal and ground raising (in line with Flood Alleviation Scheme) using locally sourced materials.

28. Arisings from the infrastructure works will be screened and retained on site (where safe and practical to do so) where levels are due to be raised further. This will minimise waste to landfill and reduce the carbon footprint.

29. The North Magazine masterplan will concentrate development in a central platform, leaving a generous buffer of existing trees and vegetation to all sides. Precautionary measures have been identified in an Ecological Appraisal undertaken in 2019. Recommendations (including enhancement measures) will be followed to avoid harm and injury to wildlife.

30. Proposals will introduce new habitats through native planting of trees, shrubs, wildflower meadow and nectar rich species. Within the woodland buffer area, invertebrate houses and bird boxes will further habitat opportunities. Long term management of the green infrastructure will follow strategies such as timed mowing regimes for meadow grass and retaining felled trees around the site will allow natural colonisation.

31. The longer term intention will be to provide public access to the woodland and the historic features surrounding the development area and connect these with the existing footpath network. Access will encourage public interest and ownership of the site to help conserve the heritage and ecology for future generations.

32. Infiltration will be targeted as the primary drainage methodology. A network of open linear and basin attenuation features will form a core part of the infrastructure, with enhanced landscaping planting to remove silts, metals and hydrocarbons before waters are discharged to the groundwater.
33. The subsequent development is being designed with environmental principles at its centre. This includes efficient flow and people movement; low impact build, low carbon footprint built with sustainable materials; minimising need for artificial heating and ventilation; optimising layout and build orientation to maximise daylight for heat gain; looking to utilise Ground Source Heat Pumps where possible; natural lighting strategies used wherever possible. The site design will also be expected to be future proofed to incorporate the provision of utility corridors, for example if a Waste water recovery system or a district heat system were to be adopted in the future.
34. The masterplan will set out advanced activities to be installed and commissioned by the HEZ to serve the site as a whole, in advance of any other developments. There will then be requirements established for each development parcel which will be applied through the sales and planning processes. One of the objectives and expected outcomes of the completed masterplan will be to increase the biodiversity of the overall location. A specific biodiversity measurement project will be commissioned to review before, during and after works and report on the findings.
35. Sustainable travel measures will be designed and installed as part of the project. Provision will be made for pedestrians and cyclists by providing routes into and through the site. These routes will connect directly into the Greenway which passes the southern boundary of the North Magazine and provides a direct link via a dedicated bridge to the city centre. Public transport is available with a bus serving the Estate and bus stop provision will be made for this development. Park and Ride and Beryl Bike points are already installed nearby. Individual business investors will need to produce their own individual travel plans that fit within the wider Estate-wide Travel Plan. This will require the provision of their own infrastructure such as cycle shelters, showers, lockers and electric charging points.
36. Implementation of the wider Travel Plan will include improving the connectivity of nearby communities into and out of the HEZ, particularly providing better cycling and walking access from those areas to the west.
37. The HEZ has developed a specific sustainability assessment based on principles and standards from other sustainability schemes, around promoting and encouraging energy efficiency, energy monitoring, water saving and sustainable materials. New developments built by private investors are regulated through the LDO planning process and are expected to achieve BREEAM very good or equivalent through the HEZ scheme. Specialist support is provided in helping new investors to develop their buildings to meet these standards. Any new development funded or built by the Council will be expected to reach BREEAM excellent or above.
38. The HEZ Board is committed to working with the Council to help it achieve its aspiration of carbon neutrality by 2030. The board will develop a CO2 reduction strategy and action plan to contribute to the net zero carbon goal.

Resource implications

39. The additional £5,432k Growth Deal funds will be used to supplement the existing phase 5 capital budget (£5,231k) which was approved by cabinet in August 2019 (<http://councillors.herefordshire.gov.uk/ieDecisionDetails.aspx?Id=6182>).
40. The table below provides a summary of the new total amounts required to deliver this work and how the LEP funds will be utilised with the phase 5 approved funds. The table also shows the level of Council funds which no longer need to be drawn down from the phase 5 approved budget.

Infrastructure Area	Total Requirement (£000's)	LEP Funding (£000's)	Phase 5 Council (Approved) (£000's)	Council Funding Not Required (£000's)
Spoil Heap	2,100	732	2,100	732
Utilities	1,500	900	600	0
General Plot Works	1,450	800	750	100
Access Improvements	4,207	3,000	1,300	93
Site Wide Improvements	353	0	481	128
TOTAL	9,610	5,432	5,231	1,053

41. Note that the Council's Section 151 Officer has delegated authority and has added the grant of £5,432k LEP funds into the capital programme; this decision is needed to spend the funds as set out above. The Council will no longer need to drawdown £1,053k of the approved phase 5 budget.
42. Note that £3,059k of the phase 5 approved budget will be used as match funding in drawing down the LEP funds. The match funding needs to be spent and evidenced no later than the end of the 2022/23 financial year.
43. In 2020/21, £1,921k has been spent to date and an additional £1,380k committed on projects in these various topic areas. More detail on the work underway, committed and proposed activities are set out below.

Infrastructure Area	Committed Activities (already being implemented)	Proposed Activities
Spoil Heap	Removal of spoil heap. Using materials to build up plots elsewhere in the zone	Continuation of their work.
Utilities	<ol style="list-style-type: none"> 1. Shell Store Utilities (Gas/Water/Broadband) 2. Shell Store Foul Drainage 3. Plot C1 Design Work 	<ol style="list-style-type: none"> 1. Detailed design and installation of utility corridors to plots across the North Magazine (electricity, gas, broadband, water, foul drainage) 2. Installation of Plot C1 foul drainage, gas, water, electricity, broadband 3. Finalise South Magazine Foul Drainage Layout

General Plot Works	<ol style="list-style-type: none"> 1. Wide range of detailed site investigations already carried out (e.g. - ground investigation/contamination, GPR, ecological, topographical, tree surveys). 2. Masterplanning of North Magazine to identify plot layouts and works required 	<ol style="list-style-type: none"> 1. Continued site investigation work and surveys including biodiversity calculation at the North Magazine 2. Any ground raising/moving and landscaping required to meet plot layouts 3. Detailed design and construction of drainage features across the North Magazine
Access Improvements	<ol style="list-style-type: none"> 1. Straight Mile Cycleway Phase 2 Construction 2. Detailed design of access to plot C1 3. Detailed design of layout of estate roads at North Magazine 	<ol style="list-style-type: none"> 1. Estate Roads (access and construction at Plot C1 and at the North Magazine) 2. Detailed design and implementation of Holme Lacy road sustainable travel priorities 3. Detailed design and constructions of improvements to Quiet Routes for cyclists and pedestrians from the west of the zone
Site Wide Improvements	<ol style="list-style-type: none"> 1. Directional Signage (design) 	<ol style="list-style-type: none"> 1. Directional Signage (delivery phase) 2. Additional landscaping and improvement works around the zone including street lighting

44. £3.2m of infrastructure activity is already committed to and being implemented, and a good deal of that is geared to preparation, development and design of the further projects needed to open up the land and improve sustainable access. Given that we only have 6 months remaining to commit and deliver all the LEP funding, there will need to be consideration of the full range of delivery options available.

45. Project delivery will be carefully managed, and, if necessary, phased to tailor activity to what can be delivered within the LEP spend period and total funding available.

Legal Implications

46. Under the terms of The Marches LEP Grant Funding Agreement the council is required to deliver the infrastructure works and active travel measures detailed in the Grant Funding Agreement. The grant monies have to have been defrayed by 31 March 2021 and the outcomes achieved by 31 March 2025.

47. The Marches LEP Grant Funding Agreement sets out milestones that must be met by the council in delivering the outcomes. If Shropshire Council determine that in their reasonable opinion that the outcomes will not be delivered by 31 March 2025 the Grant Funding Agreement can be terminated and monies paid will become repayable.

48. Local authorities have a fiduciary duty to council taxpayers, business ratepayers and other providers of local government finance to balance the interests of those who will benefit from expenditure against those who have contributed to the funds of the local authority when expending significant amounts of money like in the present case. Members should therefore

be clear as to the likely benefits that will arise from the expenditure and that the way it will be spent gives value for money consistent with the council's best value.

49. There are legal duties on the council as landowner with regard to environmental remediation. The contaminated land regime as prescribed by the Environmental Protection Act 1990 is the statutory regime for remediation of contaminated land, which causes an unacceptable level of risk. Under the regime, local authorities must identify contaminated land and categorise it according to level of risk. Liability for the remediation of contaminated land passes to the current owner or occupier of the site unless the original contaminator can be identified (considered unlikely in this case). A site which has not been remediated will be significantly less attractive to a prospective occupier and any funder which supports them; therefore the council's proposal to address the remediation works itself, prior to sale, represents an appropriate course of action and a best value solution in the circumstances.
50. State aid is also potentially relevant to the remediation works to be undertaken. The council has been advised that in principle no aid arises where a local authority prepares its own land for subsequent sale, as long as the impact of the works is recovered by selling at a full open market value (and in accordance with S123(2) of the local Government Act. Accordingly, the expenditure on remediation works is considered to be state aid compliant.
51. The commissioning of contractors to provide the services required for the works at the North Magazine of the HEZ will be in compliance with the Public Contracts Regulations 2015 ('PCR') and the council's own contract procedure rules.

Risk management

52. The following risks have been identified (assuming that the recommendations are followed):

Risk / opportunity	Mitigation
Financial	
COVID-19 Impacts on spend/ delivery timescales and demand for business space.	Monitor situation and government restrictions. Review processes and procedures to help ensure activities can continue within guidelines. Regular liaison with businesses which are interested in the site.
Slippage of Local Growth spend in 2020/21	Establish agreed programme of works. Review progress at monthly project board meetings. Council match funding can be spent flexibly.
Budget overspend	Each project will be costed before sign off and progress reviewed to ensure spend remains within the budget
Inadequate procurement arrangements	Projects will be commissioned through an appropriate procurement arrangement agreed with the commercial services team.

Delays in implementing projects	Establish clear protocols for sign off and delivery of projects
Unexploded bombs or ordnance may be found within the works area	Considerable experience and expertise built up over the last 7 years. Pass this on through best practice guidance to new contractors.
Delayed completion of design delays implementation of sustainable travel measures.	Prepare design in sections and deliver works concurrently if required to maintain spend profile.
Economic slowdown post COVID-19 and Brexit could result in loss of demand for land.	Marketing plan to be established, and promoted; including identifying a number of target sectors. Client management arrangements in place to support prospective clients through the sales and development process.
Legal	
Remediation requirements not met	Develop and maintain full suite of information on contamination on site. Deal with any contamination appropriately utilising advice, and liaising with Environment Agency and council departments
State Aid rules not followed	Ensure any work is done prior to plot sales. Land sales made at full market value
Procurement rules not followed	Procurement of all contractors providing services to deliver these works will comply with Public Contract Regulations and the council's own contract procedure rules
Reputational	
Delays in implementing projects, leading to delays in sales, capital receipts, construction and business rates generation.	Clear, certain and swift processes in place to ensure sign off and implementation of projects.

53. Risks will be managed at a service level through the HEZ Programme Board.

Consultees

54. The political group's consultation procedures have been followed. No formal feedback has been received.

Appendices

None

Background papers

None identified