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Report to: LEP Board

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Subject: Leeds City Region Enterprise Zones Programme

1 Purpose

1.1 This report sets out:

- The policy background to the Leeds City Region (LCR) Enterprise Zones (EZs) Programme
- A proposed approach for reinforcing the LCR Enterprise Zones Programme 'USP' which focuses on advanced/innovative manufacturing and delivery of inclusive growth outcomes
- An update on the emerging EZ investment strategy
- The principles of the proposed WYCA and Leeds City Council response to the High Speed 2 (HS2) Rolling Stock Depot Consultation

2 Policy and Programme Background

2.1 Since 2011, Enterprise Zones (EZs) have been central to the Government's local delivery of economic growth. There are now 33 EZs in England. EZs provide a framework of incentives principally aimed at unlocking challenging or stalled sites for employment uses. These incentives include occupier incentives (such as a 5 year Business Rate Discount or Enhanced Capital Allowances), general government support and opportunities to delivery simplified planning to support accelerated delivery. In addition, the EZ status provides the local retention of business rates growth within EZs for 25 years from designation. These rates are to be retained locally by the LEP and reinvested in the area, with the intention that this future income can be used as part of the investment package to support site remediation and provision of infrastructure to accelerate or unlock delivery of sites and employment floorspace.

2.2 The LCR EZs programme comprises 10 sites, this includes the Phase 1 Leeds EZ and nine sites in the Phase 2 LCR EZ along the 'M62 Corridor' in Bradford, Calderdale, Kirklees and Wakefield. There is also an EZ at York Central which is being dealt with by the York, North Yorkshire and East Riding (YNYER) LEP and City of York Council. The York Central EZ is also designated as a Spatial Priority Area (SPAs) within the LCR SEP, so it is consistent with wider City Region strategic objectives. **Appendix 1** includes a schematic plan of the LCR EZs. The LCR EZs programme is an essential component of the LCR Strategic Economic Plan (SEP), supporting all of its four

priorities areas, delivery of ten SPA locations and supporting the supply of high quality manufacturing employment opportunities.

- 2.3 The Phase 2 EZ Application was endorsed by the LEP and approved by WYCA in September 2015. The application outlined that WYCA/public sector could potentially borrow against projected business rate returns and/or cross fund delivery using other funding sources (e.g. WY+TF, LGF where allocations are available) to support EZ site delivery. Since then the city region has secured £20m Growth Deal 3 funding to support the EZ programme. The Department for Communities and Local Government (DCLG) has also awarded £50k to procure commercial advice for the next stage of site feasibility and market advice for Phase 2 EZ sites.
- 2.4 Independent market demand analysis, pre-feasibility studies and masterplanning have confirmed the high level EZ Programme outputs and business case for public sector investment. The business case includes unlocking delivery of approximately 230 hectares of employment land, over 15,000 jobs, approaching £5bn of GVA and EZ business rate receipts.
- 2.5 The other principal economic outputs for each EZ phase are outlined below:
- Leeds (Phase 1) EZ**
- Approximately 142 hectares of employment land
 - 420,000 sq.m of manufacturing floor space
 - Over 9,000 new jobs
 - Approximately £3.5bn GVA (by 2022)
- LCR Phase 2 EZ**
- Approximately 90 hectares of employment land
 - 330,000 sq.m of manufacturing floor space
 - 6,200 new jobs
 - Approximately £1.19bn GVA (by 2022)
- 2.6 Based on initial independent advice¹, the current anticipated level of public sector support required to unlock all EZ sites is estimated to be £44.8-50.8m comprising:
- Capital infrastructure delivery and site remediation: £37.5-43.5m²
 - Activities to support the speculative delivery of employment units via the public sector underwriting leases or guarantees to purchase units if they are not let/sold within a specified period³: £7.3m
- 2.7 An initial £20m was secured through Growth Deal 3 to support the LCR EZ programme. This funding will support delivery of a power solution for the Leeds (Phase 1) EZ and support the Phase 2 EZ sites. The programme costs outlined at paragraph 2.8 assume a £4-10m requirement for the Leeds EZ power solution which is consistent with emerging work that suggests the cost may now be £4m rather than

¹ LCR EZs Feasibility and Investment Framework (Cushman and Wakefield and WSP, 2016)

² Expressed as a range due to the requirement for the Leeds EZ power solution (assumed as £4-10m)

³ Referred to as 'put and call options'

£10m. Confirmation of the final costs will be subject to consideration by Investment Committee in late 2016/early 2017. If the revised costs are confirmed and approved at IC/WYCA the remainder of the GD3 EZ allocation (minus the Leeds EZ power solution) will be a maximum of approx. £16m.

- 2.8 Additional public sector funds will need to be identified to help fill the circa £24.8-30.8m programme shortfall for infrastructure delivery/site remediation and provide resources to be 'nominally reserved' as a potential liability for 'put and call options' if required. This may be reduced if any additional funding bids are successful or if the decision is taken to deliver a phased programme.
- 2.9 This shortfall could potentially be met from a range of sources including:
- Capital funding resulting from future Growth deals or future devolution deals.
 - Private sector investment from developers and landowners.
 - Other existing funding opportunities as they arise (e.g. Environment Agency, Highways England, European Structural and Investment Funds (ESIF)). For example there is currently a live £4.5m National Productivity Investment Fund (NPIF) bid for transport infrastructure with the Department for Transport (DfT) for Clifton Business Park and an ESIF Sustainable Urban Development call for bids of up to £15m. Feedback back on either of these bidding opportunities would not be available until the end of 2017.
 - Re-programming existing Growth Deal or West Yorkshire Transport Fund resources following a review of existing programmed schemes and projected outcomes.
 - Potential funding via EZ business rate receipts.

3 Emerging EZ Investment Strategy

- 3.1 The LCR Enterprise Zones Strategy and Implementation Plan⁴ was endorsed by LEP and WYCA in April 2017. The SIP outlines a high level strategy for EZ investment and outlines how the public sector (WYCA and districts) can specifically support EZ site delivery based on an initial analysis of potential EZ site requirements. These measures align can be summarised as:
- Development of comprehensive and targeted branding, marketing and communications package
 - Support for site feasibility, site investigations and masterplanning
 - Delivery of on/off-site capital infrastructure works and site remediation/delivery
 - Public sector site acquisitions
 - Support for private sector delivery of speculative development
- 3.2 Work on some of these measures is already underway and is being delivered using existing WYCA resources, district financial contributions/resources and DCLG EZ grant

⁴ LCR Enterprise Zones Strategy and Implementation Plan (WYCA, 2017)

funding. These initial measures include communications/marketing activities, site pre-feasibility, site investigations, due diligence and outline masterplanning.

3.3 Earlier sections of this report confirm that many of the Phase 2 EZ sites will require a package of public sector support for the private sector to bring them forward and deliver follow-on investment.

3.4 Work is ongoing with the Land and Assets Board to develop the EZ investment strategy and consider programme phasing in relation to the budget considerations outlined at section 2 of this report.

4 EZ focus on advanced/innovative manufacturing and supporting delivery of inclusive growth

4.1 The LCR EZs SIP outlines the agreed vision for the EZ programme which is set out in the SEP as *'the acceleration of development and delivery of high quality employment floorspace in the advanced and innovative manufacturing and complementary sectors'*. The SIP also outlines three overarching objectives for EZ delivery which form the basis of WYCA's investment strategy. These are:

- Unlocking, Enabling and Accelerating Site Development
- Delivering high quality business and job growth
- Maximising the efficient use of sites and delivering high quality development

4.2 WYCA and partners have a role and interest in reinforcing this narrative. This has already commenced through WYCA/LEP led activities in the marketing/communications and trade and investment teams which maintain a focus on our key target sectors and potential high value occupiers. This approach aligns with the SEP's good/inclusive growth narrative in relation to increasing provision of high/skilled employment opportunities.

4.3 WYCA is also able to exert a degree of control where public sector funding is required (e.g. via the terms and conditions of funding agreements). However, where public sector support is not required WYCA/districts have limited control over the type/sector of businesses occupying EZ sites beyond the application of local planning policies and the development management process.

4.4 LEP Board is invited to endorse WYCA using existing consultation responses and engagement with district development plans or strategically significant planning applications⁵, as an opportunity to consider the consistency of any planning proposals with the LCR Enterprise Zones programme. This may include, for example, WYCA submitting responses to a local planning authority that seek to resist a planning application that is inconsistent with EZ programme objectives

⁵ Which the EZs fall within as Spatial Priority Areas identified in the SEP

5 High Speed 2 Rolling Stock Depot Proposal

- 5.1 At the time of the November 2016 High Speed 2 (HS2) consultation, Government explained that HS2 Ltd was actively looking at alternatives to the proposed Eastern Leg Rolling Stock Depot at New Crofton in Wakefield. HS2 Ltd believes it has now identified a better site for the depot, to the east of Leeds in the Aire Valley adjacent to the M1. The government is now consulting on this proposal with a deadline of the 12th October.
- 5.2 Concerns were raised about the initial proposal for the depot at New Crofton in Wakefield⁶. The new location, is brownfield land, but is within the Leeds Enterprise Zone and as such could potentially blight a large part of the Zone. It should be noted that the LEP has also previously invested in the EZ through the Growing Places Fund. Work is still ongoing to consider the impact of the HS2 depot.
- 5.3 LEP Board is therefore asked to endorse the following principles that officers can work up into a response to be considered by WYCA at its meeting on the 5th October. It is proposed to support the new location subject to the following:
- Working with Leeds City Council (LCC), HS2 and Aire Valley Land to review the exact location and to consider refinements to minimise the impact on the Enterprise Zone.
 - Confirmation of how the remaining land could be utilised to its full potential via minimising sterilisation of plots or the need for significant new infrastructure
 - Seeking to ensure that the expected outcomes of WYCA/LEP/LCC investment in the EZ to date (i.e. jobs and business rate growth) are supported either within the EZ or via mitigation to account for the loss of land and blight implications.
 - Proposing mitigation options on the impact on the Leeds Enterprise Zone and business/economic case for the LCR EZs Programme. Including on inward investment in the medium term and on EZ business rates income for the LEP. Mitigation options may include seeking a range of the following:
 - an extension to the boundary of the Leeds EZ
 - an extension to the EZ Business Rate retention period
 - enhanced flexibility to relating to occupier incentives (Enhanced Capital Allowances and Business Rate Discount). This may include an extension to eligibility periods and/or the ability to offer both incentives
 - an opportunity to consider designation of a new EZ within the Leeds/LCR geography
 - Seeking political and financial support for the University of Leeds plans to create an Institute for High Speed Rail Engineering, which will be a world-leading research and innovation hub and wider technology park. There is a unique opportunity to locate this next to the HS2 depot and to integrate the

⁶ A summary of the issues raised during consultation and HS2 Ltd's rationale for relocating the eastern leg rolling stock depot are summarised by: HS2 Phase 2a route refinement advice (HS2 Ltd, 2017) (see sections 5.3 and 15). Available at: <https://www.gov.uk/government/publications/hs2-phase-2b-summary-of-route-refinements--2>

plans to act as an exemplar for how major infrastructure projects can drive economic growth.

- 5.4 LCC and WYCA officers will be preparing a joint response which is the preferred approach from DfT/HS2 Ltd. This will consider HS2's alignment for the depot and other potential viable/technically feasible alternatives. The response will also outline collective LCC/WYCA views regarding the potential impact on the Leeds EZ, wider EZ programme and options to provide mitigation for this impact.
- 5.5 The joint response will require approval from LCC and WYCA. It is proposed that WYCA (5 October) endorse the principles of the response with delegated powers for the WYCA Managing Director to submit the final response (on behalf of WYCA) in consultation with the LEP Board Chair.
- 5.6 Following the formal consultation process there will need to be further detailed discussion regarding the potential mitigation options (as outlined in paragraph 5.3). This discussion will include liaison between all interested parties and stakeholders.

6 Recommendations

- 6.1 That policy background to the LCR EZs Programme is noted.
- 6.2 That the ongoing work to develop WYCA's future EZ investment strategy with the Land and Assets Board be noted.
- 6.3 That the proposal for reinforcing the LCR EZs Programme 'USP', focus on advanced manufacturing and delivery of inclusive growth outcomes be endorsed.
- 6.4 That the principles of the proposed WYCA and Leeds City Council response to the HS2 Rolling Stock Depot Consultation are endorsed.