

Heart of the South West Enterprise Zone Spotlight Review



June 2016

1. Background

What are Enterprise Zones?

The current iteration of Enterprise Zones was established by the Government in 2012, as part of their long term economic plan. They are geographically defined areas, which aim to support growth by encouraging businesses to locate within them, providing a number of incentives, including:

- Up to 100% business rate discount worth up to £275,000 over 5 years
- Simplified local authority planning
- Roll out of super-fast Broadband where necessary
- For zones in Assisted Areas, 100% enhanced capital allowances (tax relief) to businesses making large investments in plant and machinery

Any business rates growth generated by the Enterprise Zone (over the next 25 years) is retained by the Local Enterprise Partnership (LEP) to reinvest in local economic growth¹.

An Enterprise Zone in East Devon

The Heart of the South West LEP responded to the Government's invitation to submit proposals for an Enterprise Zone with a proposal consisting of five sites; Exeter Science Park, Sky Park, Exeter Airport Business Park, Cranbrook and Huntspill Energy Park (the first four of these being located in East Devon and the fifth near Bridgwater, Somerset). The proposal was compiled following a rigorous process which scored proposals from across the LEP area against the Government's key selection criteria. On 25 November 2015, within the Autumn Statement, the Chancellor confirmed that the Heart of the South West LEP's Enterprise Zone bid had been accepted². The announcement does not confer automatic Enterprise Zone status; the Enterprise Zone will only become operational following the development of a business case, the agreement of governance arrangements and the approval and sign up of key partners.

At their meeting on 24 March 2016, the Corporate Services Scrutiny Committee resolved to hold a Spotlight Review to undertake a closer assessment of the potential effects upon both the Enterprise Zone area in East Devon, the County Council and District Councils, prior to the issue being considered by Cabinet. The findings of the Spotlight Review, held on 5 May 2016, are detailed in this report.

¹ <http://enterprisezones.communities.gov.uk/about-enterprise-zones/>

² <http://www.heartofswlep.co.uk/news/new-enterprise-zone-announced-heart-south-west>

2. Findings

What potential benefits will an Enterprise Zone in East Devon bring?

Enterprise Zones have been established by the Government to be a driving force of local economies, unlocking key development sites, consolidating infrastructure, attracting business and creating jobs³.

According to data published on the Government's Enterprise Zones website, Enterprise Zones are responsible for creating 23,786 jobs between April 2012 and September 2015, and attracting 635 businesses and £2.4 billion of private investment nationally, over the same period⁴.

Devon is currently experiencing economic growth. An Enterprise Zone will help build on that success, and help the LEP to market Devon and Somerset as prosperous and forward thinking places to live and work. The incentives available to businesses are expected to encourage business growth, inward investment and provide job opportunities for local people.

Other impacts and unintended consequences

The potential benefits of an Enterprise Zone in East Devon have been well publicised. However there are a number of concerns, relating to the impact of the proposal on the County Council's business rates income and the economic development of other parts of the County, which need to be considered.

Why East Devon?

As part of the Exeter and East Devon Growth Point, the area of East Devon has benefited from a large amount of investment and development, with the creation of Skypark, Exeter Science Park and the new town of Cranbrook. Skypark is already predicted to create up to 6,500 jobs over the next 20 years⁵, while Exeter Science Park aims to have 3000 jobs at its site, once completed⁶. The area also has excellent transport links and the Exeter and East Devon Growth Point has raised the profile of the development programme at central government level⁷. Members of the Spotlight Review therefore found it difficult to see what direct benefit an Enterprise Zone will bring to these already prosperous and growing sites.

Other areas of the County have not benefited from similar levels of investment and could arguably benefit more from the advantages an Enterprise Zone could bring. North Devon District Council did propose a potential Enterprise Zone area within its boundaries, but this did not fully meet the criteria proposed by Government and was therefore not taken forward by the LEP.

³ <http://enterprisezones.communities.gov.uk/about-enterprise-zones/>

⁴ <http://enterprisezones.communities.gov.uk/ez-data-release-29-03-2016/>

⁵ <http://www.skyparkexeter.co.uk/>

⁶ <http://www.exetersciencepark.co.uk/about/fag>

⁷ <http://www.exeterandeastdevon.gov.uk/who-are-we/>

Displacement

Incentivising businesses to locate in Enterprise Zones carries the potential risk of attracting businesses from other parts of the County, causing a displacement affect. If the vacated properties were to remain empty, the Council would lose business rates income as a result. The loss of local businesses to the Enterprise Zone could also have a detrimental impact on the local economies of the communities left behind, with the potential for job losses.

East Devon District Council is currently undertaking research into the potential displacement effects of the proposed Enterprise Zone and potential ways of mitigating this.

Business Rates Retention

If the Enterprise Zone in East Devon is brought into operation, the County Council would not receive any direct business rate growth, as these monies would be managed separately through a governance agreement between relevant local authorities and the LEP, to be reinvested in local economic growth. This gives more jurisdiction to the LEPs, but less direct control over investment of business rates for the County Council.

These yet to be determined governance arrangements would control exactly how this money would be reinvested, and although there is likely to be some flexibility, government has indicated that its priority is for further investment within the Enterprise Zone area itself. This has the potential to exacerbate strong economic growth in one area of the County, leaving other areas underfunded and overlooked.

Capital Investment

It is not yet clear what capital investment the Council will be expected to make to support the Enterprise Zone. The Council has no budget for this in the 2016/17 financial year, and its Treasury Management Policy does not allow for borrowing. Likewise, there has been no financial incentive or support from government for the establishment of the Enterprise Zone.

3. Conclusion and Next Steps

After considering the evidence presented, it is clear that the proposed Enterprise Zone area in East Devon has the potential for accelerating economic growth and prosperity, and would also provide an opportunity for stronger marketing and promotion of the area at a national level. However, an Enterprise Zone would also have an impact on the Council's business rates income, and could impact negatively on the economic development of other parts of the County.

In summary, Members felt that there were a number of questions which needed to be answered before submitting any recommendations to Cabinet.

- Does an Enterprise Zone in East Devon offer any financial benefit to the County Council?
- How have LEP's in other parts of the country (particularly in rural areas) mitigated the effects of displacement and how successful has this been?
- Why was the bid by North Devon District Council not deemed to be viable and therefore not supported by the LEP?

- How much opportunity will there be to reinvest business rate growth in areas outside of the Enterprise Zone?

A further report, responding to the questions posed above, will be brought to the Corporate Services Scrutiny Committee on 27 June 2016, and considered alongside the findings of this Spotlight Review, prior to consideration by Cabinet on 13 July 2016.

4. Membership

The Spotlight Review was chaired by Councillor Julian Brazil, Chairman of the Corporate Services Scrutiny Committee. Councillors Kevin Ball, Polly Colthorpe, Mike Edmunds, Richard Hosking and Ray Radford attended and contributed to the review.

5. Sources of Evidence

Members of the Spotlight Review would like to express thanks to County Council Officers Jamie Evans (Economy & Enterprise) and Peter Lappin (Finance) for their attendance and expert advice during the Spotlight Review session on 5 May 2016.

Bibliography

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Heart of the South West Local Enterprise Partnership

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HM Government: Enterprise Zones

<http://enterprisezones.communities.gov.uk>

Public Policy Institute for Wales, Governing for Success: Reviewing the Evidence on Enterprise Zones

<http://ppi.wales.gov.uk/files/2015/02/PPIW-Report-Governance-of-Enterprise-Zones.pdf>

Skypark

<http://www.skyparkexeter.co.uk/>

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