Briefing Note – EZ

Our Proposal and Strategy Considerations

Our EZ proposal is based on delivering the two Ambitions set out in our Statement of Ambition namely:

a) **Drive the transition to a High Value, Low Carbon Economy and**

b) **Create a more Diversified and Inclusive Economy**

More specifically our proposal has been designed:

a) To support our existing petrochemical process and engineering industries to modernise, making them more sustainable and competitive
b) Create an attractive platform to secure large scale inward investors
c) Encourage growth of existing and new supply chains to support our large scale industries and
d) Support our emerging and fast growing digital sector

To achieve this, our proposal will:

a) Use Business Rate Discount for those sites aimed at fostering indigenous small and medium businesses to form supply chains for the area's large scale industries
b) Offer Enhanced Capital Allowances to attract large scale investors to expand our industrial base and
c) Utilise Tax Increment Financing on those sites that require significant investment in site preparation and infrastructure to unlock developments potential

In terms of scale and extent of the proposal, it would be a multi-site Enterprise Zone compromising:

a) 8 sites of some 170ha offering Business Rate Discount to new occupiers
b) 10 sites of some 651ha offering Enhanced Capital Allowances and
c) 6 sites of some 238ha utilising Tax Increment Financing to unlock development potential

Government's Reaction

Government has been unhappy about the following aspects of the proposal:

a) The multiplicity of sites i.e. 24 in total and their geographic spread and the perceived lack of focus that this creates

b) Too many industrial supply chain sites as demand will be insufficient to attract such growth by April 2015 i.e. the date by which the rate relief to businesses and the matched Government contribution ends
c) Too many Enhanced Capital Allowance sites as demand from large scale investors will not take up anything like 651ha by starting development/occupying by April 2015 which is the date that the Government is prepared to offer the incentive up to
d) Development of the TIF sites element of the proposal will fall outside the date of end April 2015.

Further Work

To ensure that we cannot be criticised in any way both TVU and the Directors of Regeneration have reassessed the proposal/sites in the light of the Government's response particularly the emphasis on the need for activity before April 2015. This work has been undertaken in two parts:

a) Consideration of Enhances Capital Allowance and TIF sites and
b) Business Rate Relief Sites

In respective of the Enhanced Capital Allowance sites, the review concluded that the following sites or parts of them are unlikely to have development starting within the period up to April 2015 or benefit from an Enhanced Capital Allowance regime in any event.

<u>Site 10 - Huntsman</u>
Have an in-house project to upgrade and replace existing reactors and plant. Huntsman have applied for assistance with a RGF 2 bid.
Historically the site has not been open to third party developments and it is believed that there is limited development land available.

<u>Site 12 - PD Ports</u>
There are two projects identified.
A biomass power plant. A distribution warehouse.
The distribution warehouse is not classed as manufacturing and it is doubtful whether the development will install large pieces of plant and machinery that could attract Enhanced Capital Allowances (ECAs).
The suggestion is to reallocate this part of the plot to plot 20 (South Bank Wharf) where there is a known project which could benefit from ECAs due to the size and scale of the plant and machinery required.
The area identified for the biomass power plant has riverside frontage and is contiguous with the proposed plot 20 allocation. Therefore opening up opportunities for additional developments.

Tees Valley unlimited

Site 14 - Able Seaton
The installation of the new dock gates is not classed as manufacturing and therefore unlikely to attract ECAs. The creation of the dry dock will attract new companies, however those companies identified at present are associated with offshore berthing, decommissioning and maintenance. It is felt that none of these operations will require large fixed plant and machinery, they will not therefore attract ECAs.
There is however the opportunity for the site to attract offshore fabrication and assembly operations, although it is thought unlikely that these operations will be developed in the time scale up to 2015.

Site 15 – Haverton Hill
TAG are developing a round 3 (10MW) prototype wind turbine at present. If this prototype were to be adopted for future wind farms then it is possible to develop further within time frame but there is no guarantee of this. In any event it is likely that having already invested in the site TAG are likely to develop without the need for ECA anyway.
Have received GBI grant from DECC and ONE Northeast, State Aid is likely to be an issue.

Site 17 – Lucite
The identified project for this plot is now under construction.
A further 69 acres of land is available but there are no current projects identified.

Site 18 – Seal Sands
Three projects are identified for this area all linked to power production which we believe have the ability to attract ECAs already.
LDOs, Bird mitigation, planning etc are all outstanding issues for this plot which could prevent developments in the time frame up to 2015.

This would have the effect of reducing the number of Enhanced Capital Allowance sites from 10 to 5 albeit Site 12 – PD Ports is a reduced area. In terms of land area the remaining sites comprise some 376ha. This is a gross figure and would be further reduced when existing activities on Wilton in particular are netted off.

For the TIF sites, none of them apart from a part of South Bank Wharf (Site 20) appear available for development in the period up to April 2015. This would reduce the number of sites by 6 as Site 20 would merge with the Port site (Site 12) referred to above. The land area would be some 7ha. This would leave a combined total of 383 ha for Enhanced Capital Allowance and TIF sites.

In respect of Business Rate Relief Sites, we looked at the possibility of using revenue generation through sites in the EZ to offer exactly the same financial incentives to those sites outside. The criteria to establish what sites should be in the Government funded EZ included the amount of revenue that each site was anticipated to raise in the period up to 2015 as this attracts an equivalent sum from the Government, the realistic prospect of occupiers taking space before April 2015 and the need to treat digital sites consistently.

This led us to ‘exclude’ the Oakesway site in Hartlepool as it is likely to be available for occupation later than Queens Meadow and is more dependant upon the occupation of the Ports Estates site (Site 9) which itself will only start to be occupied during the period. Of course taking out one of the five supply chain sites for the large scale industries also would meet one of the criticisms of Government.

All three digital sites were ‘excluded’ for reasons of consistency and the amount of income that they would generate (or need if funded by the Government EZ). In addition the likelihood of development within the period up to April 2015 was considered to be problematic in certain locations.

In terms of the financing of the four sites by those funded by Government, the figures supplied by Savills offer some real confidence. Were all four sites to produce the total income anticipated this would amount to some £5.2m and the accompanying sum predicted to be needed for the same relief for the remaining four sites being £480k.

Clearly these figures need to be viewed with caution because it is unlikely that Kirkleatham and Belasis will generate 120 companies in the period but with promotion the ability to generate £480k seems more than reasonable.

If for some reason they do not, then my understanding of the Resources Review is that because the four sites would be outside of the Government funded EZ then occupiers would not get relief and have to pay the local authority. Whilst no firm date has been set, the review indicates that authorities will be able to retain growth in business rates from a baseline likely to be set this year or next i.e. before any occupation of the four sites is likely to occur. Only if there is an enormous uplift in rates would the authority face a levy to pay back into the Central pot which again is unlikely to happen by 2015. This would leave the authorities themselves able to use any rate collected on the four sites as relief for the occupiers and then seek reimbursement from the LEP Government Funded Business Rate Relief sites when that income level had been reached. In any event it seems that there is certainty that the four sites would be able to offer the same incentives as those funded by the Government.

Testing the Option

1. Does it meet the strategy?

   It would fully support the growth of small and medium sized enterprises to create the supply chains needed to service large scale industries because the Business Rate Relief Sites would be exactly the same as in the proposal submitted albeit one i.e. Oakesway would not be in the official zone.

   It would support the growth of the digital sector because the 3 sites although outside of the Government supported EZ will be able to offer exactly the same financial incentives as in the proposal submitted.

   The attractiveness of the area to investors to establish greener large scale industries/sectors/plants would be achieved by the provision of 5 sites totaling some 380ha for development by April 2015. In reality the prospect of filling 300+ha by 2015 is remote. It would appear that the Government proposals for enhanced capital allowances up to 2015 will only be available to 3 or 4 areas including ourselves, North Eastern LEP and Humberside. In addition it seems that the allowance will be worth having (albeit Government have not firmed up their proposal yet) and would make a difference in considering offers from competing areas. In particular see the competitive offer likely to come from Humberside attached to this Briefing Note.

   The question arises what happens after April 2015. I suspect that we would ask for the assistance to be extended particularly if it proved its worth by helping to attract some significant investment before this date. The decision from Government cannot be predicted but again if it had led to significant contribution to jobs/exports etc the prospect of assistance being extended would be greater.

   In terms of TIF, these sites would not appear in the Zone but could be pursued as part of the Government's encouragement to all authorities or selected areas such as Tees Valley to establish these under the Resource Review.

   Financially the option works albeit that there is a reduction in LEP (area) income over the 25 years to reinvest because of the loss of growth in business rates over this period for those sites outside the Government Funded Zone. However such growth stays with the local authorities (subject to the prospect of a levy if growth was spectacular) and they could agree to invest this into the sub-regional pot. To counterbalance this, the LEP (area) could retain growth from the Capital Enhancement Allowance sites but again this would all have to be dealt with via the governance arrangements still to be agreed.

2. What is the difference between the proposal and the Option discuss?

    1. The six TIF sites are removed from the Government Funded EZ (albeit a part of South Bank Wharf combines with PD Ports site to form a Capital Enhanced Allowance site). 4 of these sites are in Stockton and the remaining 2 in Redcar.

    2. Five Enhanced Capital Allowance sites are removed from the Government Funded EZ. 3 of these are in Stockton and 2 in Hartlepool.

    3. Four Business Rate Relief sites are removed from the Government Funded EZ but form part of the extended EZ as they will provide the same financial incentives. 1 of these is in Darlington. 1 in Stockton, 1 in Middlesbrough and 1 in Hartlepool.

Finally attached is a plan showing the option with the extended EZ of the four Business Rate Relief Sites.