

**REPORT TO:** CABINET

**DATE:** 23 FEBRUARY 2017

**TITLE:** ENTERPRISE ZONE INVESTMENT PROPOSAL

**PORTFOLIO HOLDER:** COUNCILLOR TONY DURCAN, PORTFOLIO HOLDER FOR REGENERATION AND ENTERPRISE

**LEAD OFFICER:** SIMON FREEMAN, HEAD OF FINANCE (01279) 446228

**CONTRIBUTING OFFICER:** ANDREW BRAMIDGE, PROJECT DIRECTOR, HARLOW ENTERPRISE ZONE (01279) 446410

**This is a Key Decision**

**It is on the Forward Plan as Decision number I006954**

**Call-in Procedures may apply**

**This decision will affect Old Harlow Ward.**

**RECOMMENDED that:**

- A** The Council undertakes borrowing of up to £4 million to complete the infrastructure works at the London Road North site of the Harlow Enterprise Zone.
- B** The Council agrees in principle to undertake borrowing up to £10 million to develop and construct an office building at the London Road North site of the Harlow Enterprise Zone.
- C** Delegated authority is given to the Chief Executive, in consultation with the Leader of the Council and the Cabinet Portfolio Holders for Regeneration and Finance, to determine the level of borrowing within the maximum agreed in (A) above and to negotiate and to agree all contracts necessary to deliver the infrastructure for which the borrowing is undertaken.
- D** The Chief Executive reports further to Cabinet on the options for the provision of the building in (B) above.

**REASON FOR DECISION**

- A** Following the Council's acquisition of the London Road North site in 2015, the appointment of its development partner (Vinci UK Developments) and

construction of the new access road, the Council now needs to move forward with the site's development and supporting infrastructure. There is already significant interest from potential occupiers and, with the recent Public Health England announcement, there is an opportunity to capitalise on this and to commence development this year. The full range of infrastructure needs to be provided for the site and work undertaken to bring new businesses to what will become the Harlow Science Park.

## **BACKGROUND**

1. Harlow was granted Enterprise Zone (EZ) status in the autumn of 2011 as one of 24 sites across England identified as having significant potential for job creation. The EZ status enables the Council to offer a simplified planning regime, business rates discounts and access to superfast broadband as incentives for companies to locate here. In the longer term, it is expected that the EZ in Harlow could create up to 5,000 new jobs and be a significant catalyst in the regeneration of Harlow.
2. The EZ is split across three sites. At Templefields, a long term re-development of ageing industrial premises will take place, initiated by the delivery of some road infrastructure improvements commencing in late 2016. At London Road, the site is split into the former Nortel Campus at London Road South and the land at London Road North. The former is being re-developed into a new business park and data-centre complex by the site's owners, Harlow Properties Ltd and their development partner, Goldacre Ventures.
3. In early 2015 the Council acquired 25 acres of land at the London Road North site, with an option to acquire a further two acres at the north-west corner of the site from Newhall Projects. The land was purchased using a non-ringfenced grant from the Department for Communities and Local Government (DCLG). The Council's vision for the site is to create a new high quality Science Park for the town, focused on life sciences, advanced manufacturing and ICT businesses.
4. An initial capacity study produced for the Council by consultants suggested that the London Road North site could accommodate 450,000 – 500,000 square feet of development, perhaps supporting up to 2,300 jobs. To deliver this, the Council commenced a public procurement exercise through the OJEU process in March 2015 and appointed Vinci UK Developments as its development partner to work with it to source occupiers and build out and manage the Science Park over a number of years.
5. The next stage is to deliver infrastructure to the site, new access roads electricity, gas, water and broadband supplies. The tender process to appoint a developer specified that the Council would take responsibility for delivering

the estate roads and off site infrastructure. The connection of individual plots would be the responsibility of the appointed developer.

6. The first estate road, a link road connecting the A414 with London Road is nearing completion with delivery through Essex County Council. This has been funded by Newhall Projects through a Section 106 Agreement and is forward funded by Essex County Council and the South East Local Enterprise Partnership (SELEP).
7. The remaining infrastructure is to be funded through the balance of the DCLG grant to the Council, along with loan finance to be raised against the future business rate uplift. SELEP has agreed that the business rate uplift can be re-invested in the site.
8. It is also proposed that the Council funds the development of one of the first buildings on the site, which the Council would then own and retain the income from. The mechanisms for delivering this, and the wider infrastructure, are considered in the next section of the report.

## **DELIVERING THE ENTERPRISE ZONE**

### **Infrastructure**

9. Vinci appointed its design and professional team in August 2016 including architects, highways consultants, drainage specialists, engineers, landscape designers and utilities consultants. Since then, this team has been working to finalise the scheme masterplan and design and plan for the delivery of the site infrastructure. It has also been working on the design for the first two buildings. Full planning consent was secured for the Masterplan in December 2016 and the design work for the infrastructure is now complete (see Appendix A), ready for tenders to be issued in March 2017 and for delivery of the scheme to take place from May 2017 with completion in December 2017.
10. This infrastructure provision will deliver: -
  - a) A spine road from north to south through the site.
  - b) An upgrade to the Harlow Primary electricity substation at Howard Way and the delivery of an 8.2 MVA power supply to the Science Park site with on-site cabling and construction of nine sub-stations.
  - c) Disconnection of existing supplies to the site and re-provision of separate power supplies to Newhall Cottages.
  - d) A new gas supply to the site sufficient for the scale of development.
  - e) A new water supply to the site sufficient for the scale of development.

- f) Surface water drainage.
  - g) Fibre optic cable throughout the site from both BT and Virgin Media to enable superfast broadband.
  - h) Landscape design for the Science Park.
  - i) Detailed design and project management of all of the above.
11. The above work has been costed by the professional team at £5,200,000. The balance of the DCLG grant that is available after land acquisition is £1,800,000 and so the Council needs to provide up to a further £4 million (including a contingency sum) to complete the infrastructure delivery. It is proposed that this sum is raised through borrowing with the loan to be repaid from future business rate income that will come to the Council from the Enterprise Zone.

### **New Office Building**

12. The first building to be constructed on the site will be the Anglia Ruskin University Med Tech Innovation Centre. Funding for this is now confirmed and detailed design is underway. It is expected that construction work will commence in early summer. Discussions with local property agents have identified that there is a shortage of space in the local area for space in the 2,000 – 10,000 square foot range to support small and medium sized businesses. This is notoriously difficult to fund in the commercial market since most funders will only wish to fund developments that are targeted at larger companies with strong covenants on long leases. Almost by definition this excludes the target small and medium sized businesses.
13. Accordingly a proposal has been developed with Vinci and its professional team to construct a building of approximately 30,000 square feet over three floors that is capable of being subdivided into small business units. This will provide an essential part of the ecosystem that is required for a successful Science Park and a range of spaces for a variety of businesses that can interact with each other. Part of this building will also contain a café and meeting spaces to provide some wider facilities on the site at an early stage in its development. It is proposed that the Council considers funding the development of this building. If it does so it will take on the ultimate ownership of it and thereby secure a long term revenue stream.
14. An image of the proposed building, sitting alongside the Anglia Ruskin University building, is shown as Appendix B.

15. Soft market testing for the proposed building has taken place over the last few months with significant interest already generated. We have potential interest from three occupiers as follows:

- a) A consultancy company operating in the regulatory compliance field of the pharmaceutical sector seeking approximately 8,000 square feet.
- b) A law firm expanding into the life science and tech sectors seeking approximately 5,000 square feet.
- c) A serviced office provider expanding their operations in the London Stansted Cambridge Corridor seeking approximately 15,000 square feet.

16. These deals cannot be concluded before there is a firm commitment to fund the building but already there is great confidence of securing lettings. Additionally, a report recently commissioned by Essex County Council on the extent of grow-on space for businesses has identified significant shortages of space to the extent that it is an inhibitor of economic growth. The report identifies a clear market failure in the provision of space for small and medium businesses and it is this gap that this proposal is seeking to address. Local agents are also reporting an increase in demand for commercial space in Harlow as the supply shrinks due to residential conversions of offices under Permitted Development regulations.

17. It is estimated that the building could generate gross rental income of approximately £600,000 per year with a net income to the Council of approximately £500,000 once management and letting costs have been deducted.

18. Before finally committing to the funding of the building more work is required to look at the options and risks. It would be beneficial, however, for the Council to signal its willingness to do so. This would enable discussions with potential occupants and partners to be progressed.

## **Funding**

19. The total loan finance required is £14 million including contingency. This will be repaid entirely from the business rates generated from the Enterprise Zone. When the Enterprise Zone was announced for Harlow, it was decided that all the uplift in business rates that accrued from the Enterprise Zone would be allocated to the South East Local Enterprise Partnership (SELEP). However, in June 2016, the Council secured a commitment from SELEP that the Council could retain the first £72 million of business rates from the sites for the purpose of investing in the development of the Enterprise Zone and of Harlow. This proposal would make the first use of that £72 million.

20. The Council has retained the services of the property advisers Cushman & Wakefield to support the developer procurement process and also to advise the Council on the modelling of business rate income from the Enterprise Zone. In 2014, Cushman and Wakefield created a model for DCLG to demonstrate how Enterprise Zones could utilise prudential borrowing, backed by future business rate income, to invest in the development of their sites to provide a greater prospect of success.
21. Since then, Cushman and Wakefield has undertaken bespoke work for the Council and modelled the implementation of the Masterplans for Kao Park and London Road North. This has identified a potential business rate uplift of approximately £140 million over a 25 year period, after allowances for discounts, bad debts and delays to the phasing have been accounted for. Therefore, the element of the business rate uplift that is being retained by the Council (£72 million) is comfortably within the potential scope.
22. There are clearly risks to the Council in developing and owning a building of this nature. In the event of periods where units are unoccupied, the Council will be responsible for meeting the business rates on those units. Given the level of demand that is being experienced for good quality premises in the town it is felt that this is a risk that will be minimised. However, it remains a risk that the Council will need to mitigate and a proportion of the rental income will need to be set aside to cover any future business rate liabilities so that these are contained within the business plan for the development.
23. The Cushman and Wakefield modelling of this particular proposal (see Appendix C) identifies that there is sufficient business rate income generated from existing tenants on the Enterprise Zone (principally at Kao Park) to fund the Council's borrowing costs. They have provided a clear recommendation to the Council in their report that the proposal makes sound commercial sense as well as enabling the pump-priming of the Science Park development.

## **IMPLICATIONS**

### **Place**

From a standing start in 2011, there is little doubt that the EZ and its success to date has been key to promoting the image and future aspiration of Harlow particularly in the fields of life science, advanced manufacturing and ICT. In the emerging context of wider growth and regeneration, together with Harlow's recent Garden Town designation, this investment broadcasts a strong message about the Council's commitment to building a better future and a better place.

Author: **Graeme Bloomer, Head of Place**

### **Finance (Includes ICT)**

Full evaluation of the proposed new build option will be undertaken if an in principle agreement of the Cabinet is obtained. The costs of the infrastructure are an essential element of the site preparation and the funding to meet the costs of borrowing to facilitate the construction and design costs are to be fully funded via business rates uplifts secured via SELEP as detailed within the report. Securing leases on the new build facility will be an important part of determining the revenue streams to the Council from the development and mitigating any risks to the Council in terms of Business Rates exposure by minimising risks of vacant periods in the early years post completion.

Author: **Simon Freeman, Head of Finance**

### **Housing**

As outlined in the body of the report.

Author: **Andrew Murray, Head of Housing**

### **Community Wellbeing (includes Equalities and Social Inclusion)**

Local councils should promote the economic, social and environmental wellbeing of their area. Harlow Enterprise Zone plays a key role in helping the Council to fulfil this role by attracting new business to the area and encouraging business start-ups. A thriving business sector, that the Enterprise Zone helps deliver, will increase employment opportunities in the town and will contribute towards social inclusion.

Author: **Jane Greer, Head of Community Wellbeing**

### **Governance (includes HR)**

The Council has undertaken due diligence as far as it can to ensure that the business rate increases will cover the total loan amount required for both delivery of the infrastructure that is required at the present time and the potential building of a business unit. This has including the agreement from SELEP that the first £72 million of business rate income can be retained by the Council to reinvest in the development. The Council has therefore minimised its risk as far as it can with regard to risk management.

By creating small to medium business units the Council is looking to fulfil a need that is difficult to resource in the private market.

The legal risk to the Council is managed at this point by the agreement of SELEP and the DCLG grant not being ring-fenced, but as the development continues further advice may be required.

Author: **Amanda Julian, Legal Services Manager on behalf of Brian Keane, Head of Governance**

## **Appendices**

Appendix A – Infrastructure Design Works

Appendix B – Proposed Design

Appendix C – Report from Cushman & Wakefield

## **Background Papers**

None.

## **Glossary of terms/abbreviations used**

DCLG – Department for Communities and Local Government

OJEU – Official Journal of the European Union

SELEP – South East Local Enterprise Partnership