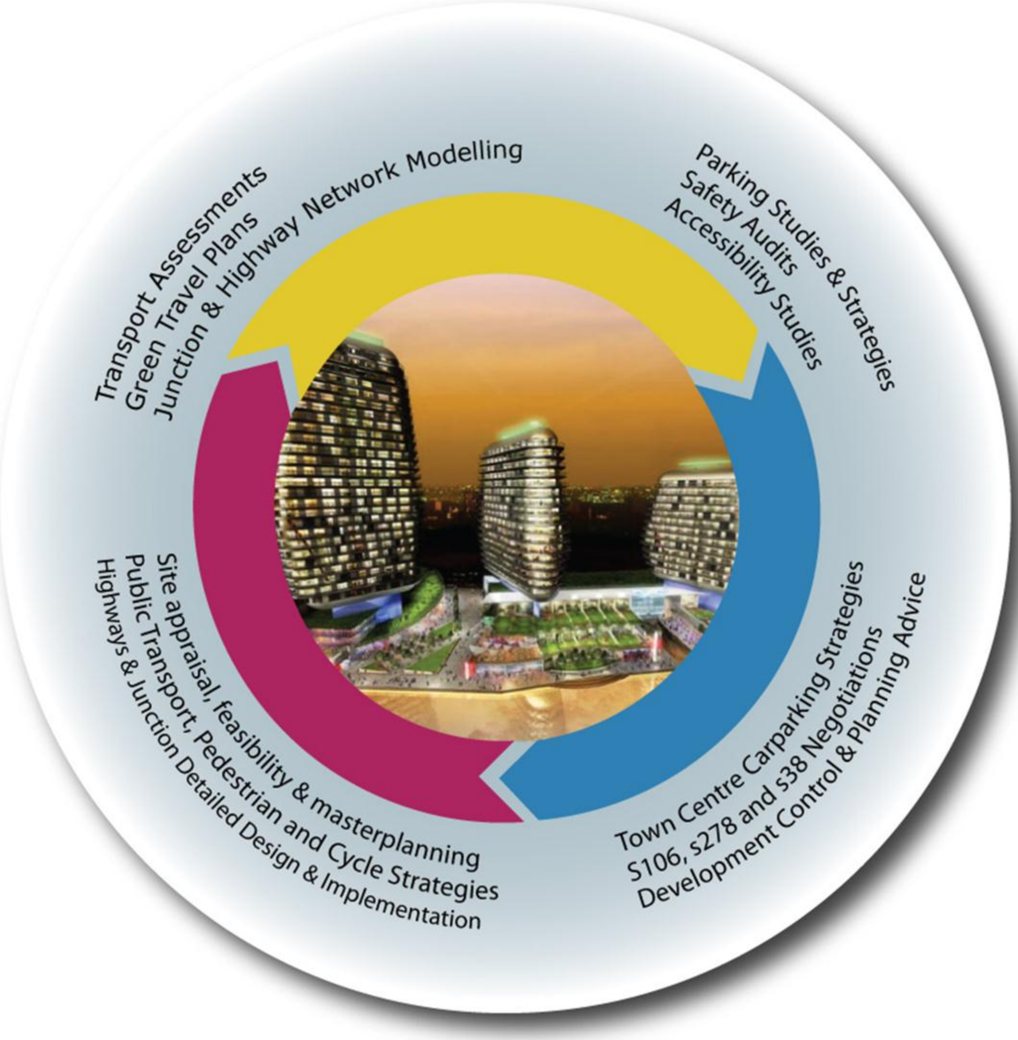


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# Re-embracing Enterprise Zones

“Unashamedly pro-growth” and “unashamedly localist”: this is the Coalition’s message for the launch of its Enterprise Zones as an initiative designed to foster enterprise and sustainable economic growth.

The Budget provided for the creation of a total of 21 new Enterprise Zones. The concept is not a new one. It was first introduced by the Conservative government in the 1980s under its urban renewal scheme when 38 zones were created.

This time around a “vanguard” of eleven Enterprise Zones have already been chosen based in the Local Enterprise Partnership (LEP) areas of Birmingham and Solihull, Sheffield, Leeds, Liverpool, London, Manchester, the West Country, the Black Country, Derby and Nottingham, Teeside and the North East.

Flaws in the old Enterprise Zone model are well documented and policy makers have been keen to differentiate the new proposals and emphasise lessons learned. The new zones are scaled down versions with a shorter lifespan and reduced capital funding.

## What will they do?

The driver behind the initiative is to remove barriers to economic growth. To this end, all Enterprise Zones will benefit from:

- A business rate discount worth up to £275,000 per business over a 5 year period
- All business rate growth within the zone for a period of at least 25 years will be retained by the local area to ensure growth is reinvested locally within the LEP
- Simplified planning approaches for the zone. Businesses are often reluctant to invest time and money at risk in pursuing planning permissions. The simplification of planning is likely to be achieved by using existing Local Development Order powers, which allow development to be undertaken without the need for planning permission; and
- Superfast broadband throughout the zone. This to be achieved by guaranteeing a supportive regulatory environment and, if necessary, public funding. The Government’s target is for the UK to have the best superfast broadband network in Europe by 2015 and the flagship Enterprise Zones are to be the frontrunners.

In addition, the Government has identified the following additional options to suit local circumstances which could be rolled out in some zones:

- Enhanced capital allowances for plant and machinery in a limited number of cases and subject to State aid compliance. It is likely this will be applicable in areas where there is a strong focus on manufacturing
- Tax increment financing, which allows borrowing against future business rates, to support the long-term viability of the area; and
- UK Trade & Investment (UKTI) support for inward investment or trade opportunities in the zone. UKTI has established a new Investment Services Team to work closely with LEPs in securing foreign direct investment.

## What will they look like?

Each Enterprise Zone will be a geographically defined area of between 50 – 150 hectares, agreed between the relevant LEP and the Government. The location of four of the vanguard Enterprise Zones have been announced as Manchester Airport, Liverpool Waters, Nottingham Boots Campus and 125 hectares at London's Royal Docks. These are significantly smaller sites than the 1980s-era zones.

The Government has indicated a preference for "clean" sites which have few or no business occupants. This reduces the risks of favouring incumbent businesses rather than drawing in new enterprises to the economy of the area. The Government has also expressed a preference towards sites in single ownership, with evidence from the 1980s suggesting that such sites were more successful than those in fragmented ownership. For example, the Liverpool Waters zone includes an area owned by Peel Holdings with planning permission already secured for a £10 billion development.

## Issues and pitfalls

For its advocates, the development of London's Canary Wharf is held out as the shining example of the Enterprise Zone model in its previous incarnation. For its critics, the old model had a number of perceived weaknesses which the new Enterprise Zone model will need to address, including:

1. **Displacement** – Enterprise Zones distorted local property markets by businesses moving in to the zone to take advantage of the tax breaks and other benefits. A report by the think tank, Work Foundation, suggests that up to 80% of jobs created in Enterprise Zones last time were displaced from other areas. The Government is seeking to avoid this problem by tasking the LEPs with creating business growth that is genuinely additional. The London Development Authority (LDA) has already called for foreign inward investment, specifically Chinese and Middle Eastern, to develop the London Enterprise Zone.

2. **Short lived** – Enterprise Zones artificially created investment through incentives, but this was temporary and could not be sustained once the benefits were withdrawn. The Government's goal is to ensure long-term viability beyond the initial period and the new zones are to focus on sectors of high growth potential, not just areas of physical decline.

3. **Localism Agenda** – there is some question between the compatibility of Enterprise Zones with the Localism agenda. Enterprise Zones need support from local authorities but this will not work if the Government rolls out a uniform central model. The Government is addressing this issue by allowing LEPs to choose from a menu of options to tailor the zone to the local needs.

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4. **Method** – the benefits of business rate reliefs and capital allowances have been criticised as unsuitable tools for generating growth. A report by the think tank, Centre for Cities, suggests that landowners, rather than businesses, realised the benefits of Enterprise Zones as rents on properties in Enterprise Zones were higher during the designation. This could be addressed by the Government ensuring that all Enterprise Zone land is in public ownership at the date of designation, but two of the four zones already identified are in private ownership providing an automatic windfall for those companies.

## The role of Local Enterprise Partnerships

There are a further 10 Enterprise Zones yet to be announced in the current roll out. Only a LEP, on behalf of all its partners, will be able to bid for an Enterprise Zone. It is the role of the LEP to agree the location, sectoral focus and range of initiatives within their Enterprise Zone. Once the zone is established, the LEP will continue to be responsible for bringing together a wider package of support through working with its partners. Putting LEPs in control of the zones is congruent with the localism agenda, but these partnerships are in their infancy and are still to prove that they can carry out an effective cross-authority role.

## What does the future hold?

The application forms have already gone out to the 29 LEPs which have expressed an interest in the second wave of Enterprise Zones. The proposals need to be submitted by 30 June 2011 and during July will be assessed against the Government's three criteria:

(i) Ability to deliver growth and jobs
(ii) Value for money; and
(iii) Implementation.

It is likely that successful bids will provide evidence-based specific plans for driving growth, in particular the choice and size of site will be key. The Government has stated that only one designation will be made per LEP to avoid competition between businesses in different parts of a LEP area for the benefits.

In terms of the statutory timetable, the Localism Bill contains provisions for local authorities to retain business rates and it is anticipated that this will be in place by April 2012. Draft legislation to enable tax increment financing is also due out later this year. LEPs will be able to implement all the other benefits of Enterprise Zones immediately without the need for primary legislation.

Enterprise Zones are intended to have the tools to create real economic growth for the benefit of the zone and for their LEP area generally. The Government believes that economic growth and job creation should be led by the private sector. As the impact of public sector cuts starts to be felt, it is time to put measures in place to assist private sector-led LEPs to remove the barriers to private sector growth. It is hoped that Enterprise Zones will be the tool to achieve this, as there are few other initiatives available at the moment to do so.

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