VIEWPOINTSERIES

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ENTERPRISE ZONES

DELIVERING THE PLAN FOR GROWTH? INITIAL INSIGHTS FROM THE WOULD-BE "SECOND WAVE" OF ENTERPRISE ZONES

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SQW

FOREWORD

Enterprise Zones (EZs) are one of the key initiatives in the Coalition Government's *Plan for Growth* which was published to coincide with the March 2011 Budget. Some 21 EZs are to be designated in England, providing support for investment and job creation by offering various tax and regulatory exemptions. Enterprise Zones also provide the opportunity, through the local retention of the increment in business rates achieved in the Zones, to generate a significant long term income stream to address the economic priorities identified by Local Enterprise Partnerships (LEPs).

This Viewpoint draws on part of the emerging evidence base with regard to the new generation of EZs. Specifically, it reviews information relating to EZ applications submitted by 30 June 2011 through the competitive "second wave" process in England. It provides a high level and aggregate analysis and overview of the unfolding venture, and identifies various issues which will need to be addressed by the Government in deciding which ten second wave EZ applications to approve, and the implications for LEPs and local authorities as they take successful applications forward.

In the March 2011 Budget, the Chancellor announced that the Government would also work with the devolved administrations to explore opportunities for using the new EZ model across their geographies. We hope therefore that this Viewpoint might be of interest to all those involved – at whatever stage – in working through the EZ concept and its practical implementation across the UK.

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THE VIEWPOINT SERIES

The Viewpoint series is a series of 'thought piece' publications produced by SQW and Oxford Innovation, the operating divisions of SQW Group.

The aim of the Viewpoint series is to share our thoughts on key topical issues in the arena of sustainable economic and social development, public policy, innovation and enterprise with our clients, partners and others with an interest in the particular subject area of each paper. In each Viewpoint, we will draw on our policy research and implementation experience to consider key topical issues, and provide suggestions for strategic and practical solutions.

INTRODUCTION

The Chancellor's announcement

The Government announced the creation of a "first wave" of Enterprise Zones (EZs) in England in the 2011 Budget – in London, and in the Local Enterprise Partnership (LEP) areas of Birmingham and Solihull; Sheffield City Region; Leeds City Region; Liverpool City Region; Greater Manchester; West of England; Tees Valley; North Eastern; the Black Country; and Derby, Derbyshire, Nottingham and Nottinghamshire. It also indicated that a competitive process would be launched for "*interested LEPs to establish ten more Enterprise Zones*" in England.

An *Enterprise Zone Prospectus* was published by the Department for Communities and Local Government (CLG) in March 2011[1]. This provided details of the scheme, stating that all EZs would benefit from:

- a business rate discount worth up to £275,000 per business over a five year period
- all business rates growth within the EZ for a period of at least 25 years will be retained by the local area to support the [Local Enterprise] Partnership's economic priorities and ensure that Enterprise Zone growth is reinvested locally
- Government help to develop radically simplified planning approaches for the EZ using, for example, existing Local Development Order (LDO)powers
- Government support to ensure that superfast broadband is rolled out throughout the EZ, achieved through guaranteeing the most supportive regulatory environment and, if necessary, public funding.

In addition, the Government committed to working with individual LEPs to consider the scope to introduce enhanced capital allowances to support EZs focused on high value manufacturing in the Assisted Areas; the use of Tax Increment Finance (TIF) to support the long-term viability of the EZ (in tandem with the Local Government Resource Review), and UK Trade and Industry (UKTI) support in relation to inward investment and trade opportunities.

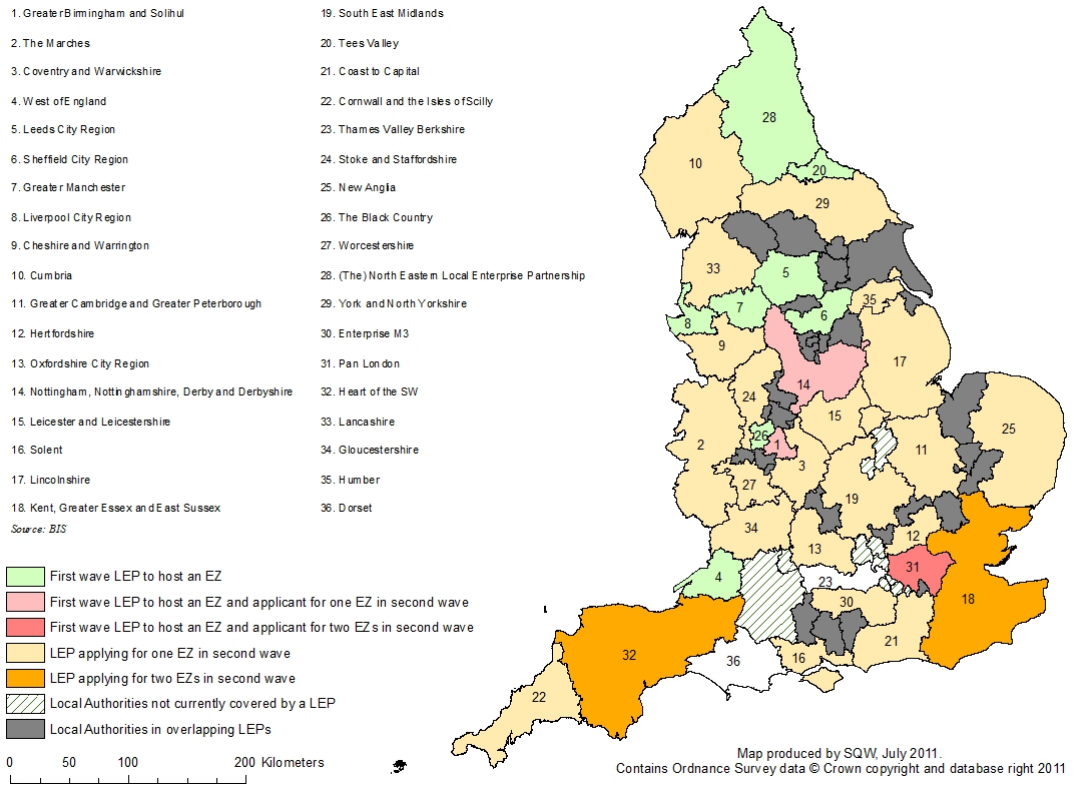
The deadline for applications from LEPs seeking to secure one of the ten "second wave" EZ designations was 30 June 2011. On 4 July 2011, CLG announced that 29 proposals would compete for the remaining 10 zones[2] (see Map 1 overleaf).

About this paper

Since CLG's announcement, SQW has brought together and analysed information relating to the second wave bids. This information has variously included completed application forms, stand-alone bid summaries and press releases. Our evidence base is therefore something of a "patchwork quilt" and there are gaps within it. Nevertheless, we think it provides an interesting – and important – barometer in relation to:

- the likely scope, potential and role of the EZ venture (in its 21st Century form)
- evolving thinking with regard to processes of economic development more generally in England almost exactly a year after the concept of LEPs was first aired.

Map 1: Local Enterprise Partnerships included in the first wave announcement and/or applying for an Enterprise Zone through the competitive second wave process



INSIGHTS FROM SECOND WAVE APPLICATIONS

Which LEPs have applied… and which haven't?

According to the list on CLG's website, the 29 applications for EZs were submitted by 26 different LEPs. Although the *Prospectus* advised that *"in general, only one designation will be made per partnership"*, three LEPs have submitted two different second wave applications (see Map 1). Moreover amongst the 29 applications, three were from LEPs that were included in the first wave announcement with regard to EZs in the March 2011 Budget.

A further observation from Map 1 is important. Those areas of England that do not (yet) have an agreed LEP were ineligible to apply; at the time of writing, the area "without-a-LEP" accounts for 3% of the population (all within the midlands or south). Approval for the Dorset LEP came after the deadline for the second wave submissions had passed. On the basis of the list presented on CLG's website, the only LEP therefore that effectively *chose not* to be considered in relation to the EZ venture in the round was that for Thames Valley Berkshire.

Some headline statistics

The table overleaf provides some further summary information on second wave bids and it compares these to the guidance provided in the government's *Prospectus*.

Table 1: Contents of EZ submissions in relation to some key points in the *Prospectus*

What the *Prospectus* said	Profile of second wave applications	No. of EZ bids on which observation is based
"broadly 50-150 ha"	Range: 41-580 ha Median: 95ha Mean: 137ha	24
"generally based on clean sites"	About a quarter have clean sites – although most of the rest appear to have few business occupants	18
Single ownership has a "significant effect on success"	Approximately 30% have single ownership	21

Source: SQW research

Table 1 suggests, overall, that the applications have been informed by the *Prospectus*, although LEPs have often struggled to identify wholly clean sites in single ownership.

Based on information relating to 25 applications, less than half of proposed EZs are defined in relation to one contiguous site; around a fifth appear to involve four or more sites. Although the *Prospectus* did not rule out multi-site EZs, there appears to have been a presumption by Government that most, if not all, would be on single sites. One reason for multi-site proposals may simply be a lack of immediately available large sites. Another reason could be the difficulty in agreeing one site across large LEP territories.

Key sectors

Many of the second wave applications appear to make strong statements in relation to sectors, with three sectoral groupings standing out:

- low carbon, environmental technology, cleantech
- energy (renewable, nuclear, oil, gas)
- advanced engineering/manufacturing.

These sectoral priorities are broadly consistent with those identified in the *Plan for Growth*, published by the Government to coincide with the budget[3]. They provide a good basis for the targeted marketing of sites and for complementary economic development initiatives. Moreover – and perhaps in contrast to previous eras – our view is that they do, in general, reflect specific, genuine and locally-defined specialisms and strengths, rather than vague aspirations. Perhaps one lesson that has been learned over the last decade is that not everywhere is going to have a world class and globally significant biotechnology cluster. Instead, local areas need to build on their particular economic and sectoral strengths. This principle is at the heart of the concept of "smart specialisation", and in preparing their second wave EZ bids, many LEPs appear to have embraced it.

This observation should not be taken too far however. Where there are similarities in sectoral priorities – and there are some – there is a risk of competition between would-be EZs, particularly in relation to inward investment. The government will therefore need to be mindful of this in deciding which EZs to approve.

The use of planning powers

Local Development Orders – the key provision to achieve a simplified planning regime – are mentioned in relation to most of the applications for which we have the relevant information. However, some applications provide only vague statements about general flexibilities, without being specific about what they want LDOs to do, and how. Others provide more detailed statements about the use of LDO powers and what they aim to achieve through them – for example, to promote development consistent with a low carbon economy.

The scale of development

The amount of development planned within the would-be EZs by 2015 varies substantially, based

to a considerable extent on the size of the site(s) and the mix of uses proposed. Available data from 16 applications indicate that over 3 million sqm of floorspace is proposed. Expected job densities vary substantially.

What the EZs might deliver

We have gathered data on employment expectations for 22 would-be second wave EZs. For these, the level of employment expected within the proposed EZ by April 2015 (the date specified in the application form) sums to nearly 125,000 jobs. This averages about 5,600 jobs per Zone but within this, the range is substantial: two are expecting levels of employment of less than 1,000 jobs by 2015, whereas for three, the figure is over 10,000.

To some extent, these differences may be muted when issues of additionality are taken into account. Nevertheless – in the round – most of these jobs are expected to be "additional": for a third of the would-be EZs for which we have relevant information, the assumption is that there is no deadweight (i.e. jobs that would have been created anyway, without EZ status), and for a quarter, the expectation is no displacement (i.e. jobs which are transferred into the EZ from the surrounding area in order to benefit from the incentives).

Whilst low levels of deadweight are certainly feasible where it is considered that the EZ designation is crucial to stimulate development, we suspect the displacement assumptions may require further verification. The high level of displacement in practice was one of the main criticisms of the original EZs established in the 1980s, so in assessing the current round of applications, the Government will need to ensure that the displacement assumptions are justifiable and consistent.

Some of the assumptions about the timing of job creation also seem ambitious. The question on the EZ application form was specifically about jobs to be created by April 2015. Although many applications explain how development will be accelerated, full occupation of most EZs is unlikely to be achieved until well beyond 2015: most sites are at present largely un- (or under-)developed, and some require infrastructure before building can proceed. In these cases, the lead time for any jobs to be created is likely to be at least one-to-two years, and quite probably longer. It could then take five years or more to develop out large sites and build up to full occupancy.

POTENTIAL BENEFITS TO LEPs

Within the EZ venture, the provision made for LEPs to retain the increment in business rates resulting from the EZ for 25 years is potentially very important to their – i.e. the LEPs' – long term viability. The availability of funding to support economic development has been a major source of concern for LEPs since they were first established last year. Other than the Capacity and Start Up Funds – both of which are short term and small scale – and the income obtained for the areas (though not for the LEPs) from successful bids to the Regional Growth Fund, the EZ provisions provide the first significant opportunity to secure a reliable and predictable income stream to support LEPs' economic priorities[4].

Exactly what this means in terms of the amount of revenue will depend on the scale and nature of development in the EZ, but an indication can be derived from the 2011 Budget Statement. This assumes that the cost of the business rates provision in EZs will be £80m a year by 2015/16[5]. The Budget Statement does not explain the assumptions underlying this figure, but the *Prospectus* says that the government will reimburse local authorities for the cost of the discount, so the £80m should include both the rates foregone from businesses, and the equivalent amount paid to local authorities. This

suggests that the income from the business rates increment, spread across 21 Ezs[6], is expected to be around £2m per year. A slightly larger figure can be derived by multiplying the average number of firms assumed to occupy each EZ by the maximum amount available for business rates relief per year (£55,000, or £275,000 over 5 years).

The income to local areas from the business rates increment will only build up gradually, but we assume that in the interim, local authorities should be able to borrow against this guaranteed future income stream, if they are so inclined.

Specific suggestions included in the second wave EZ submissions for use of the funds include the creation of evergreen investment funds, site-specific infrastructure investments and small-scale inward investment and/or business support services. However, in general, few LEPs seem very clear about how they want this revenue stream to be used: mostly it is "to be sorted later". This includes the really key question of how the value of the uplift in business rates on the EZ will be distributed across the much wider LEP geography, an issue which could raise some challenges in terms of LEPs and their governance.

WIDER REFLECTIONS

A key question which arises from our headline review is how the Government is going to choose ten second wave EZs from among the 29 submissions. Comparing "like with like" will not be easy in the context of varying assumptions about additionality, speed of development, etc., and – in the main – relatively little information on the scale of demand relative to the proposed scale of development. In some cases, further information may be needed, but there will be pressure to make decisions quickly to enable those selected to proceed with implementation of their plans.

A second issue is how the Government's commitment to allow business rates growth within an EZ to be retained will work in practice. The wording of the Budget Statement suggests that this refers to business rates growth from the EZ site throughout the 25 year period. However this amounts to a significant and unusually long term commitment. The question of how local authorities within a LEP area will work together with the LEP to allocate the funding is challenging, as is the question of whether they will all be willing and able to provide bridging funding in the period between now and when they will receive significant income from business rates.

A third issue is whether a two-tier LEP landscape will, in practice, emerge. Potentially, 21 LEPs with EZs will have the prospect of a long-term revenue stream to spend on their economic development priorities (although one which will not kick in immediately). Will the remaining 15 be left without comparable resources? If so, what is their future?

Finally, it is useful to ponder the significance of the EZ venture in the context of broader policy developments, notably the Localism Bill and the Local Government Resources Review. The latter is examining the way in which local authorities are funded with a view to strengthening the incentives to support growth and – amongst many other matters – it is considering Tax Increment Financing powers; a consultation document is expected shortly. For successful – and also for unsuccessful – applicants for second wave EZs, the surrounding provisions be important in driving forward local economic growth.

[1] http://www.communities.gov.uk/publications/localgovernment/enterprisezoneapplication2011 (accessed July 2011)
[2] http://www.communities.gov.uk/news/corporate/1936145 (accessed July 2011)
[3] http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf (accessed July 2011)
[4] The 2011 Budget Statement states that the business rates growth within the zone "will be retained and shared by the local authorities in the LEP area, to support LEP economic priorities". Therefore the income will go to the local authorities, not the LEPs
[5] Table 2.1, Budget Policy Decisions, Budget 2011, HM Treasury, http://cdn.hm-treasury.gov.uk/2011budget_complete.pdf
[6] 11 from the "first wave" and 10 from the "second wave"

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