What would Maggie do?

Why the Government's policy on Enterprise Zones needs to be radically different to the failed policy of the 1980s

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Summary

It looks increasingly likely that, in the March Budget, George Osborne will turn back the clocks and reintroduce Enterprise Zones as a policy for stimulating growth, particularly in deprived areas of the country. In this paper, we argue that the Coalition should not reintroduce Enterprise Zones based on the model conceived in the 1980s, because it will not achieve desired outcomes and will not be cost effective. Instead, the Government should learn from what did and did not work in the 1980s policy and introduce a new area-based strategy that focuses on investment in people, skills and business growth – the key challenges facing the UK today.

We argue that a more effective policy response is a new form of Enterprise Zones for the 21st century – which we've called 'Local Growth Zones'. These zones would offer the Government the opportunity to trial different types of interventions which are sensitive to an area's growth challenges. Some of the key elements of these zones could be rapid planning processes and funding towards skills support. A menu of options would give different areas – both deprived and those with greater economic potential – the opportunity to experiment with different interventions and is likely to provide enterprise assistance at lower cost. This approach to Enterprise Zones aligns with the Government's localism objective, allowing areas to bid to be a Local Growth Zone and then to negotiate with Government which initiatives – chosen from a policy menu – will best drive economic growth in their area.

1. Introduction

Since coming to power in May 2010, the Coalition has set out its plans for bringing the public finances back into order, creating an agenda for fiscal austerity. By 2014-15, £81 billion worth of spending cuts will be made and the fiscal deficit will be brought down from 10 percent of GDP in 2010-11 to 1.9 percent in 2014-15.[1]

In the medium term, the Government must balance its growth agenda with fiscal austerity. Putting the Government's finances on a stable footing is critical for securing an economic recovery. However, the recent uncertainty surrounding the strength of the UK economy, including the 0.6 percent contraction in the fourth quarter of 2010, has led to calls for the Government to have a more ambitious plan for growth.[2] One of the Government's primary objectives is to ensure that the private sector recovery will generate a sufficient number of jobs to offset the forthcoming public sector job losses. Enterprise Zones have now emerged as a potentially significant contributor to this plan.

The context in which zones would be implemented today is quite different to that of the previous era. First, urban dereliction is no longer the issue it was in the 1980s. Instead, increasing firm productivity, reducing skills gaps, supporting firms to grow and enabling job creation are the major challenges the UK faces today. Second, the structure of the economy has changed, with fewer manufacturing firms making large capital allowances less imperative for firm growth. Third, the financial position of the UK has changed. With Government net debt currently much higher as percentage of GDP than in the 1980s, Enterprise Zones introduced today need to be more cost-effective than they were in the 1980s. This means the Government should consider ways to create updated Enterprise Zones that can act as both a driver for growth and be budget-friendly.

1. HM Treasury (2010) Spending Review 2010; Office of Budget Responsibility (2010) Economic and Fiscal Outlook, November 2010.
2. BBC News (2010) 'CBI boss: Coalition lacks vision', BBC News website, published 24 January 2011

2. Enterprise Zones: what are they?

The UK brand of Enterprise Zones was invented in the 1970s to reinvigorate distressed urban areas. Originally proposed by the urban academic Sir Peter Hall, the idea was to create 'Hong Kong style free-for-all type areas' in the heart of British cities.[3] The theory was that by removing all the barriers faced by business – such as regulation and bureaucracy – enterprise would begin to thrive, driving up the number of companies, level of employment and incomes in locations that had been devastated by the process of industrial decline and restructuring. The model has subsequently been adapted and applied across the world.

In the UK, the reality of the policy as implemented was quite different from Peter Hall's original laissez faire vision. Instead, the zones focused on built environment issues and used capital-based grants and rebates to drive growth. Announced in Geoffrey Howe's 1980s Budget, Enterprise Zones' key component was tax subsidies, with 100 percent capital allowances on investment in property and exemption from local business rates (see Box 1). The zones also promised a simplified planning framework and some reduction in bureaucracy. Each Enterprise Zone received its designation and benefits for 10 years.

In total 38 Enterprise Zones were designated in the UK between 1981 and 1996.[4] Twenty-three were designated in two rounds between 1981/2 and 1983/4. Following this, designation occurred on an ad hoc basis.[5] During this period Enterprise Zones were established in many of the UK's ex-industrial cities – including Manchester (Salford/Trafford), Newcastle, Swansea, Middlesbrough and Rotherham. Enterprise Zones were often located in "areas of economic and physical decay" which were suffering chronic and multiple market failures.[6] The most famous Enterprise Zone is

3. Hall P (1998) *Cities in Civilization: Culture, Technology, and Urban Order*. London: Weidenfeld & Nicolson
4. DCLG (2009) Enterprise Zones Monitor report 2006-2007
5. Jones C (2006) 'Verdict on the British Enterprise Zone Experiment', International Planning Studies,11:2,109 –123
6. Treasury Press Notice, 26 March 1980

probably London's Isle of Dogs. The Enterprise Zone programme finished in 2006, with Tyne Riverside (on Newcastle's outskirts) the final zone to close.

Box 1:
Incentives offered by the 1980s Enterprise Zones

Enterprise Zones provided a number of incentives to the developers, investors and occupiers of industrial and commercial properties in the designated areas, including:

- 100 percent tax allowances for capital expenditure on constructing, improving or extending commercial or industrial buildings;
- exemption from Business Rates for industrial and commercial premises;
- simplified planning procedures;
- exemption from industrial training levies;
- faster processing of applications for firms requiring warehousing free of Customs duties
- a reduction in Government requests for statistical information

Originally the zones were also exempt from Development Land Tax, a 60 percent tax on land value gains, but this was abolished in 1984. Many of the zones also received management services, such as marketing and inward investment promotion.

While the 1980s Enterprise Zones differed from the original vision, there were still some fairly robust economic reasons for expecting Enterprise Zones to deliver positive results. The Government had two justifications for Enterprise Zones:

- **By reducing costs to firms, you have the ability to increase economic output and employment.** In theory, exemption from business rates and tax allowances for capital investments reduces firm costs, making them more profitable and allowing them to expand. However, the incentive mix available to firms may have actually encouraged businesses to substitute labour with capital inputs. This would have dampened the employment impact that Enterprise Zones had.[7]
- **Market failure was occurring in local property markets, and property-based subsidies can regenerate deprived areas.** Low demand, dereliction, and risk in development costs prevented new construction. By subsidising initial investments, the theory was that builders would gain confidence and find profitability in new investments which would improve the built environment. This did happen in many areas, and this property-led regeneration model has continued to be the main Government mechanism for regeneration.

3. What can we learn from the British experience in the 1980s?

Britain's experience of Enterprise Zones in the 1980s was very mixed. Although they made a positive difference to physical regeneration in many places, the Enterprise Zones resulted in a disappointing number of additional jobs and were expensive to deliver. There is also evidence to suggest that many of the businesses that benefited were not new firms, but simply firms that had relocated from another nearby area. Below, we outline specific lessons that can be learned from the British experience.

1. **1980s Enterprise Zones did regenerate some areas of dereliction – but this is no longer the priority it once was.**
   Some former Enterprise Zones, such as Canary Wharf and Salford, look quite different now than they did in the 1980s, and Enterprise Zones can claim some credit for this. However, the 2010s context is quite different. First, the extent of derelict land today compared to the 1980s is much smaller, so there is less need to deal with dereliction. Second,

7. Expert Interviews.

capital expenditure to improve derelict land is very expensive. In an age of austerity, it is likely to be difficult to commit the resources required to address these issues. In particular, remediating brownfield land can be an expensive and lengthy process, and resources committed today may not generate returns in the form of new businesses and jobs for many years. As highlighted above, supporting firms to grow and create new jobs is a more pressing challenge for urban areas now than physical regeneration.

2. 1980s Enterprise Zones did not deliver a high number of additional new jobs

Enterprise Zones in the 1980s supported modest employment growth but also led to jobs and firm displacement. During the first two rounds of Enterprise Zone implementation, employment in the zones increased by between 96,000 and 125,000 people. Of this, 58,000[8] are estimated to be net additional jobs[9] (this includes direct employment creation and indirect job creation in supply chains). However, of those "additional" jobs created, many were simply shifted from other parts of the UK. On an employment-weighted basis, 24 percent of firms relocated from within the region and 17 percent from other parts of the UK due to the status of the area as an Enterprise Zone. This means that the total figure of jobs created fully additional to the UK economy is likely to be much less than 58,000.

8. Net jobs subtract from total employment the following: jobs that would have located in the area without Enterprise Zone status, jobs diverted to Enterprise Zones from local areas, and jobs lost in local areas because of competition from firms in the Enterprise Zones. They add jobs outside the zone created through local area linkages and account for short-term local area income multipliers.
9. Potter J & Moore B (2000) 'UK Enterprise Zones and the Attraction of Inward Investment.' Urban Studies, 37(8): 1279-1312.

Case study: Tyneside–Enterprise Zones do not necessarily lead to additional jobs growth

The Tyneside Enterprise Zone, designated in 1981, consisted of several parcels of land. The largest of these was an area to the south-west of Newcastle city centre, which displayed considerable decay and high unemployment. The zone was developed into a retail centre, business park and also provided some light industrial space.

Tyneside Enterprise Zone was successful in attracting mobile investment, but most of it was attracted from other local sites. The Metro Centre displaced retail employment from other parts of Tyneside, while many of the newcomers to the Team Valley area and the Newcastle Business Park merely relocated from other parts of the area.

Facts and figures:[10]

- Total public sector cost: £44.2 m (plus £80m forgone rate revenue)
- Private sector investment: £253 m
- Benefits: 346,000 sqm additional floorspace and 13,700 jobs
- Wider impact: displaced retail and business investment from surrounding areas
- **Jobs Growth in Local Authorities hosting the Enterprise Zone:[11]**
  - During Designation (1984-1991): 10.9% Gateshead; 0.6% Newcastle upon Tyne
  - Immediately following De-designation (1991-1998): 6.5% Gateshead; -6.5% Newcastle upon Tyne
  - Recent Growth (1998-2008): 15.4% Gateshead, 17.9% Newcastle upon Tyne

10. Department of the Environment (1995) Enterprise Zone Information 1981-1994. HMSO.
11. NOMIS (2011) Census of Employment–Employee analysis (1981 to 1991). Annual Employment Survey Employee Analysis (1991 to 1998). Annual Business Inquiry Employee Analysis (1998 to 2008).

3. 1980s Enterprise Zones were expensive

The public sector cost per additional job created in the zone (including relocations) is estimated at £17,000[12] over 10 years of the programme in 1994-95 prices (or £26,000 in current 2010-11 prices).[13] Although Enterprise Zones were not only about job creation, if cost-effectiveness is measured purely on this basis then the cost per job is high when compared with recent programmes like Future Jobs Fund, at £6,500 per job created, and the New Deal for Young People, at £3,500 per job.[14]

The cost to the public sector of Enterprise Zones was a mix of upfront costs on land and infrastructure and forgone tax revenues. From 1981-2003, the government forwent £437-489 million in capital allowance revenues and an additional £441-544 million in business rate revenues. Therefore, estimates of the forgone revenues to the Government range from £880 million to over £1 billion (1994-95 prices; £1.3-1.6 billion in 2010-11 prices), a cost to the public beyond the monies already invested in land and infrastructure. Table 1 below shows the total investment by the public purse for each round of Enterprise Zones, detailed in two Government-sponsored evaluations that used different methodologies.

4. 1980s Enterprise Zones pushed demand around the economy, which is likely to undermine longer term UK prosperity

Past Enterprise Zones pushed around demand by incentivising firms to move to lagging areas. In doing so, the government is ignoring 'agglomeration economies.'[15] These are benefits firms gain by being located in large, densely populated cities. As a result, firms become more productive and can create new business opportunities. Shifting workers to places of lower productivity could be harmful to the national economy.

12. PA Cambridge Economic Consultants (1995) Final Evaluation of Enterprise Zones. HMSO.
13. Adjusted based on the GDP Deflator: www.hm-treasury.gov.uk/data_gdp_index.htm
14. We recognise that these programmes had different purposes and so are not easily comparable. House of Commons Work and Pensions Committee. (2010). "Youth Unemployment and the Future Jobs Fund." Both figures are from this year and are assumed comparable for inflation.
15. Glaeser E (2008) Cities, Agglomeration, and Spatial Equilibrium (The Lindahl Lectures), Oxford: Oxford University Press

5. Many of the benefits of the 1980s Enterprise Zones were captured by property owners rather than by local areas.

Capital allowances and business rate allowances were the major mechanisms for attracting firms and went to many landowners and developers for constructing commercial property. Business rates exemption gave firms more money to invest in their business. Many

Table 1:
Total Public Investment in Enterprise Zones 1981-1993, in £ Thousands (1994-95 Prices)

	PA Cambridge EC Estimates		
Cost Category	**Round 1**	**Round 2**	**Total**
Land Acquisition & Infrastructure	50,026	40,260	90,286
Construction	-	-	-
Rates Relief	282,382	158,249	440,631
Capital Allowances	300,055	137,397	437,452
TOTAL COSTS	**632,463**	**335,906**	**968,369**

	Dept of Environment Estimates			
Cost Category	**Round 1**	**Round 2**	**Further Zones**	**Total**
Land Acquisition & Infrastructure	225,899	94,614	65,991	386,504
Construction	97,498	52,967	4,358	154,823
Rates Relief	351,554	174,820	17,140	543,514
Capital Allowances	*	*	*	489,000
TOTAL COSTS	**674,951**	**322,401**	**87,489**	**1,573,841**

Sources: Department of the Environment (1995) Enterprise Zone Information 1981-1994. HMSO. PA Cambridge Economic Consultants (1995) Final Evaluation of Enterprise Zones. HMSO. *The total for all zones and all years is available, not broken out by round.

companies used these capital allowances to move into higher-end office space and new developments, reducing the money they had to invest to grow. Overall, many of the benefits of Enterprise Zones were realised by the landowners. For example, rents on properties in Enterprise Zones tended to be around 10 percent higher than their local equivalent, during the period of designation.[16] This reduced the total amount of savings businesses had for productive investments.

6. **Some of the key elements of 1980s Enterprise Zones, such as simplified planning processes, were not delivered in practice.** In places like Canary Wharf, the planning process was highly simplified and fast in the beginning, leading to the timely investment and creation of new firms (although it has been argued that in some cases this resulted in the construction of low quality buildings). In many other places, planning restrictions remained onerous with some zones (e.g., Tyne Riverside) continuing to regulate issues such as which building materials could be used for certain projects.

7. **The 1980s Enterprise Zone policies mismatched goals and incentives.** While one objective of the policy was to create jobs, the incentive provided focused on reducing the cost of capital expenditure. It is likely that this resulted in *reducing* demand for labour by causing firms to substitute labour inputs with capital inputs.

8. **One of the challenges facing 1980s Enterprise Zones was that they were created in areas which offered only a limited chance of long-term success.** Research suggests that incentives will only prove successful attraction factors in the long run for those areas with a real potential for economic growth.[17] Some of the zones created during the previous British experience were in urban economies facing enormous structural challenges in a rapidly changing economy. Placing zones in areas with no economic or labour market linkages to thriving areas, poor transport connections, and relatively limited market assets besides the Enterprise Zone placed some Enterprise Zones at a distinct disadvantage. These conditions meant that, once the incentives ran out, firms had fewer reasons to stay.

9. **Urban and accessible zones created more jobs than rural zones.** The Enterprise Zones located in urban areas and on the urban fringe (often categorised as accessible) were more successful at generating jobs than the rural Enterprise Zones. Considering total employment growth in the zones between 1982 and 1990, more than half of the growth took place in zones on the urban fringe and almost two fifths of the growth occurred in urban areas. Only one in twenty of the jobs accounted for can be assigned to rural Enterprise Zones.[18] It's no surprise that urban and urban fringe zones were more successful in attracting employment, as they often offered access to good transport links.

Box 2:
Lessons for future Enterprise Zones policies

- Policies must act to minimise displacement and increase employment:
  - Account for displacement when creating incentives
  - Couch Enterprise Zones within a wider development framework
- Reduce capital-based incentives that primarily benefit local landowners
- Ensure relaxed planning is executed – and recognise that it is not a barrier to growth in all areas
- Each incentive should be matched to a relevant goal
- Enterprise Zones will be most successful in places with real growth potential

16. PA Cambridge Economic Consultants (1995) Final Evaluation of Enterprise Zones. HMSO.
17. Falk N (2004) 'Funding Sustainable Communities: Smart growth and intelligent local finance." TCPA Tomorrow Series, Paper 13.
18. PA Cambridge Economic Consultants (1995) *Final Evaluation of Enterprise Zones*. HMSO. These figures include all jobs growth in the Enterprise Zones, not just additional jobs. They are approximate and so do not sum.

4. What does the international experience teach us?

Enterprise Zones have been utilised by other countries, developed and developing alike, to overcome market failures in certain areas.

US experiences with Enterprise Zones are rather different.

- While the UK Government designated a small number of zones, in the US, the federal government as well as each US state can designate zones. Accordingly, the US has many more zones.

- Some US Enterprise Zones have incorporated employment and skills programmes, while these were distinctly missing from the UK zones.

- In the US, no single incentive can claim it drives investment in the zone - although tax incentives linked directly to hiring and reducing the cost of labour have been more widely used. In the UK experience, firms highlighted capital allowances and rents exemption as the major incentives that affected their decision to locate in a zone.

- In the US, non-Enterprise Zone factors (like proximity to transport and markets) seem to play a much larger role in firms' decisions to move into the Enterprise Zone than in the UK. This is attributed to the wide-ranging availability of tax abatements in the US and the relative value they create compared to other costs that vary across space.[19]

Support for Enterprise Zone effectiveness is mixed in the US. Comparing neighbourhoods receiving federal Enterprise Zone designation against similar ones which did not, some studies have found that the zones see a substantial improvement in labour market conditions and moderate increases in rents.[20] However, other evaluations found the programmes have no significant impact on local employment, regardless of the total amount of incentive funding or specific programme design.[21] The cost of zones in the US is much more wide-ranging than the UK, varying from $4,500 to $100,000 per additional job per year (likely to be due to the very wide range of options available–from less-expensive jobs-focused schemes to very expensive brownfield regeneration programmes).[22] However, there is evidence from the US that Enterprise Zone policies focused on employment-based incentives are fairly inexpensive, with the entire state of Florida's employment incentives in zones costing just over $21 million for thirteen years.[23]

France's Enterprise Zone programmes had mild, short-term and localised benefits. France developed an Enterprise Zone scheme later than the UK; their national programme was adopted in 1997. It originally included 44 lagging areas with at least 10,000 people, and almost one-quarter of these were in the Paris region. The major evaluation of the zones found a small but statistically significant effect on movement from unemployment to work in the zones. However, the effect is highly localised and is only significant in the short-run. This is likely to be due to a rule putting incentive receipt conditional on employing 20 percent of people from within the zone. The French zones were also expensive, with each job costing €9,000 in wage tax exemption alone.

19. Potter J & Moore B (2000) 'UK Enterprise Zones and the Attraction of Inward Investment' *Urban Studies* 37(8): 1279-1312.

20. Busso M & Kline P (2007) 'Do Local Economic Development Programs Work? Evidence from the Federal Empowerment Zone Program.' SSRN Working Paper Series
21. Bondonio D & Engberg J (1999) 'Enterprise Zones and Local Employment: Evidence from the States' Programs.'
22. Papke L (2003) Tax Policy and the Economy, 7: 37-72
23. Elvery J (2009) 'The Impact of Enterprise Zones on Resident Employment: An evaluation of the Enterprise Zone programs of California and Florida' *Economic Development Quarterly* 23(1): 44-59

5. What would a more effective Enterprise Zone for 2011 look like?

We would recommend that any revived Enterprise Zone policy will need to adapt to the new economic environment in Britain, learning lessons from the successes and failures of previous Enterprise Zone policies. We propose that the Government creates Local Growth Zones which meet the needs of the UK economy and reduce the barriers to firm growth. Given that we operate in a world of budget and time constraints, Local Growth Zones are an opportunity to test specific policies and programmes in places which are open and able to implement them. The new zones should be less expensive to deliver, meet today's economic challenges and be tailored to the growth challenges facing different areas.

First, we set out three tests to ensure Local Growth Zones are relevant and meet the needs of firms to reduce the barriers to growth. Then, we set out guiding principles of what Local Growth Zones should be, drawing on the lessons from the 1980s and elsewhere.

Box 3:
Three Tests for Relevance of Local Growth Zones

The context in which zones would be implemented today is quite different to that of the previous era. To be relevant to the challenges which firms currently face, the new Local Growth Zones need to past three tests:

1. **Need Test:** Property market failure is less of an issue for the UK's distressed urban areas than increasing the productivity of firms, reducing skills gaps, supporting firms to grow and supporting job creation. Local Growth Zones will need to help urban areas to increase firm competitiveness and remove barriers to growth, rather than to deal with dereliction. In stronger economies the zones need to ensure that the planning system is not restricting growth.
2. **Demand Test:** The economic structure of the UK has changed. In the 1980s, manufacturing made up 30-40 percent of firms in zones at a time when the sector represented 40 percent of UK private sector output. In 2007, manufacturing is only 21 percent of private sector output (or 13 percent of total output).[24] Incentives to locate in Local Growth Zones will need to recognise the shift to a more service-based economy and to modify the incentives on offer (i.e., capital allowances are likely to be less relevant in many zones).
3. **Financial Efficiency Test:** The fiscal position of the Government is much worse than it was in the 1980s. During the first round of Enterprise Zones (1981-91), the average Government net debt as a percent of GDP was 38 percent; in 2010-11, it was 61 percent.[25] Local Growth Zones will need to represent better value for money than the 1980s Enterprise Zones, which according to the Government's own evaluation cost £17,000 per job in 1994-95 prices or £26,000 in 2010-11 prices.

Guiding Principles for 'Local Growth Zones'

A more effective version of Enterprise Zones could be introduced as an adapted version that learns from previous policies and responds to the current economic context should be implemented.

Zones should be able to draw from a menu of policy options using different policy mechanisms in different places to fit with local economies' needs.
Learning from mixed successes in the past, the Government should not provide designated areas with a centrally-determined and non-negotiable set of benefits. Instead, central government should agree a package of support with the zone,

24. EUKLEMS database, November 2009 release; ONS (2009) National Accounts – the Blue Book
25. HM Treasury (2011) Public Sector Finances Databank

chosen from a menu of nationally-available options. This would allow the policy instruments used to be tailored to the local economic circumstances and would ensure that Local Growth Zones are instilled with the spirit of localism. Another attractive element of Local Growth Zones is that they would offer the Government the opportunity to trial a number of policies that, while attractive in their own right, may prove challenging to implement across the country as a whole at this point in time.

The economic changes between the 1980s and today reflect that the objectives of the zones should be different.
Policies in Local Growth Zones should help remove the barriers to growth. They need to enable job creation and firm growth, particularly by increasing competition and growing the local business base, rather than focusing on property-based regeneration. Policies should also be flexible enough to enable localities to develop the policy mix that will best support their area to grow. In areas of high unemployment, moving people into jobs should be the focus of the zone. Places with low skill levels may want to incentivise training and educational opportunities. Other areas with barriers to building development may wish to reduce and simplify planning processes. As we move towards localism, the goal of Local Growth Zones should be job creation and economic growth but with places deciding for themselves which policies can best achieve these outcomes.

The Zones should not only be considered for distressed urban areas but should be used as a solution for growth in cities across the country.
The Government needs to be cautious in its attempts to push demand around the country, which may have a negative impact on the overall growth of the UK economy. If the zones were tailored to local economies' needs, they could be equally appropriate for tackling the issues facing growing cities, such as planning and congestion, as the more traditional areas of focus.

Learning from the past, Enterprise Zones had the most impact in either lagging areas with real potential to develop or buoyant economies. The former can be seen in the Zones like the Isle of Dogs and Central Manchester, which had high unemployment and dereliction problems, but also access to large, skilled labour markets, suppliers, customers, and transportation infrastructure.

The new Local Growth Zones should not be limited to weaker urban areas but should also be open to economically stronger cities in the Greater South East like Cambridge and Brighton. While planning restrictions are likely to be less of a barrier to growth in underperforming economies, in economically stronger cities relaxing the planning system could provide a real boost to the national economy. Hence a Local Growth Zone based on these types of policies could be appropriate for economic high performers.

The cost of Local Growth Zones can be greatly reduced from that of Enterprise Zones.
This can happen in several ways, mainly by reducing the focus on capital-based rebates and allowances. For example, business rate relief represented forgone revenue of £450-540 million in the previous zones and capital allowances accounted for £440-490 million of foregone Government revenues. Combined, these two elements accounted for 65-90 percent of the cost of the previous zones, so reducing expenditure on these areas would radically reduce the cost of any future programme as well as minimise the amount of the zones' benefits captured by landowners. Capital spending on buildings, construction and roads also accounted for major public sector expenditure for Enterprise Zones. While many cities across the country do need significant infrastructure investment, focusing this investment in Enterprise Zones alone may not be the most efficient use of funds to support economic growth.

Case Study: Isle of Dogs–Invest in places with potential for long-term success & couch Enterprise Zones in a wider development strategy

The Isle of Dogs is an exceptional case of success for Enterprise Zones, although it was initially very costly for the Government. The London Docklands Development Corporation (LDDC) carried out a major regeneration scheme over a 17 year period beginning in 1981. For the first ten years, the LDDC was supported by the designation of the Isle of Dogs as an Enterprise Zone. Evaluations have shown that that the LDDC was able to overcome the multiple market failures that prevailed in the Isle of Dogs at the time of designation. Its London location played a critical role in the zone's success, providing the skills necessary for growth in financial services as well as proximity to related and supporting firms. Evaluation has also emphasized the importance of zone management and coordinating the Zone within a wider growth strategy.

Facts and figures:[26]

- Total public sector cost: £3,900m, including the cost of DLR and 25% of the cost of the Jubilee Line extension (27% attributable to foregone tax revenue)
- Private sector investment: £8,700million by March 1998
- Benefits: 24,000 housing units and 80,000 jobs.
- Every £1 million of public sector spending generated 23 jobs, 8,500 sqm of office space, and 7.8 housing units.
- Wider impact: additional 23,000 jobs in London by increasing the supply of high grade office accommodation which led to a more competitive financial centre.
- **Jobs Growth in Local Authorities hosting the Enterprise Zone:**[27]
- During Designation (1984-1991): 29.8%
- Immediately following De-designation (1991-1998): 17.1%
- Recent Growth (1998-2008): 65.6%

26. Cambridge Policy Consultants (1998) 'Regenerating London Docklands'. London: DETR
27. NOMIS (2011) Census of Employment–Employee analysis (1981 to 1991). Annual Employment Survey Employee Analysis (1991-1998). Annual Business Inquiry Employee Analysis (1998 to 2008)

Ensure tax incentives are efficiently designed and that rebates are emphasised over grants in order to reduce unproductive spending.
Spending could be greatly reduced by providing incentives only for additional benefits, rather than those which have just move around. Incentives need to aim to reduce 'deadweight costs' associated with their past implementation. Using rebates and incentives rather than grant funding will also reduce the bureaucratic cost associated with administering, overseeing and monitoring upfront government expenditure.

The Zones and their benefits must be widely publicised in order for Local Growth Zones to have the greatest possible impact.
If the Government is going to support areas with substantial changes to the way it interacts and facilitates business growth, then firms, entrepreneurs and workers should be made aware of those benefits. Anecdotal evidence suggests this was a challenge for some of the 1980s Enterprise Zones. The main mechanism for this will be the single point of contact for each Local Growth Zone. However, the government should also disseminate the information through BIS, HM Treasury, and the Local Authority councils surrounding the Local Growth Zones.

A Menu of Incentive Options for Local Growth Zones

Local Growth Zones would offer a series of policy options for any urban location in the UK to choose from, recognising that specific policies are likely to be more important to some places than others. Investing in skills, reducing hurdles in the planning process, and implementing programmes to increase employment would benefit most places in Britain.

Below we outline a few of the main options that we think could be part of a Local Growth Zone package:

- **Rapid Planning Zones:** Simplified planning regimes were an important part of the 1980s Enterprise Zone policy intervention. But, in reality, many restrictions were kept in place and development was still subject to significant controls.

For example, both the East Midlands and Tyne Riverside Enterprise Zones' planning controls went as far as specifying the appropriate materials for roofs and external facing walls of buildings in their zones.[28] The Local Growth Zones offer the opportunity to trial radically slimmed down development controls, with all development permitted provided that it meets a minimum set of building regulation and quality criteria. However, this type of zone is likely to be more relevant in rapidly growing economies – for example, Cambridge and Brighton.

Rapid planning zones - which would deliver business growth and a national economic dividend - would need to be 'opt-in' and matched by a significant local benefit (see next recommendation: access to corporation tax uplift). Options for Rapid Planning Zones could include planning decisions in the zones being fast tracked – made within six weeks, only refused if their were critical environmental concerns, and reduced and expedited public consultation requirements (but not removed). There would need to be consideration as to how to maintain some oversight of the quality of the development that would take place in an area.

- **Access to corporation tax uplift:** In negotiation with central government and based on the options agreed, local authorities could be given a proportion of an area's uplift in the corporation tax or income tax base. The past Enterprise Zones provided no mechanism to reward places which reduced planning restrictions, which is reflected in their mixed popularity. A corporation tax uplift would give growth areas, particularly those in less deprived areas, a strong reason to adopt a slimmed down planning framework and create local benefits for residents. This option should only be available to Local Growth Zones which undertake a significant commitment to improve the wider business environment in other ways, for example by accepting Rapid Planning Conditions. It would also need to work alongside any options for local authorities to make use of Tax Increment Financing and business rate retention or localisation.[29]

28. Jones C (2006) 'Verdict on the British Enterprise Zone Experiment.' *International Planning Studies* 11(2): 109-123.
29. CB Richard Ellis and SNR Denton are supporting the Centre for Cities to investigate how business rates and TIF can support city growth; please contact Kieran Larkin (k.larkin@centreforcities.org) if you would like to find out more about this work.

- **Skills support:** Improving skills levels is vital for improving the economic strength of a place and the outcomes of the people that live there.[30] If local residents are going to make the most of the jobs created by Local Growth Zones, it is important that they have the skills required by the companies that set up or move to the areas. Skills investment benefits the firm and the individual. Firms benefit from more productive employees. Individuals will benefit because this new knowledge should positively impact on their future earnings even if they leave employment in the zone. To incentivise skills training, we suggest offering tax rebates on accredited training of new staff (75 percent) and existing staff (50 percent).

- **Labour Market Coordinator:** One of the barriers for firm growth is costs associated with sorting through labour pools and accessing the appropriate skilled labour. Local Growth Zones will have the opportunity to create a labour market liaison function which assists firms with marketing high-skills positions and coordinating with local labour market programmes to help match firms with the skilled labour they need to expand, innovate and thrive. This individual could also help link firms in the Zone with the local JobCentre Plus.

- **National Insurance Contribution (NICs) rebates for *additional* jobs created:** The previous Enterprise Zones did not provide many additional jobs, potentially because there were stronger incentives for firms to invest in capital rather than labour. Offering an incentive, such as exemption from NICs contribution, could directly incentivise the hiring of more employees. A means to overcome the issue of accounting for additional jobs created, rather than those pushed around from neighbouring areas, is to provide rebates only for those jobs created after a firm locates in a Local Growth Zone during a certain time period. By restricting that incentive to those jobs added after locating in the zone, the Government is not unduly rewarding firms for shifting employment across space; rather they are rewarding firms for creating new jobs. However, disappointing participation

30. Glaeser E & Saiz A (2003) 'The Rise of the Skilled City', NBER Working Papers 10191

in the UK's recently introduced national NICs exemption programme suggests that caution is needed.[31] In addition, the American experience of income based incentives suggests that they are not always very successful.

- **Priority processing of applications to the Business Growth Fund:** In order to tackle the credit constraints faced by businesses in designated areas and provide businesses with greater certainty, firms in Local Growth Zones could be given priority access to the assessment stage of the Business Growth Fund. This is the Government's new £2.5 billion equity fund designed to help small businesses in their first year of operation. While we would not advocate giving any business a definitive advantage in terms of accessing the fund (as this could result in inefficient allocations of finance), firms in designated areas could have their applications processed more swiftly. Their access to other benefits such as skills support and patent assistance would help firms to demonstrate that Business Growth Fund investment could deliver additional value for money.
- **Free Patent Assistance:** In order to incentivise investment in research and development (R&D), Local Growth Zones could provide financial and technical assistance for firms wishing to file for patent protection. Patent filing assistance and funding can provide the support firms need to transform inventions into commercialised innovations–a driver of economic growth. This could also be used to support universities and firms working together to commercialise the intellectual property (IP) developed by the university, where the university IP is provided for free and the university would then share in any profits generated from its commercialisation. The single point of contact (discussed below) would be the best way to administer this benefit.
- **Creating a Single Point of Contact:** Zones should be able to create a single point of contact for businesses and government, to coordinate all of the above policies and to help firms make best use of the incentives offered by the zone. The World Bank (2008) cites "cumbersome procedures and controls" and "inadequate administrative structures or too many bodies involved in zone administration" as some of the most common obstacles to the success of zones.[32] Coordination and communication between different parties and zone managers is imperative to help firms understand which incentives are available to them, how to utilise them for greatest benefit in order to grow, and how to claim the incentives. The single point of contact brings about efficient information sharing and reduces the costs firms experience in working with government to grow their business. This is essential for ensuring a real benefit to relaxed planning and making sure firms make the most of the incentives on offer in order to grow market share and jobs.

Designation Process

As part of the designation process potential Enterprise Zones would need to bid to Government to discuss and negotiate a suitable package of incentives for their local economy. Below we outline some of the parameters for that designation discussion.

Which institutions should bid? For areas within a Local Enterprise Partnership (LEP), the LEP should act as a coordinating centre for the Local Authority applications to pursue an Enterprise Zone. This can help reduce displacement issues through coordination of efforts and minimizing redundancy in applications. LEPs provide a key means of communication among Local Authorities, and they should be leveraged to that extent.

Areas outside of LEPs should still be eligible to apply, but they will need to demonstrate how the Local Growth Zone will be couched within a wider economic development plan. The Local Authorities will be accountable for zones within their boundaries. If a zones covers area in more than one Authority, it will be accountable to the LEP (if it belongs to one) or national Government.

31. Financial Times (2011) 'Osborne plan for regional jobs boost flops', published in Financial Times. 6 February 2011

32. FIAS (2008) Special Economic Zones: Performance, lessons learned, and implications for zone development. The World Bank Group: Washington, DC.

What scale? In the UK most of the zones created in the 1980s were of a similar size and of quite a small scale. International evidence suggests that smaller zones might generate larger percentage increases in the number of jobs, particularly from new businesses[33] – although the absolute impact is probably less. Some of the measures that we are advocating for Local Growth Zones, such as planning exemptions, could benefit from wider coverage. All bids to be a zone should clearly set out why their proposed geographical scale is the most appropriate for delivery of their desired outcomes. Given potential deadweight costs, this will be particularly important if any proposed zone is larger than a local authority.

All zone proposals must demonstrate how the **Local Growth Zone fits within a wider economic development strategy, preferably at LEP and / or city region level**. This will help ensure that the zone's benefits can be maximised and displacement can be accounted for and minimised.

What type of area? The evidence suggests that future zones should be created in, or connected to, urban areas. The rural zones that were created during the 1980s zones policy had limited success. Previous Enterprise Zones also tended to target deprived areas, but evaluation shows that it was lagging areas with potential to grow that benefitted the most. We would recommend that all areas, including those in the South East of the country, are able to apply to be a Local Growth Zone, and that lagging areas should demonstrate how they will link to nearby economic centres which are most likely to drive future growth. Anecdotal evidence would suggest that the availability of good transport links contributed to better outcomes for the individual zones – for example, the success of urban fringe zones located on motorways and access routes.

33. Bondonio D & Greenbaum R (2007) 'Do Local Tax Incentives affect Economic Growth? What mean impacts miss in the analysis of enterprise zone policies.' Regional Science and Urban Economics, 37: 121-136.

Evaluating Local Growth Zones: While the previous round of Enterprise Zones included a funded evaluation, they did not conduct a comprehensive follow-up evaluation to determine the long-term effects of the Enterprise Zones on different places. This round should not necessarily commission a large scale evaluation, as doing so would inevitably prove expensive. However, the Government should put together a plan for releasing as much information as possible on the zones to allow for evaluation by academics and other research organisations. Learning about the effectiveness and cost-effectiveness of these new policies can help determine whether wider-scale implementation is appropriate. Publishing data on the zones' performances also fits with the Government's transparency agenda.

6. Moving Forward

For Enterprise Zones to be an effective part of the Coalition's agenda to deliver growth, reduce the budget deficit and improve the opportunities of people living in distressed urban areas, the 1980s approach should be radically updated. The focus and mechanisms of Enterprise Zones in the 21st century should adapt to differences in Government budgets, the economic climate and the built environment. We have advocated Local Growth Zones with a menu of options from which each zone can select the policies that best suit its needs. The policies themselves should focus more on increasing employment, supporting firms to grow, filling skills gaps and reducing planning restrictions– all at a lower cost than capital-intensive versions of past zones. This flexible approach provides an opportunity for the Government to devolve power and responsibility for growth into local areas and to find new ways of reducing the barriers to economic development and supporting firms to grow.

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