
Briefing Paper

ENTERPRISE ZONES - EMERGING EVIDENCE AND CRITICISMS

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Enterprise zones were introduced in the Local Government, Planning and Land Act 1980 and the Finance Act 1980. The concept was introduced as a radical, market based alternative to the prevailing conventional policies for regional development and urban regeneration. Thus enterprise zones were intended for areas "of economic and physical decay where conventional economic policies have not succeeded in regenerating self-sustaining economic activity" in order "to test as an experiment, and on a few sites, how far industrial and commercial activity can be encouraged by the removal or streamlined administration of certain statutory or administrative controls."¹ Enterprise zones are seen by the government as a popular expression of its broad liberal market philosophy, and as experiments which would serve to illustrate how private economic interests would respond to the removal or rationalisation of government regulations and controls. This may be considered an early manifestation of the government's supply-side approach, which sought to create conditions conducive to more efficient production.² The concept was introduced for an initial period of ten years, and the zones were considered to be independent of prevailing regional and urban policies, which were themselves to be critically reviewed.

In practice, enterprise zones are areas designated central government, and managed by a zone authority (in most cases by the local authority) within which certain incentives are provided. These include a simplified statutory planning regime for land use and property development, a number of financial provisions including the exemption of firms from local rates and 100% capital allowances for income and corporation tax purposes on industrial and commercial property. There are in

addition a number of associated deregulatory measures, designed to free the private sector from general governmental bureaucratic procedures. When first introduced the financial provisions included exemption from Development Land Tax, but that has subsequently been abolished. The incentives provided in the enterprise zones had very specific purposes, and provide an insight into the intended mechanisms of change in the designated areas. These were expected to succeed where conventional spending and regulatory instruments were seen to have failed. The incentives were effectively intended to increase the returns on investment in property development in the zones and, in this context, the simplified planning regime and the initial exemption from DLT were to provide the necessary pre-conditions. Subsequent to this initial stage the derating provision and fiscal relief would provide a subsidy to firms to viably locate and produce in the zones.

The introduction of the enterprise zone concept has prompted a considerable debate as to the likely effects of the experiment. Concern was expressed, for example, at the implications of creating simplified planning regimes for this type and standard of development and as to the likely effects on any residents in the areas designated as enterprise zones.³ Furthermore it was argued that the financial concessions provided in the zones would specifically benefit the landowners involved, particularly with respect to the exemptions from rates, which it was argued would be translated into higher rents.⁴ Concern was also expressed about the likely spillover effects of the designated enterprise zones on surrounding property markets where a

blighting of values and rents was considered a possible result.⁵

Firth sub-region following the closure of the Invergordon aluminium smelter.⁶

The Government subsequently designated eleven enterprise zones in urban locations which were perceived of as 'problem' areas. The Clydebank enterprise zone is a prime example. In general terms the enterprise zones were characterised by derelict land, redundant buildings and a depressed local economy. A number of the enterprise zones were already the focus of public sector development initiatives such as the Clydebank Task Force. The enterprise zone designations were made independently of the existing incidence of conventional economic policies but, in the event, the location of the zones resulted in the areas benefitting further from established regional assistance and urban policy measures. This overlapping has proved to be an important factor in stimulating activity in the zones, not least from a marketing perspective. Another general characteristic is that the public sector, including local authorities and the nationalised industries, were significant landowners in the zones. As a consequence, the public sector has tended to assume an important role in providing land with potential for development. In effect this may be seen as a contradiction as the experiment was aimed primarily at the private sector, yet in reality it involved a considerable commitment by the public sector, particularly in terms of infrastructure provision and land preparation.

In late 1982 the Government initiated a second round of enterprise zones which differed substantially from the earlier designations. The latter zones tended to be sites which were in much improved condition at designation, and, therefore, had greater potential for more rapid development. The majority of zones, for example, were situated in greenfield sites and established industrial estates. The second round zones were also characterised by a high public sector profile, such as in the Tayside (Dundee-Arbroath) zone, and furthermore were not necessarily confined to broad urban locations. The Invergordon enterprise zone is a case in point. However, this latter designation must be viewed as a specific response to the localised difficulties in the Moray

The evidence and findings

The evidence relating to the subsequent changes in the physical environment and the levels and type of investment and employment in the zones is derived from two main sources. Firstly, there are the findings of the official monitoring exercise which was undertaken by consultants (Roger Tym and Partners).

The study was set up in 1980 to monitor the first round of designated enterprise zones over a three year period. The main aim of the monitoring exercise was to record the economic activity generated in the zones. A secondary aim was to assess to what extent any development of property and generation of and investment and employment was attributable to the specific measures which comprised the enterprise zone experiment. The evidence collected by the monitoring exercise was subsequently published in the form of three annual reports and covers the period 1981-1983. Information is provided relating to the conditions in the enterprise zones at the time of designation, and then for the two subsequent years of effective operation.⁷

The second main source of information is the report published by the Department of the Environment, based on an in-house monitoring system. This provides evidence of change in the first and second round zones for 1983-1984, but at a less detailed level of analysis compared with the official monitoring exercise. Unfortunately the two sets of information are not entirely compatible, due primarily to changes in definition and coverage of the data bases used.⁸ The Department of the Environment intend to continue the annual update on the physical and economic change in the designated enterprise zones, to be supplemented with less frequent in-depth studies of the mechanisms of change in the enterprise zones.

The annual reports of the official monitoring exercise confirm that physical and economic change has taken place in the first round enterprise zones. In general terms the evidence shows that there has been a marked improvement in physical conditions and an increase in the number of firms and jobs in the zones. The more recent annual update by the Department of the Environment confirms that this trend is continuing for the first round zones, and that development is taking place in the later designations. The evidence shows that the levels of investment, development and economic change is not uniform for the designated zones. The total investment in site development over the period 1981-1983, for example, shows considerable variation between the individual zones. The largest amount of public sector infrastructure investment has occurred in the Isle of Dogs designated area, although the Clydebank zone has attracted the second largest commitment in this respect. The latest published information available from the Department of the Environment, which relates to September 1984, shows that 48,200 jobs were located in the designated enterprise zones; 6,800 of which were located in the Scottish zones. Of these 5,500 were in the Clydebank zone, 1,200 in Dundee and 100 in Invergordon. The evidence shows that 2,018 establishments were located in the zones, and of the 276 in Scotland, some 236 were in the Clydebank enterprise zone.⁹ The differential rates of progress in the Scottish zones reflects the timing of designation, the prevailing localised economic circumstances, as shown in the contrast between Invergordon and Dundee, and the public policy framework established to deal with the problems of decline.¹⁰

The final monitoring report of the first round enterprise zones concludes that the main stimulus to physical and economic change in the zones is the fiscal relief. The simplified planning regime and the reduction in regulations are not held to have had a significant impact on stimulating economic activity. The most 'successful' zones were those who had benefitted from complementary measures such as regional assistance, and the massive injection by the public sector in terms of infrastructure provision and land preparation. The report concludes that whilst enterprise zones offer the potential to generate economic benefits to

the areas designated, the measures that comprise enterprise zones are themselves insufficient to guarantee those benefits. The contribution of traditional incentives and subsidies have thus played a very important role in facilitating economic change in the zones.

Criticisms

The report by the Comptroller and Auditor General, published earlier this year,¹¹ was highly critical of the enterprise zone experiment, particularly in terms of the public sector costs involved. These criticisms were subsequently deliberated and strongly endorsed by the Public Accounts Committee.¹² The main issues may be considered as follows.

Firstly, the Comptroller and Auditor General's report pointed to the issue of uncovenanted benefits associated with the designations. These refer to the benefits derived by the existing firms in the zones at the time of designation who qualified automatically for the incentives and concessions being made available. The benefits are uncovenanted in the sense that they accrue to the firms irrespective of any change in their contribution to the economic welfare of the area. The Comptroller and Auditor General estimated that the cost to the Exchequer in terms of rates exemption for the first round zones for the initial ten year experimental period would be in excess of £50 million (at 1981-1982 price and rates levels). The costs associated with rates exemptions for the second round zones over the ten year period is estimated at £20 million (at 1983-1984 prices).

Secondly, the Comptroller and Auditor General expressed concern at the public sector costs of the experiment. It was suggested that, with respect to the first round zones, the cost per job could be disproportionately high up to October 1984. Although doubts were expressed as to the data available, it was estimated that the public sector costs comprised the following:

- (i) rates exemptions to 31/3/85: £50 million
- (ii) capital allowances to 1/10/54: £50 million
- (iii) public investment to 1983: £80 million
- (iv) Total: £180 million

Furthermore, it was pointed out that these estimates did not allow for investment that would have taken place irrespective of the enterprise zone measures. This point has been subsequently clarified by the Department of the Environment in their evidence to the Public Accounts Committee, where it was suggested that some 20% of public sector investment would have taken place anyway. Concern was also expressed regarding the effects of enterprise zones on prevailing levels of rents, land values and the pattern of retailing in the areas concerned.

Finally, the Comptroller and Auditor General was highly critical of the monitoring arrangements set up by the Department of the Environment. He argued that "whilst enterprise zones have provided benefits in combating dereliction and establishing a focus for economic activity and investment, there were continuing uncertainties as to the extent to which these potential benefits had been realised and how far results achieved could be attributed to particular policies or programmes". It was concluded that "their overall effect has not yet been assessed and compared with that of other policies and programmes; and some of the results could involve disproportionate cost to the exchequer and are being achieved partly at the expense of other areas".

The Public Accounts Committee (PAC) endorsed the criticisms of the monitoring arrangements set up by the Department of the Environment. It argued that the "absence of pre-set targets inhibits effective planning and in this particular

case may impede fully objective assessments of success or failure, of performance and of cost effectiveness". The PAC pointed out that the limitations of monitoring and the availability of data restricted an understanding of the dynamics of change within the enterprise zones, and did not enable an assessment of the effects of individual measures, such as simplified planning as against tax relief. Furthermore, there was little reliable information as to the extent that private sector investment had been stimulated by the enterprise zone initiative, although it was intended as a private sector experiment. The PAC also expressed a concern with the effects of enterprise zones, such as the distorting effects on surrounding areas and whether the rates exemptions were being simply translated into higher rents. Other problems related to the nature of the developments taking place. This criticism is primarily concerned with warehousing activities which, whilst being extensive in terms of its land take, is not a major job creator. The PAC report sets out a powerful indictment of the enterprise zone experiment in stating "that what is still lacking is a full, thorough and objective assessment of the effectiveness of the zones, either individually or in aggregate, balancing quantified and qualitative benefits against the full public sector costs and the adverse effects produced elsewhere".

The displacement effects of the enterprise zone experiment clearly emerge as the main issue. The monitoring reports point to the short distance relocation of firms into the zones, which suggests a depressing and detrimental effect on those areas losing economic activity in this way. The final monitoring report points to circumstances where the private sector is active and the enterprise zone has served to reduce the confidence of developers, with the result that artificial patterns of values are created. In contrast, however, in some zones such as Clydebank, the enterprise zone measures have stimulated the private sector in development hitherto undertaken by the public sector. Evidence produced elsewhere from detailed studies of individual enterprise zones confirm these criticisms and illustrate the differential displacement effects of enterprise zones. An analysis of the Salford - Trafford Park enterprise zones reveals the creation of a dual property market, with industrial

building rents much increased in the zone and decreased in the periphery. This study also reveals that landlords with holdings in the one expropriated over 60% of the local rates exemptions through higher rents (13). A study of the Swansea enterprise zone shows that for the industrialists who located in the zone, the relief from property tax is the only incentive of significance. This study also shows that the enterprise zone designation serves to consolidate development trends well established prior to designation.¹⁴ The criticisms and findings serve to substantiate the case for much more detailed information about the mechanics of enterprise zones before a comprehensive judgement can be made regarding the contribution of this particular supply-side initiative.

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