

PO-CH / NL / 0418

PART A

Part. A.

CONFIDENTIAL
(Circulate under cover and
notify REGISTRY of movement)

Begins : 1/12/87.
Ends : 22/1/88.

COMMERCIAL - IN - CONFIDENCE

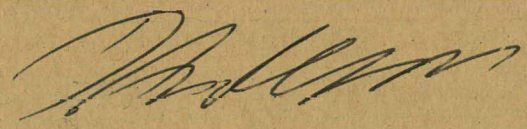
**THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM**

PO CH | NL | 0418
PT. A.

Chancellor's (Lawson) papers:
Proposals for a new Enterprise Zone
in Interchyle

PO CH | NL | 0418
PT. A.

JD's: 25 Years



24/1/96



CHIEF SECRETARY

REC. - 2 DEC 1987

ACTION Mr Monde

ASST ~~CX~~ Mr Anson

Mr Bourne Mr Moore

Mr Pearson

Mr Colman Mr AM White Mr Waller

Mr Call.

RIPKMD
7 PM
1/12

Prime Minister

1/12/87.

INVERCLYDE

1. My minute of 4 March 1987 reported on the very grave situation facing the towns of Greenock and Port Glasgow in the Inverclyde District of Strathclyde and sought the support of colleagues for, inter alia my proposal to designate an Enterprise Zone in the District. We agreed that further consideration of this proposal should be deferred until a better informed decision could be reached taking into account the findings of the consultancy evaluation of the Enterprise Zone experiment in Great Britain.
2. Following consideration of Nicholas Ridley's minute of 30 July about the consultants' evaluation of the experiment, it was agreed that Enterprise Zones should be retained as a policy option, but that it should be used sparingly. Nicholas is to make a statement to this effect shortly.
3. The purpose of this minute is to seek agreement from colleagues that the circumstances in Inverclyde, which have worsened considerably as a result of recent events in the shipbuilding and marine engineering industries, require special measures to help ease the situation; and that, within our agreed new policy, designation of an Enterprise Zone would exceptionally be the most appropriate and cost-effective method of tackling the particular local economic and environmental problems facing that area.
4. I attach the executive summary of the fuller paper and detailed case which my Department has prepared in consultation with DOE and Treasury officials.
5. The case supports my contention that only the designation of an enterprise zone would give the local economy in Inverclyde the boost it so badly requires. You are aware of the likely run down to care and

COMMERCIAL - IN CONFIDENCE

maintenance of the Scott Lithgow shipyard. There is also uncertainty hanging over the future of the British Shipbuilders works at Appledore Ferguson and Clark Kincaid. These developments since the zone was first proposed can only add to already extremely serious difficulties. The summary and paper describe fully the problems facing the area; the various measures already adopted to try to reverse the trends of rising unemployment and environmental decay; and, by employing the measurements adopted by the consultants in their report, demonstrates that designation of an Enterprise Zone of some 260 acres would bring about a significant and cost effective improvement in the situation. I do not pretend that designation of an EZ is the answer to all the problems of Inverclyde and I shall continue to look to the Scottish Development Agency and the Inverclyde Initiative for the energy and ideas to tackle the entrenched difficulties in this area. But I believe that it would be a powerful addition to our armoury and, as the paper demonstrates, the commitment, co-operation and potential exists to make any zone a success.

6. I would welcome colleagues support for this proposal. I am anxious to be in a position to make an announcement as soon as possible after Nicholas' general policy statement. As we also have the hurdle of EC notification to get over I would be grateful for early consideration.

7. Copies of this minute go to Cecil Parkinson, George Younger, Nicholas Ridley, David Young, Kenneth Clark, John Major, Norman Fowler, Paul Channon and Sir Robert Armstrong.

MR

M R

1 December 1987

COMMERCIAL - IN CONFIDENCE

HMP33514

INVERCLYDE: CASE FOR AN ENTERPRISE ZONE

EXECUTIVE SUMMARY

1. The Inverclyde/Greenock area has unemployment problems which are as severe as those facing any Travel-to-Work area in Scotland. Overall unemployment rates are very high (19.0% in October 1987), particularly for males (23.6%); the share of long-term unemployment in total unemployment is high; and the prospects for existing industries are at best uncertain. Any additional reductions in employment at the Scott Lithgow yard would only add to the severity of the existing problem.

2. There has been a joint public/private sector initiative in Inverclyde since March 1985, co-ordinated by the Scottish Development Agency. In July of this year additional measures were announced, and the Initiative has the full support of the relevant local authorities. Whilst there have been some positive effects from the actions of SDA and others, including one £20m mixed-use retail, leisure and hotel development, the relative scale of the industrial and economic problems is such that the application of standard programmes and instruments cannot be expected to have the type of substantial impact that is required.

3. Having reviewed the options for further action, it was determined that only Enterprise Zone designation stood any chance of attracting the scale of new activity and employment that would be required. However, there are very few existing enterprises in Inverclyde and the surrounding areas which could be expected to grow following EZ designation, or to transfer into the zone. On the basis of advice from Locate in Scotland, it is strongly believed that EZ designation could tilt the balance towards attracting substantial inward investment projects to the area are concerned. LIS believe that the geographical location is potentially attractive to inward investors, provided that the severe shortage of suitable sites can be overcome, the environmental status of the area improved, and the type of incentives that go with EZ designation offered. It is the view of LIS that a substantial part of the inward investment that would be likely to be attracted to Inverclyde would be additional so far as the UK economy as a whole is concerned. In other words, the designation of Inverclyde as a EZ would not only tilt the balance in favour of location in Inverclyde, but also in favour of location in the UK.

4. The paper demonstrates that a strategy for the EZ based on attracting one or more major electronics 'Original Equipment Manufacturer' (OEM) projects, plus associated activity, should prove a cost-effective means of generating additional activity and employment in the area. A full analysis has been undertaken, making use of the evaluation report by consultants (PACEC) on the EZ experiment to date. Relevant cost data from that report have been used, including in some instances specific data from the Clydebank EZ, but adjustments have been made where appropriate to reflect the anticipated developments and costs at Inverclyde. The paper does not attempt to provide any quantification of the environmental gains to be expected from EZ designation, but it is noted that these would be additional to the employment benefits, and hence tend to enhance the overall cost-effectiveness of designation.

5. Full account is taken of the likely additional costs in terms of land renewal and infrastructure, rates relief and capital allowances, as well as any additional exchequer costs related to regional policy incentives for

the inward investments that are anticipated. These costs have been estimated over the full 10 year life that is proposed for the Zone. The assumptions involved are in several instances conservative, and more severe for this proposed zone than in the overall PACEC evaluation report.

6. In that PACEC report the cost per net job, at the local area level, for all EZs was estimated at £25,000/£30,000. The analysis for Inverclyde suggests that (even including all extra regional policy costs which were excluded from the PACEC report) the cost per net job at the local area level is likely to be between £12,000 and £14,000. This is after allowing for the relatively higher infrastructure costs associated with developing the parts of the area that were previously used for shipbuilding.

7. The estimates suggest that an EZ at Inverclyde is potentially a cost-effective means of tackling the severe economic problems faced by the area. The strategy that has been developed takes full account of the area's existing activities and potential, and is based on the best advice available from Locate in Scotland so far as inward investment is concerned. In developing this case full account has also been taken of the consultant's report on the EZ experiment, and appropriate adjustments are proposed which are expected to enhance the overall cost-effectiveness of designation.

Industry Department for Scotland
17 November 1987

CONFIDENTIAL

FROM: J G COLMAN

DATE: 2 December 1987

CHANCELLOR

cc Chief Secretary
Paymaster General
Mr Monck
Mr Burgner
Mr D J L Moore

INVERCLYDE

It is possible that the question of an Enterprise Zone (EZ) for Inverclyde may be raised in the context of steel. In fact the proposed EZ is too far from Ravenscraig to offer more than symbolic help, if that. Nevertheless you may wish to respond in writing to Mr Rifkind's minute of 1 December to the Prime Minister.

2. I attach a draft.

J. G. C.

J G COLMAN

CONFIDENTIAL

PRIME MINISTER

*Please type for
signature.*

INVERCLYDE

I have seen Malcolm Rifkind's minute of 1 December.

Subject to working out the details of the proposed enterprise zone. I am content to look at the proposal ~~very~~ sympathetically.

In any announcement of the establishment of such an enterprise zone, I think it will be important to take some credit for it as part of the response to the problems of the shipbuilding in particular.

I am sending ^{copying} ~~copies~~ of this minute to ~~those who received Malcolm Rifkind's~~

*Cecil Paterson, George Youngs,
Nicholas Ridley, David Young, Kenneth Clarke,
Norma Fowler, Paul Channon and
Malcolm Rifkind, and to Sir Robert
Armstrong.*

NL

INVERCLYDE

ps1/22A

CONFIDENTIAL



cc Chief Secretary
Paymaster General
Mr Monck
Mr Burgner
Mr D J L Moore
Mr J G Colman

[Handwritten signature]

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

INVERCLYDE

I have seen Malcolm Rifkind's minute of 1 December.

Subject to working out the details of the proposed enterprise zone.
I am content to look at the proposal sympathetically.

In any announcement of the establishment of such an enterprise zone, I think it will be important to take some credit for it as part of the response to the problems of the shipbuilding in particular.

I am copying this minute to Cecil Parkinson, George Younger, Nicholas Ridley, David Young, Kenneth Clarke, Norman Fowler, Paul Channon and Malcolm Rifkind, and to Sir Robert Armstrong.

[Handwritten initials]

N.L.
3 December 1987

CH
→ PM
3/12



CONFIDENTIAL

ppp/pt mg

CH/EXCHEQUER	
REC.	10 DEC 1987
ACTION	CST
COPIES TO	PMIG
	Mr Monck
	Mr BURGNER
	Mr D J L Moore
	Mr J G Colman

PRIME MINISTER

INVERCLYDE

I have seen Malcolm Rifkind's minute to you of 1 December and Nigel Lawson's comments in his minute of 3 December.

Kenneth Clarke and I would wish to support the case for an Enterprise Zone in Inverclyde. The problems of the area are clearly considerable and there is, of course, the added uncertainty surrounding shipbuilding.

I am copying this minute to Nigel Lawson, George Younger, Norman Fowler, Nicholas Ridley, Kenneth Clarke, Malcolm Rifkind, Paul Channon, Cecil Parkinson and Sir Robert Armstrong.

Ref

DY

10 December 1987

DEPARTMENT OF TRADE AND INDUSTRY

JG6ASM



CH/EXCHEQUER	
REC.	15 DEC 1987 ✓ 15 12.
ACTION	CST
COPIES TO	

Prime Minister

ENTERPRISE ZONES

1 v. much agree with X;

I have seen Malcolm Rifkind's minute of 1 December about the proposed EZ at Inverclyde and I share Nigel Lawson's view that this proposal should be considered sympathetically.

A further contraction of British Shipbuilders, to which Malcolm refers, would result in job losses in Sunderland that would also bear heavily on that severely disadvantaged area. For this reason I am considering if additional assistance there would be appropriate; an EZ is one of the options.

X Whether or not there is a strong enough case for a Sunderland EZ, I consider that any announcement about Inverclyde should be deferred until an EZ there can be seen as a response to the shipyard redundancies.

I intend to announce our future enterprise zone policy this week. I attach a copy of the text, which incorporates the changes suggested by colleagues. Following that announcement I shall turn down the bids for enterprise zones that I have received: none represents the sort of exceptional circumstances that obtain in Inverclyde.

Copies of this minute go to Nigel Lawson, Cecil Parkinson, George Younger, David Young, Kenneth Clarke, Norman Fowler, Paul Channon, Malcolm Rifkind, Peter Walker and Tom King.

N R

15 December 1987

DRAFT PQ AND ANSWER

Q. To ask the Secretary of State for the Environment what plans the Government has for further Enterprise Zones and if he will make a statement about the progress of the experiment.

A. The first Enterprise Zones (EZ's) have been in existence for six years and are over half-way through their ten year life. A number of proposals for new zones and zone extensions have been submitted and I have therefore been considering, in conjunction with colleagues in other Departments, the future of the EZ experiment. In this we have been assisted by the report of consultants who have evaluated the experiment in Great Britain on our behalf and whose report is shortly to be published. (A similar study is nearing completion in respect of the Northern Ireland Enterprise Zones). The latest annual monitoring report will be published at the same time.

These two publications will show that the zones have been successful in varying degrees in regenerating economic activity in areas which had hitherto seen steady decline for several years. On the zones in Great Britain the number of firms has gone up by 125%; about 60% of the land in the zones has been developed with over 4.6 million square metres of floor space, mostly industrial and commercial; in consequence overall employment in the zones has more than doubled. The zones have also boosted the economies of the areas in which they are located by the additional activity they have generated. These substantial achievements must, of course, be set against the costs of the experiment, which by the end of 1986 amounted to just under £300 million for the British zones.

Enterprise Zones were among the first of the steps the Government took on being elected in 1979 towards lifting the burdens on business and enterprise. They have been the flagship of deregulation and they have helped to encourage the entrepreneurial spirit that is now a welcome feature in many parts of the UK economy. We have subsequently developed a wide range of other measures to stimulate development in areas adversely affected by changes in the local economy: urban development corporations, urban development grants, and urban regeneration grants are among the more important. We are also applying the EZ planning regime more widely in the form of Simplified Planning Zones.

We are now able to select from this range of measures the ones most suited to the needs of a particular area. In the light of this, and in the light of our assessment of the EZ experiment, we have concluded that a general extension of the experiment is not desirable. In many circumstances other measures will be more cost effective. I should make it clear that existing EZs will be unaffected by this decision.

Nevertheless, we recognise that there may be exceptional circumstances where the creation of a new EZ or the extension of an existing zone might still be the best way of tackling a particular and localised problem. Whether or not this is so would depend upon the nature and severity of the problem, the likely cost effectiveness of an EZ in contributing to its solution (in particular compared with the other measures now available), and the extent to which the authorities and agencies concerned can ensure that the zone is a success.

I do not intend to designate further enterprise zones in response to the proposals I have received for new zones, or extensions to existing zones, in England. My rt hon Friends will consider proposals for new zones or extensions in other parts of the United Kingdom.



ANNEX B cc BT

Prime Minister

seen.
DFA cc BT
and pa.

ENTERPRISE ZONES

I have seen Malcolm Rifkind's minute of ¹¹ December about the proposed EZ at Inverclyde and I share Nigel Lawson's view that this proposal should be considered sympathetically.

A further contraction of British Shipbuilders, to which Malcolm refers, would result in job losses in Sunderland that would also bear heavily on that severely disadvantaged area. For this reason I am considering if additional assistance there would be appropriate; an EZ is one of the options.

Whether or not there is a strong enough case for a Sunderland EZ, I consider that any announcement about Inverclyde should be deferred until an EZ there can be seen as a response to the shipyard redundancies.

I intend to announce our future enterprise zone policy this week. I attach a copy of the text, which incorporates the changes suggested by colleagues. Following that announcement I shall turn down the bids for enterprise zones that I have received: none represents the sort of exceptional circumstances that obtain in Inverclyde.

Copies of this minute go to Nigel Lawson, Cecil Parkinson, George Younger, David Young, Kenneth Clarke, Norman Fowler, Paul Channon, Malcolm Rifkind, Peter Walker and Tom King.

N R

15 December 1987

DRAFT PQ AND ANSWER

Q. To ask the Secretary of State for the Environment what plans the Government has for further Enterprise Zones and if he will make a statement about the progress of the experiment.

A. The first Enterprise Zones (EZ's) have been in existence for six years and are over half-way through their ten year life. A number of proposals for new zones and zone extensions have been submitted and I have therefore been considering, in conjunction with colleagues in other Departments, the future of the EZ experiment. In this we have been assisted by the report of consultants who have evaluated the experiment in Great Britain on our behalf and whose report is shortly to be published. (A similar study is nearing completion in respect of the Northern Ireland Enterprise Zones). The latest annual monitoring report will be published at the same time.

These two publications will show that the zones have been successful in varying degrees in regenerating economic activity in areas which had hitherto seen steady decline for several years. On the zones in Great Britain the number of firms has gone up by 125%; about 60% of the land in the zones has been developed with over 4.6 million square metres of floor space, mostly industrial and commercial; in consequence overall employment in the zones has more than doubled. The zones have also boosted the economies of the areas in which they are located by the additional activity they have generated. These substantial achievements must, of course, be set against the costs of the experiment, which by the end of 1986 amounted to just under £300 million for the British zones.

Enterprise Zones were among the first of the steps the Government took on being elected in 1979 towards lifting the burdens on business and enterprise. They have been the flagship of deregulation and they have helped to encourage the entrepreneurial spirit that is now a welcome feature in many parts of the UK economy. We have subsequently developed a wide range of other measures to stimulate development in areas adversely affected by changes in the local economy: urban development corporations, urban development grants, and urban regeneration grants are among the more important. We are also applying the EZ planning regime more widely in the form of Simplified Planning Zones.

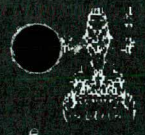
We are now able to select from this range of measures the ones most suited to the needs of a particular area. In the light of this, and in the light of our assessment of the EZ experiment, we have concluded that a general extension of the experiment is not desirable. In many circumstances other measures will be more cost effective. I should make it clear that existing EZs will be unaffected by this decision.

Nevertheless, we recognise that there may be exceptional circumstances where the creation of a new EZ or the extension of an existing zone might still be the best way of tackling a particular and localised problem. Whether or not this is so would depend upon the nature and severity of the problem, the likely cost effectiveness of an EZ in contributing to its solution (in particular compared with the other measures now available), and the extent to which the authorities and agencies concerned can ensure that the zone is a success.

I do not intend to designate further enterprise zones in response to the proposals I have received for new zones, or extensions to existing zones, in England. My rt hon Friends will consider proposals for new zones or extensions in other parts of the United Kingdom.

SCOTTISH OFFICE

NEWS RELEASE



Scottish Information Office
New St. Andrew's House
Edinburgh EH1 3TD
Telephone: 031-244 1111

1804/87

SECRETARY OF STATE WELCOMES ENTERPRISE
ZONE ANNOUNCEMENT

The Rt Hon Malcolm Rifkind QC, MP, Secretary of State for Scotland has welcomed the decision announced today by the Secretary of State for the Environment to retain enterprise zones as a measure for use in exceptional circumstances.

Commenting on Mr Ridley's announcement about the Government's review of the enterprise zone experiment, Mr Rifkind said:

"The Government's new enterprise zone policy, and the research work on which it is based, establishes the ground rules for my final appraisal of proposals for an enterprise zone within Inverclyde District.

"The consultants' report on their evaluation of the existing Enterprise Zones in Great Britain, which the Government will publish next week, demonstrates that in certain circumstances a zone can be a cost-effective mechanism for tackling localised employment and environmental problems. Consideration of the Inverclyde proposals will now be completed as a matter of urgency, in the light of the new policy.

"I continue to place high priority on the need to tackle the problems facing Inverclyde and will therefore ensure that a final decision on an enterprise zone for the area is announced as soon as possible."

NOTE FOR EDITORS

Responsibility for Government policy on enterprise zones in Great Britain rests with the Department of the Environment. The announcement on the new policy was made today by the Rt Hon Nicholas Ridley AMICE, MP, Secretary of State for the Environment, in response to a Parliamentary Question from Mr Tony Baldry MP (Banbury).

Jane Robson: 031 244 4966

December 17, 1987

INVERCLYDE : CASE FOR AN ENTERPRISE ZONE**I. INTRODUCTION**

1. The report of the evaluation of the Enterprise Zone experiment undertaken by PA Cambridge Economic Consultants (PACEC) will shortly be published by the Government. That report evaluates the EZ experiment against 2 performance measures which reflect the main economic and environmental objectives behind the policy:-

- i. the extent to which EZs have maintained and/or generated additional economic activity and employment, both on zone and in their local areas;
- ii. the extent to which the zones have contributed to the physical regeneration of their local areas through the provision of infrastructure, environmental improvement and the stimulation of property markets.

2. The report concludes that, by operating on both the demand and supply side of property markets (ie simultaneously encouraging the development of new premises in derelict and neglected sites and attracting businesses into these premises) the EZ experiment was well designed. The evaluation also required the identification of the specific contribution of the experiment to economic and physical changes in local areas and the measurement of the main public costs and benefits associated with the policy.

3. In constructing the case for an Enterprise Zone for Inverclyde full account has been taken of the evaluation, to establish that the area possesses those characteristics likely to contribute to a relatively cost-effective EZ, and also to ensure that in designating an EZ in the area the policy objectives would be pursued in a cost effective way.

II. THE NATURE AND SEVERITY OF PROBLEMS IN INVERCLYDE

4. The various economic indicators conventionally used to assess the severity of an area's economic problem show that Inverclyde has very severe employment problems, not only in absolute terms but also in

relative terms within Scotland. (See Appendix 1: Analysis of Labour Market Indicators).

5. In absolute terms, the area had unemployment rates in July 1987 of 24.8% for men and 20.3% in total, compared with 18.7% and 15.3% respectively for Scotland and 13.9% and 11.5% for GB. On top of these high rates the unemployment difficulties at Inverclyde are compounded by the severity of the problem of long term unemployment; half the unemployed men have been out of work for at least a year. This reflects the fact that problems of male unemployment, in particular, are long standing and deep rooted, primarily because of the steady contraction of employment in the main industries of shipbuilding and marine engineering.

6. Ranking all travel to work areas with unemployment above the Scottish average (July 1987) on the basis of various unemployment indicators shows that the TTWA with the most severe problems is Greenock in Inverclyde. Therefore, when it comes to identifying a part

of Scotland as worthy of priority for new employment related policy initiatives, Greenock must be seen as a leading candidate.

7. This situation will soon get worse. From a workforce of 5250 in 1983, the Scott Lithgow shipyard currently employs about 2050. Recently announced redundancies totalling up to 1000 and the consequent uncertainty about the future of the rest of the Scott Lithgow yard with the threat of a further 1000 redundancies underlines the need for immediate further action. Closure of the Scott Lithgow yard alone could raise male unemployment in Inverclyde to 31% and total unemployment to 24%. (Appendix 2: Impact of Scott Lithgow Yard Closure).

8. Greenock and Port Glasgow have probably depended more on the shipbuilding industry than any other area of the United Kingdom. The drastic downturn in that industry over the past 10 years, with the loss of some 9,000 jobs, has also left the area suffering from a severe shortage of sites for new economic activity and a badly decaying and drab physical fabric and infrastructure.

9. The area is self-contained both geographically and in terms of patterns of travel-to-work. There is also high unemployment in the surrounding area. Of the 3 neighbouring TTWAs the unemployment rate is highest in Irvine, where the overall rate is 22.6% and the rate for males 27%. In Dumbarton the overall rate is 21.3% (24.1% for males) and in Glasgow the equivalent figures are 17.3% overall and 21.8% for males. In Kilmarnock the total unemployment rate is 17.6%, rising to 22.4% for males. Although many of the redundant workers in Inverclyde will be skilled, it is therefore unrealistic to expect that more than a few could, at present, find new employment within this broader area. Given the inherent insularity of the community very few are likely to seek employment further afield, even if such jobs were available.

10. The economic, social and physical regeneration of Inverclyde will require action across a wide range of activities. The main obstacles to be overcome include the geographic isolation of the area, the vast scale of industrial dereliction together with the poor appearance and high visibility of extensive areas of local authority housing, the difficulty in securing land for the provision of attractive sites and premises and the competition from other areas in Scotland offering special incentives and/or higher amenity.

III. ACTIONS TAKEN TO DATE

11. The Inverclyde Initiative, a joint public/private sector arrangement, was launched in March 1985. The Initiative's activities are co-ordinated by the Scottish Development Agency and its objectives are two-fold: economic regeneration through new starts, expansions and inward investment; and the environmental renewal of the area. In practice, the internal generation of new economic activity has been severely hampered by the area's dependence on shipbuilding and marine engineering and the degree of contraction that these traditional industries are currently experiencing. The shortage of attractive sites and premises for industrial development has created major difficulties for the attraction of new investment by the Initiative. Only one sizeable private/public sector development project has been drawn up: a £20m mixed use retail, leisure and hotel development at the Custom House Quay; made possible by the Initiative securing a 22 acre dock-site from the Clyde Port

Authority. The SDA's contribution to this project will be £4.4m, the balance coming from the private sector.

12. In July of this year the Secretary of State for Scotland announced additional measures to help Inverclyde including: priority for the reclamation by the SDA and redevelopment of a key 47 acre former Scott Lithgow waterfront site; increased SDA activity through the Inverclyde Initiative on measures to support local companies, including small businesses, start ups and expansion support for larger companies; encouragement, including Government support through the Urban Programme, of co-ordinated efforts by the SDA, the regional and district councils on community regeneration; and increased staffing support for the Inverclyde Initiative from within the SDA, with encouragement for secondment and support from other participants.

13. Between March 1985 and September 1987 the SDA, through the Inverclyde Initiative, has spent some £8.3m in the area, largely on land acquisition, clearance and environmental improvements. The Initiative and the local enterprise trust have sought to encourage new business starts and expansions but the area's dependence on shipbuilding and associated industry has militated against these efforts. Locate in Scotland (LIS) has made determined efforts to attract inward investment but has been hampered by the lack of developable land and the general unattractiveness of the area. With the real threat of the loss of the remaining Scott Lithgow jobs, male unemployment could soon be 31% and the extent of industrial dereliction will grow. All of this underlines the need for the immediate pursuance of a strategy to stimulate and broaden the industrial base of the local economy through inward investment and to improve the area's competitiveness in attracting such new investment.

IV. OPTIONS FOR FURTHER ACTION

14. PACEC were not asked in the course of their evaluation to develop parallel measures of the cost effectiveness of other Government initiatives similar to the Enterprise Zone policy. The attainment of environmental benefits as well as employment benefits for EZ policy expenditure means that simple comparisons with cost per net job in other schemes, where there are no comparable environmental benefits, would be a misleading way of comparing overall cost effectiveness of the EZ policy. Furthermore, EZ policy operates in areas which contain some of the most intransigent economic and environmental problems in the country and this inevitably means costs will be higher than in other "easier" areas. In looking for alternative policy options therefore it could well be argued that the persistence of severe economic and environmental problems suggest that other policies are proving ineffective in providing any solutions. Inverclyde, for instance, is already a Development Area and all of the associated financial inducements have been available to firms for some considerable time with no marked effect.

15. Consideration might have been given to the establishment of a UDC in Inverclyde had it not been for the fact that the SDA is already present and active in the area. Moreover, both the regional and district authorities are very supportive of the SDA through the Inverclyde Initiative. In those circumstances a UDC or a mini-UDC would be superfluous and, arguably, more expensive than an Enterprise Zone.

16. The establishment of a Simplified Planning Zone (SPZ) has also been suggested as an alternative to an Enterprise Zone in Inverclyde. It

is not considered that an SPZ alone in Inverclyde would provide the area with the boost it needs. It is considered that the removal of the requirement to make planning applications would not in itself provide sufficient incentive to attract industry to this particular area. Given the degree of supportiveness of the local planning authority for the Inverclyde Initiative and their anxiety to see business development take place an SPZ would bring fewer advantages than in other areas.

17. As explained at paragraph 13, all available financial inducements are already being applied in the area: the SDA is making use of its standard programmes of land renewal, advice, financial assistance, etc: the local authorities are acting to minimise any planning constraints: and the SDA, local authorities and Scottish Office are co-operating fully to optimise the use and impact of existing programmes and policy instruments. We are not aware of any further action, short of EZ designation, that is at all likely to yield positive results so far as Inverclyde is concerned.

V. CASE FOR AN ENTERPRISE ZONE

18. It is believed that EZ status and inducements in combination with existing and planned programmes will be likely to attract new activities and employment. Given the lack of dynamism in the surrounding area, including a dearth of activity on the land that might be designated, it is not seen as possible to attain the objectives by growth, and/or transfer of location, of existing enterprises. If the EZ designation is to be effective then it will need to attract inward investment, which in turn should attract further activity and employment.

19. This focus on inward investment is consistent with the existing activities of the Initiative, but differs from previously successful EZs. However, these have tended to be near to areas of dynamism from which activity could be diverted. As this is not possible at Inverclyde an alternative strategy is required, and Locate in Scotland believe that the focus on inward investment is realistic. (The basis of this case is set out in Appendix 3). In essence LIS believe that the geographical location is potentially attractive to inward investors, if the severe shortage of suitable sites can be overcome, environmental improvement expedited, and suitable incentives offered. In our view this provides the basis for an EZ that can be both effective and cost-effective in overcoming the severe problems of the area. EZs tend to have a strong redistributive effect, and some of the inward investment which might be attracted to Inverclyde might well be diverted from other parts of Scotland. However, LIS believe that in other instances (eg OEM) the combination of high amenity sites and EZ status, along with geographical location, could well tip the balance not only in favour of Inverclyde but also of the UK. Suitable sites would be made available both for inward investors requiring high amenity sites and others - eg sub-contractors to any OEM project.

20. A major development is expected at Custom House Quay in Inverclyde even without EZ designation. This is to involve retailing, a hotel and other commercial and related activities. Designation would be designed to avoid providing windfall benefits to this development, and generally it is not felt necessary to extend EZ inducements to the retailing/wholesaling sector. The planning authorities would act so as to prevent such activities being permitted within the EZ. This is seen as a further development on the basic EZ model which will enhance cost-effectiveness.

21. A comprehensive analysis of the development potential of land in Inverclyde has shown that some 260 acres could be designated as part of an Enterprise Zone. This land breaks down into 4 main categories:-

Sites in ownership of SDA	65 acres
Sites in ownership of Clyde Port Authority (CPA)	44 acres
Sites in ownership of local authorities	18 acres
Sites in private ownership including land in an advanced stage of negotiation for sale to the SDA	133 acres

The proposal is to include within the EZ designated area a mix of high amenity and derelict waterfront sites to tackle fully both the constraints on site availability and the need for environmental improvements. High amenity sites are only envisaged for 75 acres of the 260 acres under consideration.

VI. POSSIBLE COSTS AND BENEFITS OF AN EZ AT INVERCLYDE

22. Given the inevitable uncertainties about the likely pace, type and scale of developments in Inverclyde as a result of an Enterprise Zone, any estimates of possible costs and benefits must be highly speculative. Nevertheless, on the basis of assumptions derived largely from the PACEC report on Enterprise Zones (including where relevant data on the Clydebank EZ), it is possible to make estimates as to possible costs and associated employment benefits. These estimates can then be modified on the basis of information and judgements specific to Inverclyde. The 'local' employment impact is estimated for the Greenock TTWA, which coincides with Inverclyde District. This is consistent with the (varying) definitions used for the local economy in the PACEC study. It is assumed that an EZ at Inverclyde will have a life of 10 years, as with the first and second round EZs. This is considered the minimum period for an EZ to begin having any significant impact on the problems of the area.

(a) Costs of developing an enterprise zone

23. There are usually 3 main elements of additional cost associated with an Enterprise Zone which need to be estimated:-

- i. extra land infrastructure/environmental improvement; these tend to be fixed or sunk costs in that in general they are incurred independently of the level of development on site;
- ii. rate relief; these are akin to variable costs in that they are dependent on the level and type of development. They are incurred annually over the life of the EZ;
- iii. capital allowances; these also approximate to variable costs, in that they vary with the scale and type of development, but they will be of limited duration for each development.

Additionally, allowance has to be made for those occasions when EZ status leads to extra inward investment for UK assisted areas as a whole. In such cases additional Exchequer costs are incurred through payment of extra Regional Development Grant and Regional Selective Assistance.

(1) Extra infrastructure/environmental improvement costs

24. These extra costs depend largely on:-

a. the size of the Enterprise Zone in terms of the amount of land likely to be serviced, improved and developed by the SDA and the local authorities;

b. the proportion of this land that is only likely to be serviced, improved and developed if an EZ is designated

25. The fact that the Inverclyde Initiative is already underway, with the SDA closely involved in the process of identifying and developing sites, means that there is already an extensive commitment to infrastructure provision and site improvement. Extra costs attributable to an EZ only arise if the speed and/or scale of development is accelerated. In practice, as a result of an EZ, the Agency, through the Initiative, is likely to bring forward a programme of environmental improvements covering sites totalling 94 acres. The cost in present value terms of accelerating the programme is about £0.5m. In addition there are plans to greatly expand the provision of sites if an EZ is designated. The sites under consideration cover 260 acres and include potential high amenity sites which are required to attract the high quality development needed by Inverclyde. The SDA would only undertake the upgrading and servicing of these sites if EZ status is obtained. The estimated cost is about £12m, in addition to the £0.5m for accelerated environmental work. The SDA estimate that £3m (in PV terms) might be recovered by subsequent site disposal. Hence the net additional cost will be £9m for land acquisition and servicing. About two-thirds of these costs are likely to be associated with inward investment projects.

26. The cost of acquiring, upgrading and servicing the 260 acres of sites is about £46,000 per acre. This compares with a cost of about £30,000 per acre (1987/88 prices) in the Clydebank EZ. The higher costs at Inverclyde reflect much higher development costs. At Clydebank a major part of the land designated was previously the Singer factory and therefore required comparatively little land renewal expenditure. By contrast the previous use of much of the Inverclyde site was for shipbuilding, including dry docks and fitting-out basins. Considerable expenditure will be required to bring this land up to the standard required by manufacturing activity.

27. At Clydebank PACEC estimated that only 20% of the development and acquisition costs were incurred as a result of EZ policy. Hence the extra site related costs attributable to the EZ were only about £5800 per acre (1987/88 prices). At Inverclyde the net EZ related costs, allowing for site disposal, works out at £35,000 per acre. These relatively higher net costs at Inverclyde arise both because of the amounts of extra land to be serviced directly as a result of EZ status and because of the higher standards required for that land for inward investment. There is also expected to be a correspondingly greater increase in net additional economic activity in Inverclyde.

(ii) Cost of Rate Relief

28. The costs of both Rate Relief and Capital Allowances are dependent on the scale, timing and type of development undertaken on the EZ. Since these are unknown it is necessary to try and estimate the likely

costs on the basis of overall average ratios. This has been done in two steps. First, by using the expected level of employment as a proxy for the overall scale of development on the EZ. Second, by looking at the average costs of Rate Relief per gross job and the overall costs of Capital Allowances per gross job in EZs. These average cost ratios are based on the PACEC findings. The estimates of the additional variable costs of an EZ are therefore sensitive not only to assumptions about the relevance of these Rate Relief/Employment and Capital Allowances/Employment ratios derived from the PACEC study but also to the likely level of employment in the zone.

29. The cost/employment ratios used to estimate the likely costs of an EZ in Inverclyde are based on those shown by PACEC for EZs as a whole and for Clydebank in particular. (Clydebank ratios are also considered because this is the only other zone in the west of Scotland and for some situations it may provide pointers to possible costs at Inverclyde.) The use of such ratios is based on the assumption that developments at Inverclyde will show sufficient similarities to those either of Clydebank or EZs in general for them to be valid. Where there are grounds for thinking this is unlikely to be the case adjustments have been made to these ratios.

30. For EZs as a whole PACEC found that Rate Relief (28%) ranked second to Capital Allowance (51%) in terms of contribution to the cost of EZ policy. However, in Clydebank this ranking was reversed with Rate Relief accounting for 55% of the cost of policy. In part this probably reflects the relatively higher level of rates faced by firms in Scotland, relative to their counterparts in England at least in the commercial sector. It also reflects the fact that both extra infrastructure costs and capital allowance costs constitute a below average share of EZ costs in Clydebank. Both these are attributable to the role of the SDA in Clydebank. PACEC estimated that in Clydebank only about 20% of the infrastructure costs are additional compared with 40% for all EZs. The lower ratio for capital allowances reflects the fact that the SDA rather than private developers undertook much of the development.

31. For EZs as a whole the rate relief cost (1985/86 prices) identified by PACEC (Table 2.6 and Table 3.1) is £1,300 per job; for Clydebank the figure is £2,000 per job. Assuming 2100/3300 jobs (see below for the derivation of this figure) the cost of rate relief from an EZ at Inverclyde would be in the range of £4.2m/£6.6m on the basis of the Clydebank figure. Using ratios for EZs as a whole would suggest a lower figure of £2.7m/£4.3m. The Clydebank ratio is considered more relevant than the overall EZ ratio for Inverclyde given that rates per sq ft in Scotland (at least for the non-manufacturing sector) tend to be considerably higher than in England.

32. It might be argued that rates per sq ft are likely to be above average on high amenity sites such as those proposed for 75 acres at Inverclyde. However it is not considered justified to increase the figure given above based on Clydebank experience. There are 2 reasons for this. First, the Clydebank figure includes a 40% component of non-manufacturing industry. This component does not benefit from 40% industrial derating and hence it inflates the rates/employment ratio relative to a ratio based only on manufacturing activity which is the expected form of development on the Inverclyde high amenity sites. Second, these sites are likely to be occupied by relatively high employment density activities and the use of a rates/employment ratio already produces a relatively high rate relief cost per acre.

33. Overall rate relief costs per job are likely to increase over the 10 year life of the EZ as they are an annual subsidy paid regardless of any growth in jobs within enterprises. The PACEC estimates were made halfway through the life of the Clydebank EZ. It would however be incorrect simply to double the Clydebank ratio. There are 2 main reasons for this. First, some of the firms will still be increasing their employment and this acts as a partial offset to the increase in the cost of rate relief per job. Second, the Clydebank ratio will be relevant to those firms who start up in the second half of the EZs life.

34. DTI employment profiles suggest that, on average, after 3 years of operation (the median figure for new firms in the Clydebank EZ when examined by PACEC) it can be expected that employment will rise by a further 30% over the next 7 years. Hence whilst rate relief costs in Clydebank for existing firms are likely to double, jobs could rise by one third. This gives a 50% increase in the cost of rate relief per job in existing firms.

35. Assuming a 66/33 split of the 2100/3300 jobs in the Inverclyde EZ between firms established in the first and second 5 year periods, allows the likely cost of rate relief to be estimated:

	<u>Range</u> (£m)	<u>Best Estimate</u> (£m)
a. 1400/2200 jobs in the first period's firms x £2000 cost per job x 1.5 real cost increase	£4.2m/£6.6m	6.0
b. 700/1100 jobs in the second period x £2000 cost per job	= £1.4m/£2.2m	2.0
	<u>£5.6m/£8.8m</u>	<u>8.0</u>

36. Adjusted to 1987/88 prices this range becomes £6.0m/£9.4m, with a best estimate of £8.3m. Since these costs are spread over 10 years strictly speaking they should be discounted to present values, but this has not been possible because the annual cost profile is unknown. Hence the costs can be considered more likely to be over rather than under-estimates.

37. On the assumption that two-thirds of the jobs will be in inward investment projects the rate relief costs for these projects is estimated at £4.0m/£6.2m in 1987/88 prices. The equivalent estimate for indigenous investment is £2.0/£3.2m.

(iii) Cost of Capital Allowances

38. The basic approach to estimating these costs is set out in paras 28 and 29 above. The PACEC report (Tables 2.6 and 3.1) showed that the ratio (1985/86 prices) of capital allowances per gross job, in EZs as a whole, was £2,400 per job whereas in Clydebank the figure was much lower at £1,100. On the basis of 2100/3300 jobs the cost (1985/86 prices) of capital allowances would be £2.3m/£3.6m using ratios from Clydebank. Using the overall EZs ratio the figure would be £5.0m/£7.9m. It is likely that the cost of Capital Allowances will be significantly higher at Inverclyde than Clydebank since it is intended that most of the property

development will be undertaken by the private sector rather than by the SDA. Hence the Inverclyde EZ costs are assumed to be based on the overall EZ ratio rather than the lower Clydebank ratio.

39. Effectively it is being assumed that higher than average capital allowances for high cost inward investment projects are offset by lower than average costs elsewhere on the zone. The latter reflects the expected emphasis on manufacturing as opposed to commercial/retailing. Capital allowances relate to building costs and hence tend to benefit commercial activity relatively more than manufacturing, given that building costs generally represent a higher share of total project costs for commercial activity. The overall average costs of capital allowances in the PACEC report are biased upwards - relative to the expected position for Inverclyde - by the fact that only about half of activity on the EZs examined was in manufacturing. Data available on the balance of building costs relative to plant and machinery suggest that capital allowances for manufacturing are likely (other things being equal) to cost only two-thirds of the level shown in the PACEC report.

40. Capital allowances in contrast to Rate Relief, are a one-off not annual subsidy so that any subsequent employment growth is likely to reduce the capital allowance/job ratio. For reasons set out in the section on Rate Relief the ratio could fall by 30% for those firms established in the first half of the EZ's 10 year life. Making this adjustment yields costs of £4.1m/£6.3m in 1985/86 prices:-

a. 1400/2200 jobs in the first period's firms x £2400 x 0.7	£2.4m/£3.7m
b. 700/1100 jobs in the second period's firms x £2400	£1.7m/£2.6m
	<hr/>
	£4.1m/£6.3m
	<hr/>

In 1987/88 prices these become £4.4m/£6.8m.

41. However, to avoid any danger of under-estimation of costs, this adjustment has been omitted for expected inward investment which effectively makes a further allowance of 25% for any higher building costs on high amenity sites. Hence capital allowances for inward investment projects are £3.6m/£5.2m and for indigenous activity £1.5m/£2.6m. Total costs would then be £5.1m/£7.8m with a best estimate of £7.3m.

(iv) Other Public Sector Costs

42. If EZ designation attracts new investment into Scotland as well as Inverclyde then additional Regional Policy related costs are likely to be incurred by the UK Exchequer, unless the alternative location would have been another UK Assisted Area. On the basis of discussions with LIS, there is thought to be a strong probability that EZ status could be the determining factor in attracting at least one major OEM manufacturer to Scotland and possibly even to the UK. On the basis of potential projects known to LIS there is the possibility that such projects could employ up to 1000. In such circumstances it is necessary to include these other regional policy costs under the costs of EZ policy.

43. Over the past 12 months the regional policy related costs per gross job in new inward investment projects attracted to Scotland have averaged £12,000. But for another OEM project close to Inverclyde the figure was £15,000. This higher figure has been used in estimating the likely extra costs of regional policy. On the basis of £15,000 per job, and assuming between 750 and 1000 net new jobs in UK assisted areas from inward investment projects due to EZ designation at Inverclyde, extra Regional Policy related costs are estimated at £11.5m/£15m. It should be stressed that these costs will only be incurred if such projects would otherwise have been lost to the UK assisted areas.

(v) Total Extra Public Sector Costs of an Inverclyde EZ

44. By combining the above figures it is possible to derive estimates of the likely public sector costs attributable to an EZ in Inverclyde, distinguishing between costs associated with inward and indigenous investment:-

1987/88 prices

Costs	<u>Lower/Upper Estimates</u>			<u>Best Estimate</u>		
	<u>Inw Inv</u>	<u>Indig Acty</u>	<u>Total</u>	<u>Inw Inv</u>	<u>Indig Acty</u>	<u>Total</u>
Extra land/ Infrastructure	6.3	3.2	9.5	6.3	3.2	9.5
Rate Relief	4.0/6.2	2.0/3.2	6.0/9.4	5.7	2.6	8.3
Capital Allowances	3.6/5.2	1.5/2.6	5.1/7.8	5.1	2.2	7.3
(Regional Policy)	(11.5/15.0)	-	(11.5/15.0)	(15.0)	-	(15.0)
TOTAL	13.9/17.7 (25.4/32.7)	6.7/9.0 (6.7/9.0)	20.6/26.7 (32.1/41.7)	17.1 (32.1)	8.0 (8.0)	25.1 (40.1)

45. The total extra public sector costs (excluding Regional Policy costs) likely to be associated with an EZ at Inverclyde are estimated at £21m/£27m. The best estimate is £25m. This is equivalent to £96,000 per acre, and above the average EZ policy related cost for all EZs of £70,500 (87/88 prices) identified by PACEC. The higher costs at Inverclyde are attributable to (i) the relatively high additional site related costs (see above); and (ii) the adoption of a ten year perspective compared with a maximum of only five years in the PACEC report. The longer time horizon has the effect of increasing the costs of Rate Relief and Capital Allowances, because it allows more time for activity to build up thereby increasing the amount of development entitled to Rate Relief and Capital Allowances. If an EZ at Inverclyde attracts one or more major inward investment project which would otherwise have been lost to UK assisted areas, additional regional policy costs could raise the cost of EZ designation to around £40m.

(b) Benefits from developing an enterprise zone

46. An EZ at Inverclyde can be expected to contribute to 2 main objectives ie:-

- i. the generation of additional economic activity and employment both on zone and in the Greenock TTWA;
- ii. the physical regeneration of the Inverclyde area, particularly around the town centre and along the waterfront, through the provision of new infrastructure, environmental improvement and stimulation of the property market.

47. The benefits from an EZ, therefore, can be seen as arising in the form of extra local income and employment and an improved physical environment. Likewise the extra costs incurred as a result of an EZ can be seen as contributing to both these objectives. Any assessment that relies solely on employment as the criteria for assessing the cost effectiveness of policy is likely to understate the benefits of policy by omitting the environmental gains whilst including the associated environmental costs. Since employment benefits are easier to identify and quantify than environmental ones the consequence tends to be that employment benefit/cost ratios can be derived much more readily than environmental benefit/cost ratios. This leads to the danger that environmental gains tend to be excluded. Whilst recognising this problem no solution is offered in this paper. Consequently the only quantified estimate of benefit relates to potential employment gains.

(1) Level of Employment

48. It is possible to make an estimate of the gross number of jobs likely to arise on the Inverclyde EZ by making assumptions about the proportion of land likely to be developed during the life of an EZ, and the employment densities on the land that is developed.

49. On the assumption that between 60% and 75% of the EZ land at Inverclyde is likely to be developed over the next 10 years the area involved ranges from 150 to 190 acres. Up to 75% take up of EZ land is thought to be feasible despite the limitations which it is suggested be placed on the type of firm locating on the EZ eg no pre-designation firms and no retailing. The high level of 'core' activity provided by the location of one or more large OEM will, it is hoped, promote spin off activity not usually associated with an EZ. Non high amenity sites occupy about 185 acres at Inverclyde and a 60%-80% take up on these sites implies 120/150 acres likely to be utilised during the life of the EZ. This is a similar rate of take up (ie 12/15 acres per annum) to the Clydebank EZ.

50. Employment densities can be assumed on the basis of information provided in Tables 2.6 and 3.1 of the PACEC report. At Clydebank the density is around 11 jobs per acre whilst for EZs as a whole the figure is 14 jobs. A figure of 8/12 jobs per acre has been used for non-high amenity sites at Inverclyde that are being targetted on indigenous investment. This figure is below the EZ average because it is assumed that the designation order will exclude retailing type activities which tend to have above average employment densities.

51. On the basis of assumptions about the amount of land that might be developed, and the likely employment density of development, it is

possible to estimate the number of jobs that could arise on the EZ. Out of the total area of 260 acres, about 75 acres would be reserved as high amenity sites for inward investment projects. One or two projects could be housed with densities of up to 26 jobs per acre. It is conservatively assumed that only half this site is occupied over the 10 years. Related sub-contract jobs are expected to locate on the 47 acre waterfront site providing up to 1000 jobs (job density 21 per acre). These estimates of 20/26 persons per acre for inward investment projects are in line with other recent high technology developments eg Analog in Linlithgow and Ford at Dundee. On the remainder of the proposed EZ land, assuming that 66%/75% (91/104 acres) is developed, job density of 8/12 per acre gives a range 750/1250 jobs. Combining these estimates shows potential employment of 2150/3250 with a best estimate of 3000 jobs:-

<u>Type of Site</u>	<u>Site Acres</u>	<u>Acres Developed within 10 years</u>	<u>Employ Density per acre</u>	<u>Jobs Expected within 10 years</u>	<u>Best Job Estimate</u>
High Amenity	75	38	20/26	750/1000	1000
Waterfront	47	31/47	21	650/1000	950
Other land	138	91/104	8/12	750/1250	1050
TOTAL	260	153/189	14/17 (average)	2150/3250	3000

(ii) Level of Net Additional Employment

52. It is extremely difficult to quantify the likely scale of net additional employment creation in the local economy as a result of having an EZ in Inverclyde. The PACEC report does, however, provide a basis for attempting such an estimate, at least for indigenous investment projects. Inward investment projects are so different that they need to be considered separately. Only 3% of the firms in the PACEC sample were inward investment enterprises.

53. The overall level of local additionality for all EZs in the PACEC study was 13%. Since it will be both a policy objective and expectation at Inverclyde to achieve a much higher level of net additionality, the overall average EZ ratio should be comfortably exceeded. It seems reasonable to expect that it can be doubled to 26%. This is because those activities with low net additionality will either be excluded (eg retailing), do not exist (eg pre-designation companies) or are seen as of limited probability (eg transfers from the surrounding area).

54. The 26% ratio can then be applied to the 750/1250 employment figure derived above. The implied net additional local employment from indigenous firms is between 200/330 jobs with a best estimate of 280. The remainder would be non-additional to the local economy. Not many of these jobs are likely to be additional at the Scottish level.

55. Employment in Inward Investment - The basic assumption is that there will be 2,000 inward investment jobs overall. All of these are expected to be additional at the local area level, and up to 1000 additional at the Scottish and UK levels. As explained above and in the Appendix LIS are strongly of the opinion that EZ status would significantly enhance

its ability to attract one or more further OEM projects to this part of Scotland.

56. The overall expectations on net additional employment are summarised below:-

Net Additional Employment Attributable to an EZ

<u>Type of Firm</u>	<u>Lower/Upper Range</u>			<u>Best Estimate</u>		
	<u>Local</u>	<u>Scotland</u>	<u>UK</u>	<u>Local</u>	<u>Scotland</u>	<u>UK</u>
Indigenous Activity	200/330	low	-	280	low	-
Inward Investment	1400/2000	750/1000	750/1000	1950	1000	1000
TOTAL	1600/2330	150/1000	750/1000	2230	1000	1000

VI. COST EFFECTIVENESS OF AN EZ AT INVERCLYDE

57. The potential cost effectiveness of an EZ, in terms of the employment objective of EZ policy, can be estimated on the basis of the above cost and employment figures. (As noted above there are extra environmental benefits which have not been allowed for.)

58. In para 46 above extra costs were estimated at £32m/£42m including regional policy costs, and £21m/£27m excluding them. The discussion in paragraphs 54 to 58 suggested there could be between 1600 and 2350 net additional local jobs due to the EZ. These might be split between some 280 extra jobs in indigenous firms and 1950 in inward investment projects.

59. Bringing together the cost and net employment estimates it is possible to derive a cost per net job figure attributable to the designation of an EZ at Inverclyde. Since there is a relationship between the costs of an EZ and the amount of development, the highest cost figure should be associated with the highest employment figure.

60. Before comparing any cost per net job figures with those produced by PACEC it is necessary to make adjustments to the employment estimates to take into account employment benefits generated outwith the EZ. PACEC made adjustments for net construction jobs, net linkages to the local economy, net short-term and long-run local income multipliers to produce an overall estimate of net additional employment. The PACEC multiplier figures have generally been applied to the Inverclyde figures for indigenous firms. These factors are 1.27 local supply linkages; 1.1 short-term local income multiplier; and 1.15 long-term development multiplier. Additionally net construction jobs have been converted (correctly unlike in the PACEC report) to a 10 year life equivalent. Most of these ratios seem equally applicable to inward investment projects. The exception is the local supply linkage multiplier which looks too high. Instead of 1.27 a figure of 1.05 has been used**

61. On the basis of these ratios the following estimates are derived of net additional local employment in Inverclyde district due to EZ designation:-

<u>Jobs</u>	<u>Lower/Upper Range</u>			<u>Best Estimate</u>		
	Indig Activity	Inw Invest	Total	Indig Activity	Inw Invest	Total
1. Total net additional jobs in the Inverclyde EZ	200/330	1400/2000	1600/2330	280	1950	2230
2. Local net additional linkages (0.27 indigenous; 0.05 inward investment)	54/89	70/100	124/189	96	98	174
3. Net additional local construction jobs	41	72	113	41	72	113
4. Short term local income multiplier (0.1)	30/46	154/217	184/263	40	212	252
5. Sub total	325/506	1696/2389	2021/2895	437	2332	2769
6. Long term development multiplier (0.15)	49/76	254/358	303/434	66	350	415
7. TOTAL	374/582	1950/2747	2324/3329	502	2682	3184

62. The cost per net job for Inverclyde, comparable with the PACEC estimate for all EZs, for inward and indigenous investment projects is:

	<u>Lower/Upper Range</u>			<u>Best Estimates</u>		
	Costs (£m)	Net Add Jobs	Cost per net job (£m)	Costs (£m)	Net Add Jobs	Cost per net job (£m)
Inward Investment	254/32.7	1950/2747	13000/11900	32.1	2682	12000
Indigenous Activity	6.7/9.0	374/582	17900/15500	8.0	502	15900
TOTAL	32.1/41.7	2324/3329	13800/12500	40.1	3184	12600

63. Even when (unlike the PACEC report) all the Regional Policy costs are included the cost per net job is only between £12000/£14000. The higher cost is associated with the fewest jobs reflecting the higher proportion of fixed infrastructure costs. The best estimate is £12600 with indigenous activity proving more expensive at £16000 per job than inward investment at £12000 per net job. The higher costs of the latter are associated with a much higher level of net additional employment. These costs per net job are very low compared with the overall average of £25000/£30000 estimated by PACEC for EZs as a whole. This favourable comparison arises even though the cost estimates are based on a full 10 year EZ life thereby increasing them relative to PACEC.

64. These estimates suggest that an EZ at Inverclyde has the potential to represent a very cost effective use of resources compared with EZs in general. The main reason for this is that it is intended by the SDA and Scottish Office that lessons learned from previous EZs should be applied in Inverclyde. The potential of the Inverclyde EZ to appeal to internationally mobile projects is its greatest potential strength.

Industry Department for Scotland
November 1987

E0300905.117

15.

Analysis of Labour Market Indicators

1. The various economic indicators that are conventionally used to assess the severity of an area's economic problems, suggest that Inverclyde has very severe employment problems, not only in absolute terms but also in relative terms within Scotland.

2. In absolute terms the area, in July 1987, had unemployment rates of 24.8% for men and 20.3% in total (Table 1). These rates compared with 18.7% and 15.3% respectively for Scotland: on top of these high rates the unemployment difficulties in Inverclyde were compounded by the severity of the problem of long term unemployment. Half the unemployed men had been out of work for at least a year. This reflects the fact that problems of male unemployment, in particular, are long standing and deep rooted, primarily because of the steady contraction of employment in the main industries of shipbuilding and marine engineering.

3. One method of identifying the relative severity of the problems in Inverclyde is to rank travel-to-work areas (TTWAs) on the basis of different indicators. Weights can then be attached to different indicators and the rankings summed and compared across all areas and for all indicators. This, in fact, has been done in Table 2.

4. All the TTWAs with unemployment above the Scottish average in July 1987 have been ranked on the basis of various unemployment indicators. Unemployment has been used because it: (a) measures the state of the local labour market by incorporating both supply and demand side conditions; and (b) unlike employment information, it is an up-to-date indicator showing the current position in the area. The indicators used are:

- i. Numbers unemployed - male and total
- ii. Unemployment rate - male and total
- iii. Percentage long term unemployment - male and total.

5. The numbers unemployed are taken to reflect the absolute scale of the unemployment problem. The unemployment rate is used to show the relative severity of the problem. The proportion of long term unemployment indicates the extent to which the problem is a long standing and hence potentially deep rooted one. Male unemployment, as well as total unemployment, information has been used because employment problems both locally and nationally are most acute for men and there is a greater imbalance in the male than total labour market.

6. On the basis of equal weights for each of the 6 indicators, the TTWA with the most severe problems is Greenock followed by Cumnock and Sanquhar, Lanarkshire, Irvine and Glasgow (Table 2). If a weight of 2 is given only to the long term unemployment variables then Greenock retains its unenviable position. Only if a weight of 2 is given to the percentage unemployment rate indicators is Greenock replaced by Cumnock and Sanquhar and Irvine as the areas with the most depressed labour market. A weight of 2 attached to both numbers and percentage unemployed indicators identifies Irvine as the TTWA with the worst problems followed by Greenock.

7. The conclusion from this analysis of labour market indicators is that Greenock is one of the most severely depressed labour markets in Scotland. In fact for a range of weights attached to the main labour market indicators it is the area with the most severe problems in Scotland. Therefore when it comes to identifying a part of Scotland as worthy of priority for new employment related policy initiatives, Greenock must be seen a leading candidate.

Table 1 Unemployment Indicators in TTWAs with unemployment rates above the Scottish average

TTWA	July 1987				% long term unemployed	
	Male	Total	%	%	Male	Total
	Unemployed	Unemployed	male	total		
Cumnock and Sanquhar	3,418	4,460	36.1	28.9	49.9	46.3
Girvan	528	764	30.5	23.8	46.0	43.1
Irvine	7,824	11,102	27.0	22.6	45.7	41.6
Forres	388	673	22.8	21.4	39.1	35.5
Dumbarton	3,658	5,803	24.1	21.3	41.5	36.3
Arbroath	1,092	1,747	22.7	21.0	40.6	37.0
Greenock	6,939	9,487	24.8	20.3	50.5	46.9
Alloa	2,416	3,413	24.4	20.1	45.4	41.1
Western Isles	1,424	1,933	24.8	19.1	35.3	31.9
Campbeltown	478	745	23.2	19.2	48.5	45.5
Invergordon and Dingwall	1,836	2,625	22.3	19.2	41.3	40.1
Lanarkshire	21,556	30,619	23.4	19.0	50.1	45.0
Bathgate	6,305	9,003	22.3	18.2	45.6	40.8
Newton Stewart	392	613	18.7	17.7	45.1	40.6
Kilmarnock	3,863	5,536	22.4	17.6	42.9	38.6
Stranraer	860	1,254	19.6	17.4	47.7	44.1
Glasgow	78,096	108,883	21.8	17.3	51.0	46.3
Kirkcaldy	7,491	11,110	20.7	17.0	44.3	40.0
Buckie	369	686	18.2	16.9	35.7	28.0
Skye and Wester Ross	612	876	20.4	16.7	34.8	32.1
Falkirk	6,753	10,085	19.1	16.6	42.9	39.4
Dunoon and Bute	802	1,235	18.8	15.8	37.2	35.8
Dundee	10,310	15,271	19.3	15.7	46.0	42.7
Wick	607	813	24.2	15.6	44.3	41.2
Sutherland	437	657	17.8	15.4	46.6	42.8
Scotland	237722	342845	18.7	15.3	46.0	41.5

Table 2

	Nos unemployed		% unemployed		Long term unempl		Total of ranks	Revised ranks
	Male	Total	Male	Total	% male	% total		
mnock and Sanquhar evan	11 20	11 20	1 2	1 2	4 8.5	2.5 7	30.5 59.5	2 6
vine rres mbarton	4 24 10	5 22 9	3 11 8	3 4 5	10 21 18	10 22 20	35 104 70	4 20 10
broath reenock loa	15 6 12	5 7 12	12 4.5 6	6 7 8	20 2 12	19 1 12	77 27.5 62	13 1 7
estern Isles ampbeltown vergordon	14 21 13	14 23 13	4.5 10 14.5	9 10 11	24 5 19	24 4 15	89.5 73 85.5	18 11 16
anarkshire athgate ewton Stewart	2 8 23	2 8 25	9 14.5 23	12 13 14	3 11 13	5 13 14	33 67.5 112	3 9 22
ilmarnock tranraer lasgow	9 16 1	10 16 1	13 19 16	15 16 17	16.5 6 1	18 6 2.5	81.5 79 38.5	15 14 5
Kirkcaldy Buckie Skye & W Ross	5 25 18	4 21 18	17 24 18	18 19 20	14.5 23 25	16 25 23	74.5 137 122	12 25 24
Falkirk Dunoon & Bute Dundee	7 17 3	6 17 3	21 22 20	21 22 23	16.5 22 8.5	17 21 9	88.5 121 66.5	18 23 8
Wick Sutherland	19 22	19 24	7 25	24 25	14.5 7	11 8	94.5 111	19 21

Impact of the closure of the Scott Lithgow shipyard on unemployment in Inverclyde

1. At present about 2050 people work in the yard and closure would have a significant impact on the male unemployment rate.

2. There are inevitable uncertainties surrounding the effect on the unemployment rate of yard closure. This is because not all those made redundant will necessarily register as unemployed and some of the workforce are likely to reside outwith the Inverclyde TTWA.

3. In the case of a further 2000 job losses it seems reasonable to assume that most of those made redundant would register as unemployed. This is because:-

i. most of the workforce are male and men have high registration rates for unemployment;

ii. there is a lack of alternative employment locally;

iii. previous rounds of redundancies are likely to have removed those eligible for early retirement or readily able to find alternative jobs.

4. Around 90% of the workforce are estimated to live in the Inverclyde area and assuming registration rates of 95%-100% the impact on local unemployment rates would be:-

	Male Unemployment		Total Unemployment	
	No	%	No	%
July 1987	6939	24.8	9487	20.3
Estimated Increase	1750/1870	-	1750/1850	-
New Estimate	8689/8789	31.0/31.4	11,237/11,337	24.0/24.3
Increase in rate (%)		+6.2/6.6		+3.7/4.0

5. It is estimated that closure of the Scott Lithgow yard could increase male unemployment to 31% and total unemployment to 24%. This would result in Inverclyde having the second highest male and total unemployment rates amongst Scottish TTWAs and the third highest number of unemployed.

The potential role of inward investment in an Inverclyde Enterprise Zone

1. The last year or so has seen an increasing level of inward investment enquiries in Scotland. A wide range of companies now regard Scotland as a highly attractive location for integrated manufacture for the European market as a whole. This is particularly the case in electronics. In the face of increased competition from many other parts of Europe it has become clear that an important key to capturing projects is the ability to offer the inward investor a wide range of site options. This note sets out how and why an Enterprise Zone at Inverclyde would help in this respect.
2. In brief, an EZ would correct the environmental and land supply constraints which currently make Inverclyde unattractive to inward investors while simultaneously giving the UK a weapon with which to compete effectively for internationally mobile capital intensive projects.
3. Inward investment currently accounts for 20% of manufacturing investment in the Scottish economy. On that basis, it is reasonable to presume that it would make a distinctive contribution to the development of the Inverclyde area given the existence of an Enterprise Zone. In addition, experience with earlier EZs suggests that designation would attract a significant number of companies to Inverclyde from elsewhere in the UK.
4. Although none of the existing Scottish Enterprise Zones have been dominated by inward investment, an increasing proportion of foreign companies with which LIS is in contact are now expressing interest in Enterprise Zone locations. This trend coincides with a growing reluctance to locate in the Scottish New Towns. Two of the Locate in Scotland cases over the last 6 months illustrate these issues: the choice of the Dundee Enterprise Zone by Ford EED for the manufacture of electronic engine control systems; and of Clydebank Enterprise Zone by Health Care International.
5. The HCI project will establish an advanced hospital in what was formerly a derelict piece of land comprising an asbestos tip and scrapyard in the heart of the Clydebank dockland area. While the project promoters had a choice of greenfield sites in Scotland and elsewhere in Europe, the economics of their operation were greatly enhanced by EZ capital allowances. This exerted a powerful influence on their final locational choice. As a result over 40 acres of derelict dockland will be transferred into a modern, well landscaped, wealth producing area.
6. The portfolio of recent LIS case decisions provides other examples where EZ benefits were critical to locational choices. In our judgement the case of W L Gore, which now has 2 plants in Dundee, and Terasaki, who have moved an existing operation in Glasgow to the EZ at Clydebank in order to accommodate the expansion of these enterprises, were both critically influenced by the availability of an EZ location. In the case of Terasaki, had such a location not been available the Glasgow operation would have been closed and the company's European activities concentrated in Spain. The ability to offer sites with EZ status does not merely secure the project for the designated area, it frequently ensures that it does not opt for a location elsewhere in Europe.

7. While the EZs within Scotland are not yet full, there is increasing demand for them on the part of inward investing companies. Should an Inverclyde EZ come on-stream, thereby offering inward investors to Scotland an EZ location till the end of this century, it would considerably enhance the capability of Locate in Scotland.

8. In the particular case of Inverclyde, there are already a number of potential advantages in marketing the location to foreign companies. These include the area's Development Area status; its proximity to Glasgow airport and the motorway network; and the presence of Compaq and IBM in the locality. However, these advantages are substantially offset by a shortage of good industrial land due partly to the topography and partly to the widespread dereliction of much of the urban area. EZ designation would accelerate the clearance of derelict land and structures and increase the supply of developable land.

9. All alleviation of the area's environmental and land supply handicaps would be likely to pay immediate dividends in the form of increased inward investment. Such investment would be by OEM's and by their captive supply companies. The key to attracting the former is the availability of high quality greenfield sites. "Quality" is an amalgam of site conditions and of the costs required to establish a manufacturing facility upon it. The costs associated with existing sites in the West of Scotland are such that their attractiveness as a location is limited. Greenfield sites with EZ status would be extremely attractive. LIS can deliver OEM operations employing upward of 1000 over a 10 year period on 80 acres of such sites. A number of such projects are in negotiation. It will be difficult to land some of the more significant without the incentives offered by an EZ. In its absence, they will be lost not only to Scotland but also to the UK as a whole.

10. In the past 2 years, LIS has seen increasing evidence of major component manufacturers wishing to locate in Scotland to tap the large internal markets created by the presence of companies such as Compaq, IBM, Apollo, etc. The logical location for such suppliers is close to some of these major companies in the West of Glasgow, but this opportunity has not been realised, largely due to the lack of good sites. At this stage the combination of bringing sites on-stream and EZ advantages which designation at Inverclyde would offer would form a powerful combination of instruments which would prove very attractive to inward investing component manufacturers. LIS consider that it would be perfectly feasible to attract upwards of 1500 jobs in such firms to the area during the life of the EZ. Two or three such projects are already in the pipeline. While they are already likely to choose a Scottish location, EZ status would secure them for Inverclyde.

11. There are potentially significant parcels of industrial land along the waterfront of Greenock, close to the town centre. These were previously occupied by shipyards and related businesses, but are currently derelict and physically unattractive. In order to rehabilitate these pieces of land and to make them both useable and saleable to inward investors, a large amount of money will be required. EZ status would be the key to unlock funds from private developers to rehabilitate such waterfront sites since the consequent capital allowances would cut the private sector contribution required. Financial and corporate services, a sector now targetted by LIS, are attracted to waterfront locations. The physical prerequisites to attract such activities to Inverclyde would be significantly enhanced by EZ status.

12. If an EZ at Inverclyde is to be a significant asset in the international competition for inward investment it is critical that the area designated is such that it offers a range of alternative types of site. In particular it should contain not only a range of waterfront sites but also a significant greenfield acreage in the immediately surrounding area. Only if this is done will the full inward investment potential of Inverclyde be realised.

13. As noted above, Inverclyde has a number of latent attractions for inward investors in terms of its location and its access to transport infrastructure. These attractions are greatly reduced by the dereliction of the area and by the shortage of sites for development. Intensive clearing operations are required if these constraints are to be relieved. EZ designation does not affect the cost of clearance, but it significantly increases the volume of investment which is likely to take place on the cleared area. In particular, designation seems to offer the only possibility of providing the conditions under which substantial inward investment can be attracted to the area. Such investment is likely to be the most effective route to sustained long term net employment generation.

LIS/SDA
17 November 1987



FROM: J M G TAYLOR

DATE: 17 December 1987

Handwritten initials

PS/CHIEF SECRETARY

cc PS/Financial Secretary
Sir P Middleton
Mr Waller

ENTERPRISE ZONES

The Chancellor has seen Mr Ridley's minute of 15 December to the Prime Minister.

2. He has commented that he very much agrees with Mr Ridley's view that any announcement about Inverclyde should be deferred until an EZ there can be seen as a response to the shipyard redundancies.

Handwritten signature

J M G TAYLOR

*BACK
→ PS/CS
17/12*

CONFIDENTIAL

FROM: NEIL WILLIAMS

DATE: 18 December 1987

1. MR WALKER *NW 18/12*
2. CHIEF SECRETARY

cc. PS/Chancellor
PS/Financial Secretary
Mr Anson
Mr Monck
Mr D Moore
Mr Burgner
Ms Peirson
Mr W Hood
Mr M Hughes
Mr Call

INVERCLYDE**Summary and Recommendation**

1. Mr Rifkind's minute to the Prime Minister of 1 December (copy at Annex A) sought agreement to the creation of a new Enterprise Zone (EZ) at Inverclyde (Greenock). The Chancellor minuted the Prime Minister on 3 December indicating that subject to the working out of details he is prepared to look sympathetically at the proposal, and stressing the importance of taking credit for the zone for part of the response to the problems of shipbuilding in particular.

2. The Economic Secretary's letter of 12 August and yours of 13 November to Mr Ridley on future policy towards enterprise zones agreed that the designation of further zones should occur only in very exceptional circumstances, where alternative more cost effective policy options are not available and where a zone offers particular prospects of making a significant contribution to local employment and economic activity. Mr Ridley consequently minuted the Prime Minister on 15 December (copy at Annex B) and made an announcement on 17 December, and Mr Rifkind issued a press notice stating that he will be completing his consideration of the case for an Enterprise Zone at Inverclyde in the light of the new criteria, and will announce a final decision as soon as possible (copy at Annex C). The Chancellor has indicated his support for Mr Ridley's suggestion that any announcement of a decision on Inverclyde should be deferred until an EZ that can be seen as a response to shipyard redundancies.

3. It is recommended that you now write to Mr Rifkind, spelling out more fully the terms of Treasury Ministers agreement an EZ at Inverclyde, setting this in the context of the earlier agreement on policy, and endorsing Mr Ridley's suggestion on timing of an announcement.

The Scottish Proposal

4. A paper by Scottish Office officials setting out and costing proposals for an EZ at Inverclyde in greater detail than summarised in the attachment to Mr Rifkind's letter is at Annex C. In essence their case is:

- On need - the Inverclyde/Greenock area has unemployment problems which are as severe as anywhere in Scotland, faces further growth in unemployment from shipyard closures, and suffers from a combination of badly decaying and drab physical fabric and infrastructure and shortage of sites for new development.
- Alternative Policy Options - The Scottish Development Agency launched a special area initiative in March 1985 and has the full support including minimisation of planning constraints from both the regional and district authorities. Normal SDA programmes for land renewal, advisory services, financial assistance etc. are available. The area is a development area and the highest rate of regional assistance is therefore also available. Results have been modest, however, and it is unclear what creation of a UDC, mini UDC or simplified planning zone would add.
- Likely success and impact of an EZ - The combination of the SDA area initiative, regional assistance and an EZ supported by a strategy of concentrating on attracting inward investment to the area have the potential for introducing significant new activity and employment, and such a strategy concentrating in particular on the attraction of electronics "Original Equipment Manufacturers" is judged likely to be successful.
- Cost effectiveness - The PACEC consultancy study estimated the average cost per job at the local area level of existing EZs at £25,000/£30,000. A major contributor to this relatively high cost per job is the extent of local displacement (less than 4 in any 10 jobs on zones are typically additional at the level of the local economy.) The analysis for Inverclyde

suggests a cost per job of between £12,000 and £14,000 including the extra costs of regional assistance associated with the attraction of additional inward investment which might not otherwise have located in the UK.

Analysis

5. The analysis is a fairly thorough piece of work (Inland Revenue have some doubt about the treatment of capital allowances, which we do not expect to substantially effect the conclusion in this case) which has previously been discussed between Scottish Office and Treasury economists. There are few grounds to doubt the case on need, alternative options and possible impact. The key to understanding the relatively high cost effectiveness claimed is the realisation that an EZ at Inverclyde following the strategy proposed would be significantly different from existing EZs. Whereas the existing EZs have for the most part depended on the easing of planning requirements and the availability of capital allowances and rates relief to attract local business or branches of larger indigenous companies to set up or move into the zone in an unplanned way, the proposed development at Inverclyde depends primarily upon the planned introduction of foreign inward manufacturing investment with little or no local displacement. Of the best estimate of rather over 3,000 eventual net additional local jobs at Inverclyde over 80% are attributable to inward investment.

6. What is proposed therefore amounts to the addition of the costs of EZ reliefs and allowances to the regional assistance costs of attracting such inward investment. I.e. on the figures provided adding nearly £8,000 per net job to the eventual regional assistance cost per job of attracting the inward investment. Over the past 12 months the regional policy related cost per gross job in new inward investment cases in Scotland has averaged £12,000, but the figure for a recent project of the type suggested as the prime target for Inverclyde cost £15,000. Viewed in this way what is proposed is less a highly cost effective enterprise zone than the attraction on enhanced terms of inward investments all physically located together. (The difference between these figures and those quoted by the Scottish Secretary reflects the hidden costs of the approximately 1,000 inward investment jobs which as a result of the Zone are assumed to be located at Inverclyde rather than elsewhere in Scotland).

7. The figures suggest that the proposed zone involves a relatively high cost in terms of normal regional policy limits. Given the particularly intractable local employment and environment problems at Inverclyde, however, it does not follow on these grounds that an enterprise zone would not be cost effective.

8. The Chancellor has already indicated that in view of the exceptional difficulties currently facing the shipbuilding industry he would consider the proposal for Inverclyde sympathetically. I understand that on similar grounds it has been agreed that sympathetic consideration should also be given to the possibility of a further EZ at Sunderland. You will wish, however, to discourage the view that EZs of the type proposed for Inverclyde are in general acceptable.

9. This submission has been cleared with Inland Revenue.

Neil Williams

NEIL WILLIAMS

DRAFT LETTER FROM THE CHIEF SECRETARY TO THE SCOTTISH SECRETARY

INVERCLYDE

1. The Chancellor's minute of 3 December to the Prime Minister indicated that subject to working out of details he was prepared to look sympathetically at the proposal for an Enterprise Zone at Inverclyde. I have now had the opportunity to consider more fully the case prepared by your officials and discussed with mine, and am writing to spell out in slightly greater detail the terms of our agreement.
2. I accept that the combination of severe employment difficulties, decaying infrastructure and shortage of sites for development and the circumstances of the shipbuilding industry upon which the area remains highly dependent give Inverclyde an unusually strong claim for special consideration for EZ designation. I have noted that alternative options have been considered and that an EZ has the potential to have a significant impact in an area where there are unlikely to be more cost effective options.
3. The cost per net additional job in your proposal is likely to be below the average for existing enterprise zones, but is subject to a high level of uncertainty, and will be particularly dependent on success in, and the costs of, attracting the desired inward investment. In view of this and given the additional benefits available on the zone to such investors I should make clear that I would be most unwilling to agree to offers of regional assistance to any project proposing to locate in the Zone which fail to meet normal guidelines and criteria, and would wish such regional assistance costs to be separately monitored. I would also wish to see an evaluation of the zone in due course which would take all public costs into account.
4. Treasury agreement is, of course, on the basis that the necessary resources will be found from within your existing provision.
5. While broadly happy with your officials' figures, there remain a few details on costing methodology in your appraisal (inter alia on capital allowances) about which my officials will be contacting yours for clarification. I should be grateful if your officials would keep mine informed on the details of the proposed zone designation as these become clearer. Subject to these not significantly changing

the case so far presented, and the points in this letter you may take it that you now have Treasury agreement to proceed to designating an Enterprise Zone at Inverclyde. However I endorse Nicholas Ridley's suggestion in his minute of 15 December to the Prime Minister that any announcement of a decision about Inverclyde should be deferred until an EZ there can be seen as a response to any future shipyard redundancies. I understand that it would anyway be unwise to make such an announcement until the European Commission have had an opportunity to consider the proposal.

6. I am copying this letter to Cecil Parkinson, George Younger, Nicholas Ridley, David Young, Kenneth Clarke, Norman Fowler, Paul Channon and Sir Robert Armstrong.

*Canter
Telecards
for d -
related to
real
im*



SECRETARY OF STATE	CHIEF SECRETARY
REC	- 2 DEC 1987
	Mr Monck
	EST CX Mr Anson
	Mr Burgess Mr Moore
	Miss Pearson
	Mr Cairns Mr AM White Mr Waller

MS Williams

Prime Minister

Mr Call.

INVERCLYDE

1. My minute of 4 March 1987 reported on the very grave situation facing the towns of Greenock and Port Glasgow in the Inverclyde District of Strathclyde and sought the support of colleagues for, inter alia my proposal to designate an Enterprise Zone in the District. We agreed that further consideration of this proposal should be deferred until a better informed decision could be reached taking into account the findings of the consultancy evaluation of the Enterprise Zone experiment in Great Britain.

2. Following consideration of Nicholas Ridley's minute of 30 July about the consultants' evaluation of the experiment, it was agreed that Enterprise Zones should be retained as a policy option, but that it should be used sparingly. Nicholas is to make a statement to this effect shortly.

3. The purpose of this minute is to seek agreement from colleagues that the circumstances in Inverclyde, which have worsened considerably as a result of recent events in the shipbuilding and marine engineering industries, require special measures to help ease the situation; and that, within our agreed new policy, designation of an Enterprise Zone would exceptionally be the most appropriate and cost-effective method of tackling the particular local economic and environmental problems facing that area.

4. I attach the executive summary of the fuller paper and detailed case which my Department has prepared in consultation with DOE and Treasury officials.

5. The case supports my contention that only the designation of an enterprise zone would give the local economy in Inverclyde the boost it so badly requires. You are aware of the likely run down to care and

*34
156*

COMMERCIAL - IN CONFIDENCE

maintenance of the Scott Lithgow shipyard. There is also uncertainty hanging over the future of the British Shipbuilders works at Appledore Ferguson and Clark Kincaid. These developments since the zone was first proposed can only add to already extremely serious difficulties. The summary and paper describe fully the problems facing the area; the various measures already adopted to try to reverse the trends of rising unemployment and environmental decay; and, by employing the measurements adopted by the consultants in their report, demonstrates that designation of an Enterprise Zone of some 260 acres would bring about a significant and cost effective improvement in the situation. I do not pretend that designation of an EZ is the answer to all the problems of Inverclyde and I shall continue to look to the Scottish Development Agency and the Inverclyde Initiative for the energy and ideas to tackle the entrenched difficulties in this area. But I believe that it would be a powerful addition to our armoury and, as the paper demonstrates, the commitment, co-operation and potential exists to make any zone a success.

6. I would welcome colleagues support for this proposal. I am anxious to be in a position to make an announcement as soon as possible after Nicholas' general policy statement. As we also have the hurdle of EC notification to get over I would be grateful for early consideration.

7. Copies of this minute go to Cecil Parkinson, George Younger, Nicholas Ridley, David Young, Kenneth Clark, John Major, Norman Fowler, Paul Channon and Sir Robert Armstrong.

MR

MR

1 December 1987

COMMERCIAL - IN CONFIDENCE

INVERCLYDE: CASE FOR AN ENTERPRISE ZONE

EXECUTIVE SUMMARY

1. The Inverclyde/Greenock area has unemployment problems which are as severe as those facing any Travel-to-Work area in Scotland. Overall unemployment rates are very high (19.0% in October 1987), particularly for males (23.6%); the share of long-term unemployment in total unemployment is high; and the prospects for existing industries are at best uncertain. Any additional reductions in employment at the Scott Lithgow yard would only add to the severity of the existing problem.

2. There has been a joint public/private sector initiative in Inverclyde since March 1985, co-ordinated by the Scottish Development Agency. In July of this year additional measures were announced, and the Initiative has the full support of the relevant local authorities. Whilst there have been some positive effects from the actions of SDA and others, including one £20m mixed-use retail, leisure and hotel development, the relative scale of the industrial and economic problems is such that the application of standard programmes and instruments cannot be expected to have the type of substantial impact that is required.

3. Having reviewed the options for further action, it was determined that only Enterprise Zone designation stood any chance of attracting the scale of new activity and employment that would be required. However, there are very few existing enterprises in Inverclyde and the surrounding areas which could be expected to grow following EZ designation, or to transfer into the zone. On the basis of advice from Locate in Scotland, it is strongly believed that EZ designation could tilt the balance towards attracting substantial inward investment projects to the area are concerned. LIS believe that the geographical location is potentially attractive to inward investors, provided that the severe shortage of suitable sites can be overcome, the environmental status of the area improved, and the type of incentives that go with EZ designation offered. It is the view of LIS that a substantial part of the inward investment that would be likely to be attracted to Inverclyde would be additional so far as the UK economy as a whole is concerned. In other words, the designation of Inverclyde as a EZ would not only tilt the balance in favour of location in Inverclyde, but also in favour of location in the UK.

4. The paper demonstrates that a strategy for the EZ based on attracting one or more major electronics 'Original Equipment Manufacturer' (OEM) projects, plus associated activity, should prove a cost-effective means of generating additional activity and employment in the area. A full analysis has been undertaken, making use of the evaluation report by consultants (PACEC) on the EZ experiment to date. Relevant cost data from that report have been used, including in some instances specific data from the Clydebank EZ, but adjustments have been made where appropriate to reflect the anticipated developments and costs at Inverclyde. The paper does not attempt to provide any quantification of the environmental gains to be expected from EZ designation, but it is noted that these would be additional to the employment benefits, and hence tend to enhance the overall cost-effectiveness of designation.

5. Full account is taken of the likely additional costs in terms of land renewal and infrastructure, rates relief and capital allowances, as well as any additional exchequer costs related to regional policy incentives for

the inward investments that are anticipated. These costs have been estimated over the full 10 year life that is proposed for the Zone. The assumptions involved are in several instances conservative, and more severe for this proposed zone than in the overall PACEC evaluation report.

6. In that PACEC report the cost per net job, at the local area level, for all EZs was estimated at £25,000/£30,000. The analysis for Inverclyde suggests that (even including all extra regional policy costs which were excluded from the PACEC report) the cost per net job at the local area level is likely to be between £12,000 and £14,000. This is after allowing for the relatively higher infrastructure costs associated with developing the parts of the area that were previously used for shipbuilding.

7. The estimates suggest that an EZ at Inverclyde is potentially a cost-effective means of tackling the severe economic problems faced by the area. The strategy that has been developed takes full account of the area's existing activities and potential, and is based on the best advice available from Locate in Scotland so far as inward investment is concerned. In developing this case full account has also been taken of the consultant's report on the EZ experiment, and appropriate adjustments are proposed which are expected to enhance the overall cost-effectiveness of designation.

Industry Department for Scotland
17 November 1987

CONFIDENTIAL

CC: CXI FST



Mr Anson, Mr Hucker

Mr Moore, Mr Buggen

Miss Pearson, Mr Hood

Mr Walker, Mr N Williams

Treasury Chambers, Parliament Street, SW1P 3AG

Mr M Higgins, Mr Cae

The Rt Hon Malcolm Rifkind QC MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

21st December 1987

Dear Malcolm,

INVERCLYDE

The Chancellor's minute of 3 December to the Prime Minister indicated that subject to working out of details he was prepared to look sympathetically at the proposal for an Enterprise Zone at Inverclyde. I have now had the opportunity to consider more fully the case prepared by your officials and discussed with mine, and am writing to spell out in slightly greater detail the terms of our agreement.

I accept that the combination of severe employment difficulties, decaying infrastructure and shortage of sites for development and the circumstances of the shipbuilding industry upon which the area remains highly dependent give Inverclyde an unusually strong claim for special consideration for EZ designation. I have noted that other options have been considered and that an EZ has the potential to have a significant impact in an area where there are unlikely to be more cost effective options.

The cost per net additional job in your proposal is likely to be below the average for existing enterprise zones, but is subject to a high level of uncertainty, and will be particularly dependent on success in, and the costs of, attracting the desired inward investment. In view of this and given the additional benefits available on the zone to such investors I should make clear that I would be most unwilling to agree to offers of regional assistance to any project proposing to locate in the Zone which fail to meet normal guidelines and criteria, and would wish such regional assistance costs to be separately monitored. I would also wish to see an evaluation of the zone in due course which would take all public costs into account.

CONFIDENTIAL

Treasury agreement is, of course, on the basis that the necessary resources will be found from within your existing provision.

While broadly happy with your officials' figures, there remain a few details on costing methodology in your appraisal (inter alia on capital allowances) about which my officials will be contacting yours for clarification. I should be grateful if your officials would keep mine informed on the details of the proposed zone designation as these become clearer. Subject to these not significantly changing the case so far presented, and the points in this letter you may take it that you now have Treasury agreement to proceed to designating an Enterprise Zone at Inverclyde. However I endorse Nicholas Ridley's suggestion in his minute of 15 December to the Prime Minister that any announcement of a decision about Inverclyde should be deferred until an EZ there can be seen as a response to any future shipyard redundancies. I understand that it would anyway be unwise to make such an announcement until the European Commission have had an opportunity to consider the proposal.

I am copying this letter to Cecil Parkinson, George Younger, Nicholas Ridley, David Young, Kenneth Clarke, Norman Fowler, Paul Channon, and Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR



→ *Jayathan*

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

CHIEF SECRETARY	
REC.	22 JAN 1988
ACTION	Mr. N. Williams.
	Mr. Frost, Mr. Anderson
	Mr. Mack, Mr. Moore
	Mr. Burgess, Ms. Peters
	Mr. Wallace, Mr. Hood
	Mr. Gair

✓ *ABM*

22 January 1988

Dear Paul
Mr Mack, Mr Moore
Mr Burgess, Ms Peters
Mr Wallace, Mr Hood
Mr Gair

INVERCLYDE

The Prime Minister and Ministerial colleagues agreed in principle before Christmas to my Secretary of State's proposal for an enterprise zone in Inverclyde in the light of the exceptional local economical difficulties in the area. The Chief Secretary has since written with further details of Treasury views and we see no difficulty in satisfying his requirements.

An approach is now being made to the European Commission notifying the new policy on enterprise zones announced by Nicholas Ridley on 17 December and also seeking agreement under article 93(3) of the Treaty to the proposed zone in Inverclyde. We hope there will not be difficulties or delay but we cannot yet be confident of either. The French recently had a rough ride over a not dissimilar package.

The Prime Minister said that she would like to return in the New Year to the question of the timing of the announcement of a zone for Inverclyde; and I understand that she would like, if possible, to be able to make the announcement herself in early March when she may visit IBM in Greenock. My Secretary of State would be delighted if she were able to do this although it will need relatively fast progress on the part of the Commission. If the announcement cannot be made then, my Secretary of State would want to proceed as soon as we do get approval given that the zone has been fully justified on the basis of the existing economic difficulties in the area and is urgently needed.

Copies of this letter go to Stephen Haddrill, John Howe, Roger Bright, Alison Brimelow, Peter Smith, Jill Rutter, Nicholas Wilson, Roy Griffins and Trevor Woolley.

Yours
David Crawley

DAVID CRAWLEY
Private Secretary