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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

ENTERPRISE ZONES

Memorandum by the Chancellor of the Exchequer

One of the priority items which E Committee agreed on 24th July to remit to MISC 14 under my chairmanship was a rapid review of the Enterprise Zone concept. Officials have produced a report (E(79)41) which has now been circulated to members of E.

2. The officials' report invites Ministers to take decisions on the following:

(a) to endorse or correct their understanding that Enterprise Zones (EZs) are a means of overcoming concentrations of particular physical or economic decay and promoting economic revival by removing the hand of Government as far as possible; that they have no necessary connection with regional policy, unemployment policy, inner city policy; and that they are to be explicitly experimental, involving therefore a degree of risk.

(b) to endorse or correct the assumption that sites should, at least initially, be small in size and restricted in number.

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(c) to give guidance on the choice of sites - a list of possibilities is contained in Annex A to the officials' report.

(d) to indicate those areas of de-restriction which should be examined further in the context of Enterprise Zones - a list of possibilities is contained in Annex B to the report.

(e) to indicate the possible fiscal measures to be examined further - these are set out in Annex C to the report.

(f) to authorise consultation with local authorities and other interests.

(g) to consider Ministerial responsibility for announcement, consultation and future handling.

3. MISC 14 endorsed the assumptions at (a) and (b). On the choice of sites (c), we considered that in going to consultation, it would be important to speak in terms of about half a dozen sites so that the emphasis on the experimental aspect would not be lost. The sites should be chosen so as to illustrate the range of types of area which might be suitable, including probably at least one in Scotland and perhaps in Wales. I should prefer to leave this like this at this stage. The final choice of sites would be taken in the light of soundings at the consultation stage. On the measures of de-restriction (d), we thought that, subject to colleagues views, the Government should indicate in consultation that its mind was open on all the possibilities listed in Annex B to the officials' report. On the fiscal possibilities at (e), I said that I was willing to consider all the options, although I believed that relief from Development Land Tax, de-rating of industrial and commercial buildings and capital allowances for industrial and commercial buildings were the most sensible ones to pursue.

4. On consultation with local authorities and other interests (f), we agreed that this would clearly need at some point to include the Health and Safety Commission, the CBI and the TUC. I undertook to circulate a draft consultation paper to colleagues at (Annex A). It is drafted on the assumption that colleagues will agree with the conclusions of MISC 14 that all de-restriction measures should be mentioned in very general terms as possibilities at this stage. I would be prepared to mention as specific possibilities the three fiscal options noted above. I would not want to include the other possibilities in a public document at this stage, not least because mention of a free port or tax holidays could cause real difficulties with the EEC Commission. We should in any case need formally to discuss any fiscal proposals with the Commission. But tactically it would seem wiser to do this when we ourselves have a clearer idea of those which we intend to pursue.

5. The question of Ministerial responsibility for an announcement on Enterprise Zones, the modalities of future consultation and future handling (g) will concern the Prime Minister. At MISC 14 we reached the provisional view that I should make the initial announcement, thereafter handing over responsibility for the next stage, including consultation and future co-ordination work, to Michael Heseltine, who is willing to take this responsibility on. We foresaw consultation taking the following form. Once colleagues had indicated broad views about the types of site which should be considered for Enterprise Zones, officials would approach selected authorities in likely areas. The object would be to identify a short list of possible sites and to obtain a clearer view of the substantive problems to be solved, including any necessary site preparation. At the same time, the consultation paper would be made available to a selected number of organisations inviting their views: local authority associations, the CBI, and the TUC would seem to be essential. The aim of this part of the consultation would be to get a better view of impediments to economic development in these areas. Comments would be invited within a period of six weeks to two

months. Officials could then be invited to report back to Ministers in early January with a short list of possible sites, and the results of consultation.

6. I invite colleagues to give their views on the questions for decision listed in the officials report, and to endorse the procedure for further work outlined above.

H.M. Treasury  
15 October 1979

(G.H.)

## ENTERPRISE ZONES

## BASIS OF CONSULTATION WITH LOCAL AUTHORITIES AND OTHER INTERESTS

Enterprise Zones are intended to test on an experimental basis, and on a few small sites, how far industrial and commercial activity can be encouraged by the relaxation or removal of statutory, administrative and fiscal restrictions and burdens. The sites would be in areas with concentrated problems of economic and physical decay. The establishment of Enterprise Zones would have no direct connection with the application of existing policies such as regional policy, inner city policy, rural development or derelict land policies. The sites chosen for Enterprise Zones would continue to benefit from any aid which they receive under those policies.

2. The number of Enterprise Zones would be limited initially to about 6, and the area covered by each would be relatively small; probably up to about 500 acres. The locations would be in different parts of the country and in different types of site in order to test the effectiveness of this approach in different circumstances. Some of the measures to be applied to EZs would be deliberately discriminatory and would not necessarily be suitable for wider application. A number of possibilities for decontrol and relaxation are to be considered. These fall into two broad categories, fiscal and non-fiscal.

Possible Non-Fiscal Measures

3. One possibility is a relaxed regime of planning controls, perhaps implemented by Special Development Order. Whilst specifying the site layout and the broad categories of development that would be permitted, this would allow developers greater freedom to decide size, shape, plan and aesthetics of development. Where they still exist, IDC procedures might be abolished in Enterprise Zones. The Government might reduce its request for statistical information. It is hoped that ways might be found to adapt or administer other restrictions on economic activity so that delays and burdens could be minimised as far as possible without jeopardising living and working conditions within Enterprise Zones. Examples of areas where such relaxations may be possible are building, fire, health and safety regulations, local road standards, traffic regulations and controls on heavy goods vehicles, pollution controls, bus licensing and regulations governing the stopping up of footpaths etc.

The aim would be to cut down on the administrative procedures involved in the maintenance of reasonable standards. There is nothing sacrosanct about the way in which certain standards are maintained; indeed, the standards themselves are often the product of compromise between conflicting interests.

4. Other areas where some relaxation might be considered in Enterprise Zones as a means of stimulating economic activity are private sector rents for new buildings; the obligation on employers to pay a training levy to industrial training boards; and those provisions in the Employment Protection legislation which can impose a disproportionate burden on employers. On this last, the aim is not to abandon the progress which has been achieved in protecting employees; but to see whether certain relaxations of the statutory obligations on employers might lead to increased economic activity in decaying areas and, consequently, to increased employment opportunities.

#### Fiscal Measures

5. So far as fiscal relaxations are concerned, the Government is willing to consider the possibility of the following measures:

- a. the de-rating of industrial and commercial property. Insofar as Enterprise Zones were established on largely empty sites, the initial cost in rates forgone should be relatively small.
- b. relief from Development Land Tax.
- c. capital allowances for commercial buildings and more generous allowances for industrial buildings.

#### Implementation

6. To allow some of the relaxations mentioned above to come into effect, there would need to be legislation including powers to designate Enterprise Zones. The effects on private and public interest would have to be taken into account in determining any designation. Also, care would have to be taken to minimise the risk of blighting, or speculation in advance of final designation. The key to the success of Enterprise Zones is stimulating economic activity in run down areas. This is likely to involve both investment in existing properties and new development. Consideration will have to be given as to how sites would be made available to developers, and to the way in

which site assembly, reclamation and developing should be facilitated and financed.

Consultations

7. A limited number of local authorities in England, Scotland and Wales are being consulted directly. The authorities chosen are experienced in tackling the problems of economic decline and physical decay. However, the view of other authorities and of the associations would be welcome. Consultations will also be carried out with the appropriate authorities in Northern Ireland where the structure of local government is different.

8. There will be many others who will have an interest in possible measures of de-restriction designed to stimulate economic activity. We would welcome their contributions to the development of these proposals. This document has therefore been given a wide circulation (see attached list). We would be grateful for comments or suggestions by [ ] .