



## Belfast City Council

<b>Report to:</b>	Development Committee
<b>Subject:</b>	Inquiry: 'Northern Ireland as an Enterprise Zone': proposed response
<b>Date:</b>	22 February 2011
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<b>1.</b>	<b>Relevant Background Information</b>
1.1	At the January 2011 meeting of the Development Committee, Members were made aware of an inquiry by the Northern Ireland Affairs Committee at Westminster into the designation of Northern Ireland as an Enterprise Zone.
1.2	This inquiry is part of a wider piece of work by the Committee focused on rebalancing the Northern Ireland economy. It is understood that this work is now completed in draft format and is with the Northern Ireland Executive for consideration.
1.3	<p>The Committee identified a number of issues on which they were seeking views and comments. These included:</p> <ul style="list-style-type: none"><li>– How does an enterprise zone operate?</li><li>– Why should Northern Ireland be declared an enterprise zone?</li><li>– What should be included in any enterprise zone proposals?</li><li>– Are these proposals aimed at any particular sectors?</li><li>– Is there a priority as to what should be included?</li><li>– How long should the enterprise zone operate for and what aspects might be made permanent?</li><li>– Which aspects would be the responsibility of the UK Government and which would be the responsibility of the NI Executive?</li><li>– What worked well, and what did not work well, when there were enterprise zones previously in Northern Ireland?</li><li>– What lessons can we learn from enterprise zones or similar initiatives to try and stimulate enterprise in other countries?</li></ul>

1.4	The closing date for submissions to the Committee was 21 January 2011.
1.5	At the January 2011 Development Committee meeting, Members agreed to have a workshop on the proposal in order to agree the official council submission to the inquiry. This workshop took place on 8 February 2011.

<b>2.</b>	<b>Key Issues</b>
2.1	The attached draft response identifies the key issues of interest and concern from a Belfast City Council perspective. The draft incorporated comments proposed by Members at the 8 February workshop.
2.2	<p>The response follows the key questions asked by the Committee. Some of the key points raised in the response include:</p> <ul style="list-style-type: none"> <li>– Need for clarification as to designation of an Enterprise Zone. In the 1980s, Enterprise Zones were geographically-designated sites. The current proposals suggest that the conditions will apply across all of Northern Ireland with no such geographical designations</li> <li>– Evaluations of the previous Enterprise Zone experiment suggest that they did not offer value for money. Any new proposals must achieve a positive return on investment</li> <li>– One of the facilities offered under the previous Enterprise Zones was rates relief. As a council, we would have concerns about the impact on our rates income, should this be re-introduced and would seek assurances that we would be compensated for any loss of income. If this was not the case, local services would suffer</li> <li>– Incentives for re-developing vacant land could add to the current levels of vacant properties in our towns and cities</li> <li>– Enterprise Zones should include a “basket” of support including regulatory measures, fiscal incentives, investment stimuli and business support activities with an overall objective of supporting more new business starts and helping businesses to become more competitive. Clear targets should be established and monitored</li> <li>– There is a need for an overarching economic strategy as a context for the establishment of Enterprise Zones. We note that this is out to consultation at present and suggest that agreement on this is essential to drive budgetary allocations towards agreed development activities</li> <li>– We would welcome contributing to and engaging with government and the private sector in efforts which help make our economy more competitive and create employment for our residents.</li> </ul>

<b>3.</b>	<b>Resource Implications</b>
3.1	Depending on the scope and scale of the legislation, there may be implications for council in terms of reduced rates income. This is unclear at this stage and has been noted as an issue of concern in our draft response.

<b>4.</b>	<b>Equality and Good Relations Considerations</b>
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4.1	Any legislation would be equality proofed before introduction.
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<b>5.</b>	<b>Recommendations</b>
5.1	Members are asked to note the attached response as the Belfast City Council contribution to the inquiry.

<b>6.</b>	<b>Decision Tracking</b>
No decision tracking	

<b>8.</b>	<b>Documents Attached</b>
Appendix 1 - Draft Belfast City Council response to the inquiry.	

## Appendix I

### Northern Ireland Affairs Committee: Northern Ireland as an Enterprise Zone

#### Draft Belfast City Council response to the Inquiry – January 2011

##### Introduction

- 1 Belfast City Council welcomes the opportunity to contribute to the Northern Ireland Affairs Select Committee's inquiry on Northern Ireland as an Enterprise Zone.
- 2 We note that this inquiry is taking place as part of a wider piece of work by the Committee on rebalancing the Northern Ireland economy which was expected to be completed by the end of 2010 but which has not yet been released. These comments are therefore made in the absence of the wider contextual study and analysis.
- 3 The term "enterprise zone" was introduced in the 1980s to denote "an experiment in urban policy to stimulate economic activity by giving businesses as much freedom as possible in which to operate<sup>1</sup>". These zones were geographically designated areas, established for a period of 10 years, in which companies could benefit from a series of tax allowances, relaxation of planning restrictions and rates relief facilities. In total, 38 sites were designated, including sites in Belfast - of which one area is now in the ownership of Belfast City Council - and Derry in Northern Ireland.
- 4 Having read the comments of the Northern Ireland Secretary Owen Paterson and the Prime Minister David Cameron in relation to the current proposals, it is our understanding that the expectation is that the policy will apply across all of Northern Ireland as opposed to geographically-designated locations. Therefore we are working on the premise that any new proposals would focus on growing the size of the private sector and creating additional investment across the region as a whole as opposed to a number of targeted interventions. Our subsequent comments are made based on this assumption.
- 5 We have also assumed that the activities proposed for the Enterprise Zones will have to be achieved within existing (and already reduced) budgets, as opposed to any additional expenditure becoming available. As a council, we would have significant concerns around any proposals which may reduce the business rates income to the council, given that this is a major driver of our wider service delivery to the ratepayer. If additional rate relief was to be introduced as an element of the Enterprise Zone, would we want to ensure that the shortfall to councils would be made up by central government or the Northern Ireland Assembly, as is the case for the recently-introduced Small Business Rate Relief Scheme.
- 6 Given the relatively short timeframe allowed for the response, we have made

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<sup>1</sup> Department for Communities and Local Government (2003), *Enterprise Zones Monitoring Report 2002-03*

our elected members in council aware of the inquiry and have drawn together some of their comments in relation to this. However this response has not yet been endorsed by the appropriate committee structures. It will be considered by the Development Committee at its meeting on 15 February 2011 and will be endorsed at the 01 March 2011 meeting of Council. Should there be any changes to the attached comments, we will make the Northern Ireland Affairs Select Committee aware of these in due course. We have also taken account of the views of the business community in the city and have discussed the implications of this potential development with the key business organisations.

### **How does an enterprise zone operate**

- 7 As previously identified, the key incentives attributed to the enterprise zones established in the 1990s included rates relief initiatives, tax allowances on capital expenditure and relaxed planning restrictions. This series of measures gave rise to a variable range of outputs. The evaluation of the Northern Ireland Enterprise Zone experiment suggests that, of the 7,300 jobs created on the Enterprise Zones, 1,200 are net additional jobs on the zones themselves with 440 net additional jobs in the local areas around the zones. Given the public investment of £10.7million (of which 90% was spent on the Belfast Enterprise Zone), this equates to a cost per job of £9,200 in the zones themselves and £24,000 in the local areas. The overall conclusion of the report notes that, while there was some regeneration impact in the designated boundary during the period of operation of the Enterprise Zones, there was no net growth in employment in the region as a whole and only limited impact in the surrounding areas. Overall, it suggested that the same effect could probably have been achieved at a lower cost by reducing the amount of “deadweight” on both capital allowance and rate relief which could be differentiated between economic sectors or reduced over time<sup>2</sup>.
- 8 Although the regeneration needs of the city today are significantly different to those in the 1980s, the lessons learned suggest the need for careful consideration of the investment package, taking a wider view of the incentives to be offered. Creating an Enterprise Zone in the current climate should be a mixture of regulatory instruments and investment stimuli set in the context of clear targets regarding the number and type of businesses to be established and supported.
- 9 As previously noted, if this is to be a region-wide policy, consideration should be given to the types of companies that we would like to see established in Northern Ireland, prioritising support for those that contribute most significantly to increasing productivity by developing a tailored suite of business support provision.
- 10 Enterprise zones should be closely aligned to the research expertise and technology capabilities of universities and colleges. In Belfast, we have two universities and one further education college and there is a significant opportunity to further enhance collaboration between these organisations and

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<sup>2</sup> Department of the Environment (1998), *An evaluation of the Enterprise Zone experiment in Northern Ireland*

the business community in the city. This may require some consideration as to how universities and colleges are funded, including additional support for targeted activities that contribute directly to the wider economic development of the region.

- 11 The rationale for the establishment of the Enterprise Zones in the 1980s was to “augment weak property markets<sup>3</sup>”. While the property market is currently in a downturn period, we do not consider that the previous approach would necessarily work in the current climate. We consider that there remains a concern regarding potential displacement and reduction in property values.
- 12 We would also caution against any significant reduction in planning stipulations around Enterprise Zones. We support the work which is already underway to streamline the planning system and acknowledge the need to speed up the current system, particular where proposals will support the economic development of an area. However we consider that the appropriate due diligence is also important for the longer-term viability of the site.
- 13 In the 1980s, Enterprise Zones were operated by the Department of Environment, in the period of Direct Rule. As a devolved responsibility, we suggest that consideration should be given to the appropriate model for the operation and management of this initiative. We would be keen to play a key role in any Belfast-based activities and consider that this is complementary to our wider plans for the sustainable regeneration of the city.

### **Why should Northern Ireland be declared an Enterprise Zone?**

- 14 The arguments for declaring Northern Ireland an Enterprise Zone relate principally to the need to enhance the region’s economic competitiveness and to reduce the productivity gap between Northern Ireland and the rest of the UK.
- 15 There are a number of reasons for the current economic situation, most of which pre-date the current economic crisis:
  - Dominance of public sector and over-reliance on the sector for direct and indirect employment opportunities
  - Traditionally high levels of public subvention
  - High levels of economic inactivity, concentrated in small geographical areas, with consequently high levels of deprivation
  - Relatively low levels of new business start-ups
  - Low earnings levels in the private sector
  - Geographical location with accessibility issues and high transportation costs
  - Social problems as a result of previous inter-community tensions and their impact on social mobility
  - Multiple governance structures increase bureaucracy and can impede development.

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<sup>3</sup> Department for Communities and Local Government (2003), *Enterprise Zones Monitoring Report 2002-03*

- 16 While a number of these elements might apply to other parts of the UK and beyond, the emergence from the conflict situation over the last forty years, coupled with the current economic climate, requires a radical and fresh approach to stimulating enterprise in Northern Ireland.

### **What should be included in any enterprise zone proposals?**

- 17 Enterprise zone proposals could include a range of regulatory measures, fiscal incentives, investment stimuli and business support activities. The overall drive should be to create more businesses, particularly those which can provide value-added services, as well as stimulating greater investment in research and innovation and encouraging companies to explore new markets. The support should be clearly-defined, widely accessible, of a high standard, with limited administrative burden on the part of the business. Consideration should also be given to the wider social and economic impact of Enterprise zones including possible social clauses and commitment to recruitment of long-term unemployed etc. Enterprise Zones should provide focused, targeted support and provide a platform for developing innovative approaches.
- 18 The focus of the proposals should be on providing sustainable investment support which will lead to productivity and business growth. There should not be a reliance on ongoing public intervention without any clear expectation as to the outputs expected.

### **Are these proposals aimed at any particular sectors?**

- 19 There are strong arguments for supporting incentives that will encourage the growth and further development of identified sectors, with a view to building critical mass and developing highly connected clusters of companies that can be globally competitive.
- 20 There are a number of sectors which, we believe, offer significant growth potential and in which we plan to focus some of our investment in the coming years. These include:
- Creative industries: film and television, digital media
  - IT and software development
  - Health technologies
  - Environmental technologies
  - Tourism and hospitality development: related to the wider events and tourism development programme, particularly in the coming years (e.g. Titanic Belfast, World Police and Fire Games)
  - Financial and business services.
- 21 We consider that, with the appropriate mix of regulatory rationalisation and targeted support, the development potential of these sectors – in which the region could potentially have a competitive advantage – would be maximised.
- 22 However there is also an argument to suggest that we need to see more new businesses in all sectors, to address the current low levels of business start up

rates in the region. A tailored package of support needs to be available to those businesses that have the potential for further growth.

### **Is there a priority as to what should be included?**

- 23 We consider that there will be a need for a “basket” of support mechanisms which can help both indigenous businesses and foreign direct investment companies.
- 24 We acknowledge the role that corporation tax has had in attracting investment and are conscious of the wider debate of how a reduction in corporation tax can be balanced against a reduction in the overall contribution to the NI budget.
- 25 As previously noted, we support a tailored package of support for those businesses that have the potential to grow and create wealth and further employment. From a management perspective, it will be important to consider the relative merits of investment in each case, with a view to maximising return in this difficult financial climate. We consider that any intervention should be output-focused, in agreement with the business.
- 26 We would have some concern about any possible rate relief measures, particularly if they impacted on the business rate income to councils. If a rate relief scheme was to be introduced, we would want to ensure that councils would be compensated for any loss of revenue.
- 27 We feel that significant consideration should be given to skills development support, both for those who are not in employment and for those already in work. This activity should be aligned to the wider Regional Economic Strategy (currently at consultation stage) and should be prioritised on key growth sectors and current gaps in provision. We intend to make this a central plank of both our Belfast masterplan and a new integrated economic strategy for the city.

### **How long should the enterprise zone operate for and what aspects might be made permanent?**

- 28 The previous enterprise zones had a 10 year duration. We accept that the changes required to turn around the Northern Ireland economy will only see an impact in the medium to long-term although we consider that measures need to be agreed as soon as possible in order to allow that process to get under way, as such, we suggest a minimum designation of 5 years.
- 29 We consider that what is required in the long-term is a re-orientation of public expenditure to support economic growth in key industries. As such, this will require re-prioritisation of budgets over successive budgetary periods, with all investment linked to specific targets and outputs. On a permanent basis, public spending should focus on creating a dynamic economy supported by a skilled labour force, with a sufficient support system to help those who cannot access employment opportunities.



## **Which aspects would be the responsibility of the UK government and which would be the responsibility of the Northern Ireland Executive?**

- 30 The roles of the respective governmental partners will be dependent on the activities agreed, should enterprise zones be introduced. However we would work on the assumption that any fiscal measures would require UK government consent while other incentive and support packages are likely to be determined by the Northern Ireland Executive.
- 31 As the largest local authority in the region, we would be keen to play our part in any enterprise zone activity within our area and would commit to working with our partners to align our expenditure to ensure maximum impact.

## **What worked well, and what did not work well, when there were enterprise zones previously in Northern Ireland?**

- 32 Successive evaluations of enterprise zones suggest, in the main, that while they may have been successful in attracting development to disadvantaged areas, they were a blunt instrument that did not necessarily offer best value for money.
- 33 A report by the Office of the Deputy Prime Minister<sup>4</sup>, carried out in 2006, indicates that:
- In selecting sites to be designated as Enterprise Zones, consideration should be given to issues such as connectivity, crime rates and general image of the area. Research showed that, where this was not the case, it was possible that, once the incentives ceased, the property market in that area could collapse to an extent that the buildings were no longer lettable or saleable
  - An efficient and effective planning regime, coupled with other incentives, can stimulate regeneration activity and investment
  - Enterprise Zones are not always the best ways of addressing market failure in an area. When identifying sites, consideration should be given to long-term sustainability, rather than prioritising solely on the basis of deprivation in a ward. It may be more appropriate, instead, to introduce improvements to the area e.g. improved transport facilities to allow residents to access employment opportunities elsewhere in the city
  - Capital allowances were the most “popular” element of the Enterprise Zones incentives, particularly for developers. However in the current climate, where there is already over-provision, it could be argued that this would simply add to the problem, rather than encouraging businesses to occupy vacant properties
  - Enterprise Zones should have at their disposal a package of measures, rather than being established as a stand-alone solution, based on property incentives
  - Efforts should be made to relate the development potential of Enterprise Zones to the available pool of labour. Skills development and training should be a central component of any Enterprise Zone.

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<sup>4</sup> OPDM (2006) *Transferable lessons from the Enterprise Zones*

- 34** The evaluation of the Northern Ireland Enterprise Zones undertaken by Department of Environment and alluded to at point 7 above suggest that while they did help with the physical re-development of key sites, they were a costly investment and similar outputs could have been achieved at a lesser cost. In the current climate, this is an important issue for consideration.
- 35** There was no particular impetus in the Northern Ireland Enterprise Zones to support new starts and this was largely the case with other designated areas. Northern Ireland is a small business economy – indeed the majority of businesses in the region could be categorised as micro-businesses. However our business start levels are still below the regional average. Therefore any new Enterprise Zone activity should prioritise new business starts, helping them enhance productivity once established.

**What lessons can we learn from enterprise zones, or similar initiatives to try and stimulate enterprise in other countries?**

- 36** The lessons from the Northern Ireland and other 36 UK examples have been referred to above. Essentially, it is important to design a package of support that meets the needs of the local economy, as identified within an agreed economic strategy. We are at a disadvantage in that this does not exist at present in the region. It should be addressed as a matter of urgency.

**Wider Issues**

- 37** We are aware of some positive experiences of area-based economic regeneration initiatives such as the Coalfields. Equally, we acknowledge the success of wider economic policy interventions which were not confined to designated areas. In this regard, the Republic of Ireland’s experience (pre-2008) in establishing a favourable taxation regime, coupled with significant investment in education and skills development and developing a strategy based on a number of key target sectors presents an example of how a broader policy approach to supportive enterprise development can be effective.
- 38** While these approaches were different, there were a number of similarities in the lessons learned, namely:
- Need for a clear strategy to guide development activity and resources
  - Need for partnership working
  - Importance of establishing clear outcomes that are shared by all partners
  - Need for investment in skills and education driven by the target economic sectors
  - Need to develop innovative approaches to address deep-seated challenges.
- 39** The current economic climate presents significant challenges for the Northern Ireland economy. While we are not alone in this, we have a range of structural challenges within the economy which need to be tackled if the economic trajectory is to reach its optimal level.
- 40** It is clear that a similar mantra has been promoted for the last half century

with little change in overall performance and output, even during our most successful decade (1997-2007). As such, a more bold approach is required, with appropriate budgetary resources directed towards an overall goal of enhanced competitiveness. Designating Northern Ireland an Enterprise Zone is one way of doing this but there is a need for further debate as to what specific stimulus and investment packages will address that need and what delivery mechanisms are appropriate to ensure that it takes place.

- 41** Belfast is the regional economic driver and, as the local council with responsibility for the development of this city, we are keen to engage in further debate on the matter and to work with partners to deliver a step-change in economic performance in the city and the wider region, for the benefit of all our residents.