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CABINET

MINISTERIAL COMMITTEE
ON ECONOMIC STRATEGY

ENTERPRISE ZONES

Note by the Secretaries

Attached for the information of the Committee is a report by Officials on this subject which has been submitted to the Ministerial Steering Group on Government Strategy (MISC 14).

Signed JOHN HUNT
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Cabinet Office

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CONFIDENTIAL

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Report by Sub Group of Official Group on the Impact of Government on Industry.

2. Summary

In examining the potential of an Enterprise zone we have, because of the experimental nature of the concept, necessarily considered radical and controversial measures, (relaxations of non-fiscal burdens are out-lined in Annex B; fiscal burdens in Annex C) although the difficulties of relaxing any controls would be considerable.

3. We identified the primary objective of an Enterprise zone as being economic revival and with this criteria foremost, selected several possible locations in the UK for Ministers to consider (Annex A).

4. Conclusions

Ministers are invited:

- a. To endorse or correct our understanding that EZ's 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 or 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.

c. To give guidance on the choice of sites.

d. To indicate those areas of de-control which should be examined further in the context of Enterprise Zones, including fiscal measures.

e. To authorise consultation with local authorities and other interests.

f. To consider Ministerial responsibility for announcement, possible consultative document and future handling.

ENTERPRISE ZONES

Report by Sub Group of Official Group on Impact of Government on Industry.

Introduction

We have addressed ourselves to developing the concept of "enterprise zones" with some concreteness in terms of both location and possible measures that might be applied. The aim is to enable Ministers to form judgements both on the main concept and on the sorts of areas and particular measures on which further work should be concentrated.

2. We understand that enterprise zones (EZs) are seen primarily as means of overcoming dereliction by removing the hand of Government as far as possible and leaving enterprise free to stimulate economic development. Although dereliction (though not necessarily statutory dereliction) may be taken as the main criterion, in practice dereliction is most often found within areas with problems of industrial decline and unemployment. There need be no direct connection between enterprise zones and policy for the regions, the inner cities, unemployment or derelict land. Enterprise zones would be experimental; it would be explicit from the start that there is a risk that the Enterprise Zone measures may not succeed in every case in stimulating development, or that the development that does take place may not be to everyone's liking. The areas to be tackled would therefore be few, and small, and the measures to be considered may, if necessary, be radically and deeply discriminatory. Where demand is weak, and easier development opportunities are available, the purely deregulatory measures which form the basis of this paper would probably not be sufficient to encourage the private sector to tackle expensive derelict sites. Unless such sites as these are excluded from consideration as possible locations for Enterprise Zones, further measures might be required to give an Enterprise Zone a reasonable chance of success, but these would go beyond the concept of Enterprise Zones as defined by the Chancellor in his Isle of Dogs speech.

3. The concept of pilot areas (PAs) has also been mentioned in connection with enterprise zones in general terms. We understand that they would cover concentrations of high unemployment, perhaps brought about by a sudden economic blizzard such as the closure of a dominating traditional industry. PAs would cover larger geographical areas eg whole travel-to-work areas, and would not necessarily be connected with dereliction. It seemed to us that pilot areas represented a potential new approach to aspects of regional policy.

4. The measures appropriate to EZs might in some cases be appropriate to PAs. Other measures, however, in particular tax reliefs, which might be defensible if confined to a few tightly drawn EZs could become out of the question for much larger PAs. To avoid complicating the issues and to facilitate early progress on specific recommendations we have concentrated at this stage on the identification of sites and possible measures for EZs without prejudice to future work on pilot areas. The rest of this paper therefore deals with the concept of enterprise zones alone.

Objectives

5. If we are right about the concept, we see the primary objective as being economic revival for the zone and its surrounding area. But other benefits might follow from the method of approach:

- a. Some of the measures applied experimentally might be found worth trying out more broadly.
- b. The private sector might be shown to be capable of relieving problems previously thought to require public sector treatment (though the supposition is that public sector aid already made available under regional and other policies would continue in any areas selected for enterprise zones).

Choice of Sites

6. We suggest that criteria include the following:
 - a. Dereliction or need for economic revival.

- b. The likelihood of success, in terms of achieving redevelopment and/or creating new jobs. This will depend partly on the buoyancy of the surrounding local economy.
- c. Likely associated costs (see paragraphs 8,19 and 20 below).
- d. The attitude of the local authorities.
- e. Special measures covering, or proposed, for the site selected, eg assisted areas, inner city areas, derelict land clearance areas, and Urban Development Corporations.
- f. The availability of sufficient vacant or developable sites.
- g. The current ownership of the land in the enterprise zones.

In suggesting potential sites, we assumed that Ministers would not wish the choice to be confined to derelict areas in the most economically buoyant parts of the country. Insofar as discriminatory measures are proposed for sites which do not fall within Special Development Areas, it should be recognised that the concept of EZs cuts across the decision already taken by Ministers in the context of regional policy to concentrate aids on the SDAs.

7. Annex A gives brief details of possible locations for EZs. If economic need were the most important criterion, all the Scottish and Northern Ireland sites would be candidates. Among the English sites the most likely candidates would be on Merseyside and Tyneside and perhaps (though the employment case is less strong) Bilston in the West Midlands. Within this category there would be a choice between Speke (Liverpool) and Boldon (South Tyneside) on the one hand, which are large easily developable green field sites, and on the other hand the built-up North Docks (Liverpool) and the vacant Derwent Haugh (Gateshead), which are both areas of dereliction which offer smaller areas of vacant land at a greater cost per acre. If maximising the chances of success were to override need then the sites in Yorkshire would come into the picture (Sheffield, a developed area of urban dereliction, Doncaster Carr (a largely vacant site needing reclamation), together with the West Midlands (not necessarily Bilston) again; and of course London would then be a prime candidate. The London sites might require a variant of the Enterprise Zone concept. The buoyancy of the London

economy means that in some locations the full range of fiscal concessions might not be required to get development moving. On the other hand, a less restrictive planning regime or improved communications might well, just on its own, stimulate commercial and some residential development in those areas nearest to the City. The need for a full-blooded Enterprise Zone in London is therefore questionable. Other sites such as those identified in South Wales fall between the two categories. The levels of unemployment are lower than in the first category but they are areas of need where the prospects of improvement are good. The experimental purpose of Enterprise Zones might best be served by selecting a group of sites with a variety of characteristics.

8. The list of sites given in Annex A is longer than Ministers have in mind for final selection. The eventual number might be half-a-dozen or fewer. Sites would doubtless have to be dropped, and others may be added, as consultation with local authorities and others shows local problems and opportunities that Government departments may not be fully aware of. Cost would be an important factor: very broad estimates - hardly more than guesses at this stage - of any necessary preliminary works on site clearance, infrastructure and servicing, are given in Annex A.

But for many of the suggested locations the cost and time-span of such works, combined with the easy availability of cheaper sites elsewhere, may inhibit private sector development despite the other attractions of Enterprise Zones. Some public sector money may be needed to make development possible and the cost would be a key factor particularly since we assume that any expenditure would need to be from within existing PESC provisions though no consideration has been given to the source of any provision required from individual programmes. Site availability and preparation may be a sine qua non for providing development opportunities within an Enterprise Zone.

Choosing the Measures

9. The causes of economic decay in these zones are many and varied. Often there is not even agreement as to why things have reached their present state. In dealing therefore with the deep-

seated problems which afflict these areas, a whole range of decontrol measures and incentives may be required to overcome the present handicaps and to stimulate economic development. Some measures would clearly be more important than others.

10. We have identified a number of potential relaxations of non-fiscal burdens on enterprise. Details are given in Annex B. The suggestions do not necessarily have Departmental, let alone Ministerial authority. As already mentioned, relaxation of planning control in those of the London sites closest to the City may be sufficient in itself to stimulate development. Local authority attitudes may hitherto have frustrated the type of commercial and residential development which entrepreneurs would have been willing to undertake. However, even here the state of the market at the time that the relaxation is introduced would be crucial to the success of the experiment. In other areas the relaxation of planning controls may have only a marginal effect. Many local authorities in the harder pressed regions outside the south and east claim that they will readily give planning permission to almost any development which will contribute to the local economy. Elsewhere the relaxation of planning controls may be less important, though it is quite possible that zoning for a particular type of economic activity may have frustrated those who wished to use that particular site for some other purpose. Even where planning controls present no problem, the combination of building regulations, health and safety regulations and fire regulations would still present a hurdle to the potential developer who wanted to construct a new building or to improve an existing one. If the aim is to attract entrepreneurs into areas which they would not otherwise choose themselves for development, there is an argument for trying to reduce these hurdles as far as is practicable. Similarly, with employment protection and the Wages Councils Act. The Government is already working on amendments to the EPA, including Schedule 11. If the aim is to generate maximum employment in an area of high unemployment and dereliction, it could be worth experimenting with discriminatory and radical relaxation of the legislation to test the effects. The work force would be aware of the experiment. If they declined to accept reduced rights/wages they would be free to seek work elsewhere (particularly if the areas chosen were small). But some people might prefer to work

with reduced rights or wages than to be unemployed. And employers would in practice have to behave reasonably well in order to attract keep their labour force.

11. Further work would need to be done to show the extent to which controls of the type cited in Annex B really were a problem in the sites chosen. The difficulties of relaxing any controls are not underestimated. They are of several kinds:

- a. Changes would depend greatly on the co-operation of the local authority.
- b. Changes may be felt to infringe fundamental values (eg health and safety).
- c. Changes may provoke powerful opposition (eg from the work force or the trade unions in the case of employment protection legislation).
- d. It may be difficult/impossible to confine the consequences of derogation to the area in question (eg atmospheric or water pollution) and improvements in one area might be at the expense of increasing dereliction elsewhere.
- e. Legislation may be involved.

12. It may be valuable to incorporate some fiscal measures into any package, partly to encourage developers to take an interest and partly to tempt entrepreneurs to move into the zones in the first place. The possible fiscal measures are largely the same as those covered in the first report on enterprise zones/pilot areas produced for E Committee in July. There are six:

- (i) Exemption from development land tax (DLT).
- (ii) Derating of industrial and commercial buildings.
- (iii) Capital allowances for industrial and commercial buildings.
- (iv) Tax holiday for profits.
- (v) Free ports.
- (vi) Indirect tax concessions.

The first four were considered in the July report and the other two have been examined subsequently. All these possible measures are reviewed in Annex C. The provisional view of the Treasury, Inland Revenue and Customs is that concessions on DLT, derating as proposed by the DOE and capital allowances look possible starters, whereas tax holidays, free ports, and indirect tax concessions do not (see Annex C). There are general risks that establishing enterprise zones which enjoy a package of tax concessions could create tax havens within the UK.

13. Tax relaxations would fit in with the underlying aim of reducing governmentally imposed inhibitions. They would, however, represent a direct cost to the Exchequer, particularly insofar as they benefitted (as they would almost certainly have to) businesses already established in the zone, or activity which would have taken place there anyway. That is why the question of size and number of the zones is important. If the enterprise zones were small in size, few in number and concentrated in areas where there is little if any activity going on, then the revenue losses might be minimal, particularly if the tax reliefs were so constructed (became related to property) as to ensure that any economic activity generated was incremental rather than diverted from other areas. If on the other hand, the zones were conceived of as broader areas, the view of the Treasury and the Revenue is that fiscal measures might not be appropriate. Furthermore, besides the direct costs of the reliefs for the enterprise zones themselves, this is the risk of extension. First, while it may be possible to contain certain types of tax incentives within the boundaries of a tightly drawn enterprise zone, that might not be possible if they were implemented in wider areas; tax concessions, once granted on a restricted basis, stimulate pressure for extension, and the bigger the class who originally benefitted, the harder it is to deny others. Secondly, the costs could easily become enormous, and, as discussions between Ministers on public expenditure have shown, the scope for accepting such costs over the next year or so is limited.

14. We seek guidance from Ministers as to the measures which should be considered further for possible inclusion in packages for enterprise zones. In making their choice, Ministers will wish to

consider broadly what type of economic activity it is that they wish to achieve. If the aim is to generate activity fast, at all costs, there is an argument for maximum decontrol to permit indiscriminate development on a derelict site. The end result might well be entrepreneurial shanty towns: small scale car brakers yards combined with lorry parks. Fire and accidents risks would be likely to be high. The alternative which DOE advocate, is a degree of planning designed to ensure that scrap metal yards are not set up next door to prestigious office blocks/housing developments. Investors will not put money into the latter if there is a risk of smelly/unsightly development next door. And, on this approach, it might be necessary to consider what might be done about the vandalism, violence and other manifestations of social aberration that tend to characterise these areas.

15. Ministers are invited to agree that further consideration should be given to the possibility of relaxation in the following areas:

- a. Planning controls
- b. Building regulations
- c. Employment protection
- d. Fire regulations
- e. Health and safety at work
- f. Deregulation of rents in private sector housing
- g. Training
- h. Local roads standards
- i. Traffic regulation controls on heavy goods vehicles
- j. Relaxing bus licensing
- k. Stopping up footpaths etc to enable development to proceed
- l. Pollution control
- m. Statistical surveys
- n. IDCs

Departments have made it clear that some of these are a good deal more promising than others, and that submissions on some of the possibilities of relaxation have already been put forward to their Ministers, and that in a number of instances Ministers have already made their views clear.

15. In the fiscal field, Ministers are invited to agree that further work should concentrate on the possibility of:

- a. Relaxation in Development Land Tax
- b. Derating
- c. Extension of capital allowances

while not necessarily ruling out other items. Other Departments will be invited to participate in this further work.

Assessment of Effectiveness

16. Enterprise zones are essentially experimental. The aim is to try out measures designed to stimulate the supply side of the economy (though not necessarily on the assumption that any measures which proved successful could be applied more widely). It is recognised that some development in EZs will take place at the expense of other areas not favoured by the discriminatory measures. Perhaps areas with substantially higher unemployment and a higher Assisted Area grading. But the hope is that in time the overall level of economic activity in an EZ would be at least partly incremental. Good communications, readily available markets and suitable pools of skilled labour will all contribute to the likely success of EZs. Conversely their absence will militate against success. It is however, difficult to estimate with any degree of accuracy what the chances are for success. We therefore suggest that Ministers should experiment in a few sites, preferably varied in character so that the effectiveness of this approach can be tested in different types of areas.

Role of Local Authority

17. It is not envisaged that any new authority need be created to run EZs, P/As. There is no reason why local authorities should not

be able to perform a controlling role and use their powers for land assembly, provision of infrastructure, and so on in the designated areas. But many local authorities may view some of the non-fiscal measures as an attack on their authority and a comment on their past performance. There would certainly be pressure for some form of inducement over and above the fiscal measures proposed, especially as local authorities can hardly be expected to welcome derating. The attitude of local authorities could only be tested through consultation, see below. But their attitude could well be clearly crucial.

18. If the proposal for Urban Development Corporations is put into effect, these bodies could have a controlling function in an EZ within the area of a UDC. But UDCs are not likely to be in operation in much under two years: declaring an EZ in an area (such as Surrey Docks), covered by a UDC would therefore to some extent pre-empt the decisions on development which might be taken by the UDC.

Costs

19. The non-fiscal policy relaxations are not as such likely to involve direct costs to the public sector. But as has already been pointed out, development in many of the EZs listed in Annex A is likely to be dependent on prior expenditure by the public sector on essential pre-development work. Moreover, the enforced release of public sector land may be necessary as otherwise the private sector could have too few sites to work on. But the effects on the activities of the nationalised industries, statutory undertakings and local authorities would have to be taken into account. If the sale price were less than the book price, there might be demands for compensation. Unless existing programmes - which are already under constraint - can be made to accommodate all this expenditure, finance may be a substantial obstacle. There would be strong resistance from the rest of the country, especially from the Assisted Areas, if it appeared that additional expenditure in EZs (eg on derelict land clearance) involved reductions elsewhere.

20. The costs of revenue foregone have been referred to in paragraph 13. They need not be great if (a) the fiscal reliefs are given in only a small number of areas and (b) so far as practicable

the reliefs are given in such a form as to apply mainly to development which would not otherwise occur.

EEC Implications

21. The preliminary view of the Foreign and Commonwealth Office is that a package of de-regulatory measures for a specific area would not constitute an aid under Article 92 of the EEC Treaty and would not therefore be notifiable to the Commission. However, particular proposals for de-regulation might conflict with our obligations under various EEC Directives. On the whole these problems would appear to be surmountable.

22. The importance of the attitude of the local authorities has already been mentioned, as has the need to tap their information and expertise in order to determine the most suitable sites. Consultation with the local authorities concerned should therefore take place before final decisions are taken on the sites to be chosen. A two-stage decision is therefore inescapable. In addition it would be useful to consult employers' organisations about the type of deregulatory measures which they would find useful. And the possibility might be explored of whether private interests might be prepared to get together to form a consortium to take on one or part of an Enterprise Zone. Depending on the measures chosen there may also be a case for consulting local authority associations and the TUC. A consultative document would enable the Government to test opinion generally on what are bound to be a set of rather novel proposals. However there are dangers of prolonged blighting of areas through uncertainty and/or of causing speculation in land etc. while the measures and locations are being openly discussed. Consultation should not be allowed to drag on too long.

Need for Legislation

23. Legislation may be required depending on the measures chosen. It may be possible and desirable to include a number in one Bill (the question of Ministerial responsibility is discussed below). Fiscal measures would probably need separate legislation in the Finance Bill. Some measures, eg Special Development Orders, would not need primary legislation. If current legislation was disappplied,

there would be a vacuum which would have to be filled by reference back to the common law or the revival of earlier statutes. This could make the law obscure: further consideration would need to be given to this point.

Consultation (1)

24. The importance of the attitude of the Local Authorities has already been mentioned. Consultation with Local Authorities and other public bodies concerned should therefore take place before final decisions are taken on the sites to be chosen. In addition, it would be useful to consult employers' organisations about the type of deregulatory measures which they would find useful. Depending on the measures chosen, there may also be a case for consulting Local Authority associations and the TUC. There might be a case for issuing a Consultative Document. This would enable the Government to test opinion generally (not just Local Authority opinion). On the other hand, this procedure would take time.

Announcement

25. It will not be possible to get far with consultation as envisaged in the preceding paragraph without possible proposals becoming widely known. Whether or not there is a consultative document, a prior announcement would therefore be desirable. This should be in very general terms ie it should not specify particular measures or sites. It would also be prudent to let it be known that, although a dozen or more possible sites were being considered, the eventual list might be only half-a-dozen or less. There is a risk that Ministers will face a flood of representations for designation particularly from places like Manchester and Leeds who may be losing Intermediate Area Status.

(1) Some form of local consultation would also be necessary in Northern Ireland although the experiment would not be seen there as an erosion of the authority of District Councils because many of the powers vested in local authorities in GB have been retained by Central Government in Northern Ireland. This could prove to be a distinct advantage for the successful development of Enterprise Zones in the Province.

Ministerial Responsibility

26. The Chancellor of the Exchequer will be in the lead on the fiscal content of any package. We assume that responsibility for the choice of individual sites will rest with the Secretaries of State for the Environment and Industry in England, and for Scotland, Wales and Northern Ireland as appropriate. Other Ministers will need to be associated with the particular measures which fall within their own responsibilities. Ministers will wish to consider the question of overall responsibility: while this will clearly depend on the measures which may be the subject of legislation or order, there would seem to be a case for giving the Secretary of State for the Environment overall responsibility in view of the key role likely to be played by the Local Authorities. At official level there would be advantage in setting up a small inter-departmental task force for Enterprise Zones to speed up work on the proposal.

Conclusions

27. Ministers are invited:

- (a) To endorse or correct our understanding that 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 or 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.
- (c) To give guidance on the choice of sites.
- (d) To indicate those areas of de-control which should be examined further in the context of Enterprise Zones, including fiscal measures.

- (e) To authorise consultation with local authorities and other interests.
- (f) To consider Ministerial responsibility for announcement, possible consultative document and future handling.

ENTERPRISE ZONES : POSSIBLE SITES

1. Time has not permitted a full investigation of either range of possibilities, or of all the possible snags of the sites listed. The sites given below should be regarded as illustrations of the type of site that might be considered other than firm propositions. Consultations with local authorities would be needed both to identify other possible candidates and to get a better idea of the problems and expense involved. In choosing sites preference has been given to those in areas already recognised as areas of special need under existing policies for Assisted Areas and for the inner cities. Apart from need, account has also been taken of the likely cost of predevelopment works, the anticipated attitude of the local authority (though this could only be guessed at) and the availability of space for development/expansion. Cost of predevelopment works have been estimated for the more likely candidates. These are no more than cock-shies; they could be out by a factor of 2, or 3 or more. A guess has been made at whether the private sector would be prepared to bear some of these costs. Where an area is an Assisted Area or a Derelict Land Clearance Area this has been noted. 100% derelict land clearance grants are available in such areas as opposed to 50% elsewhere.

SITES IN ENGLANDLondonSurrey Docks in the Dockland Partnership Area - DLCA

2. 500 acra, 75% vacant. This is by far the most important large, readily developable site in Docklands. It is almost entirely owned, reclaimed and serviced by the local authorities. Their co-operation would be essential - unless the land was vested in a UDC. Various development proposals have already been put forward. Fiscal inducements may not be needed.

Isle of Dogs: in the Dockland Partnership Area: a DCLA

3. The most suitable site would be a limited area in the south east between Manchester Road and the Thames: 100 acres, 25% vacant, 30% owned by local authority (but almost all the vacant land is owned by the local authorities so their co-operation would be essential). The site differs from the others listed as it is essentially a housing

site. Private developers would build expensive piers-a-terres for commuters - site conditions make low unit costs impossible. Although a better social balance is needed, this type of development might be resented locally. The local authority (Tower Hamlets) who are moving gradually - towards encouraging private sector housing (but for local and lower income groups) would resist. The GLC - who own part of the vacant land are contemplating selling their holding on the private market. Fiscal inducements may not be needed.

The South Bank of the Thames from Blackfriars to Tower Bridge

4. Just outside the partnership area, 188 acres, 15% vacant very largely in private sector ownership. Suitable for offices, but development has been inhibited by local authority planning requirements. A prime river front site, where almost any development will attract great public interest. Fiscal inducements may not be necessary to induce development.

South Shoreditch in the Hackney/Islington Partnership Area

5. 175 acres, north of the City. It is largely built up, but with many vacant/underused commercial buildings. It is suitable for City spillover, but until now development has been hindered by local authority delays and restrictions. The local authority (Hackney) attitude is changing. In the area immediately fringing the City the full range of fiscal inducements may not be necessary to secure development; the relaxation of planning controls could have a significant impact on their own.

North Wandsworth: the riverside frontage running from Wandsworth Creek in the Est to Vauxhall Bridge in the East, but excluding Battersea Park

6. Wandsworth is a designated district under the Inner Urban Areas Act but it is not a partnership or programme authority. Two areas, first a riverside strip of 188 acres between Wandsworth Creek and Albert Bridge, and the second an L-shaped area of 200 acres between Battersea Park and Vauxhall Bridge. 30 to 40% of the land is vacant and there are many vacant or under-utilised buildings. Some, but not

massive reclamation, access and servicing works would be required. Ownership is mixed, but there is a substantial amount owned by the public sector. The attitude of the last Administration in Wandsworth may have inhibited development. Some fiscal inducement/grant-aid would be needed to get development going. Cost of pre-development works would be a minimum of between £5 million and £10 million: some of which would be borne by the private sector.

7. Amongst these only Wandsworth (probably) and South Shoreditch (possibly in part of the area) might need the full range of fiscal inducement and/or grant-aid to site preparation to get development going. There are other possibilities within Docklands, eg the area to the east of St Katherine's Dock, or Beckton, but for a variety of reasons these seem less suitable.

West Midlands

8. One possible site is at Bilston, Wolverhampton (a programme authority). It is within a DLCA. The site could be up to 1,900 acres, 25% to 30% vacant, with large areas of derelict and waste land. Closure of the steel plant involves 2,000 redundancies to the local unemployment rate of just under 8%. The local authority is efficient and is keen to promote private sector development. Bilston is a classic case of a pocket of economic decline and physical dereliction within a region whose economy, though not as buoyant as it was, nonetheless still has some vitality. Cost of pre-development works a minimum of between £3.5 million and £5 million: some of which would be borne by the private sector.

The North West

9. On the basis that Merseyside is the area of greatest need, the best candidates might be as follows. All are within the SDA:

- i) Speke: the site is within the Liverpool partnership area. It is 300 acres and owned by the LA, is 100% vacant greenfield site which requires roads and servicing, but not clearance. Liverpool's unemployment is 12.7%. The Speke area has been affected by closures, eg Dunlop. The cost of pre-development works would be a minimum of £5 million; the private sector might bear a small proportion of this.

ii) An area adjoining the North Docks, Liverpool: the site is partly in the partnership area and partly in Sefton. Depending on where the boundary is drawn, it could be between 150 acres and 625 acres, 15% of the land is vacant and another 10% is currently used for open storage/car parking. 20% is in public sector ownership; Some Dock Company, some LA, some BR. The area is serviced, and there are few serious access problems though some reclamation work would be required. Unemployment in the area is over 12.7%. Cost of pre-development works: a minimum of between £1.5 million and £9 million depending on size of area chosen and whether non-conforming housing was cleared. The private sector might bear a small proportion of this.

iii) Wirral Docks: Wirral is a programme authority and the site is in their inner area and within the SDA. It is 250 acres, 75% vacant, and 75% publicly owned. Access and road improvement, and some major reclamation work would be required. Unemployment in the area is approximately 11.7%. Cost of pre-development works: 100 acres of docks, a minimum of £12 million, all of which would fall to the public sector; the 150 acres remaining, a minimum of £2.5 million, the private sector might bear a small proportion.

Yorkshire

10. Two candidates are put forward. In terms of need neither of these could be considered front runners but an EZ in one or other of these locations might stand a good chance of success:

i) Sheffield: a programme authority but an Intermediate Area which is to be downscaled. The site is at Attercliffe/Lower Dock Valley. It is 500 acres, 20% vacant. A large proportion of the vacant land is owned by BSC or the City Council. There is some need for reclamation, infill and servicing. The local BSC works may be rationalised, adding to the area of unused land, and the unemployment which is currently running at 5.4%. The cost of pre-development works would be a minimum of £4 million and £6 million, of which most might be borne by the private sector.

ii) Doncaster: though not a programme authority, is a designated district under the Inner Urban Areas Act. It is to retain its status as an Intermediate Area. The site is at Doncaster Carr and is 275 acres, 80% vacant, requiring reclamation, infill and servicing. 90% is owned by the public sector, unemployment in Doncaster is approximately 8.2%. Cost of pre-development works a minimum of about £1 million some of which would be borne by the private sector.

The North East

11. Tyneside is the area of greatest need. Newcastle and Gateshead are partnership authorities, and North Tyneside, South Tyneside and Sunderland are programme authorities. The whole area is a SDA. Unemployment in South Tyne (covering all the following sites) is 11.4%. The most likely possibilities are as follows, but there may be others.

Derwent Haugh in the Gateshead Partnership area

12. About 200 acres, 90% owned by CEGB (who may however want to retain it; they are undecided between this and another site for a power station). Reclamation and servicing would be required; the cost of pre-development works would be a minimum of between £4 million and £6 million, almost all of which would probably have to be found by the public sector. The boundary could be adjusted if the CEGB site was not available: costs might then be lower though the developable area would be smaller.

Jarrow Slake, and the Tyne Dock Industrial Estate in South Tyneside, a Programme Authority

13. About 275 acres. 100 acres at Jarrow Slake is vacant. And is owned by the Port of Tyne Authority who insist on port related development. The adjacent 175 acres of industrial estate is 50% vacant, also owned by the Port Authority. The cost of pre-development works would be a minimum of between £0.5 million and £2.5 million almost all of which would fall to the public sector.

Boldon in South Tyneside

14. 500 acres of green field site. Not in an inner area, but well placed to provide employment to inhabitants of Sunderland, and South Tyneside - both programme authorities and both suffering from ship-building closures. Privately owned. Compulsory purchase might be needed costing £1.5 million. 100% farmland, no reclamation needed but servicing would cost a minimum of between £2 million and £10 million. Almost all of this would fall to the public sector. (N.B. management of an EZ here might be given to the adjacent Washington New Town Development Corporation; an Order in Council would be needed extending their designated area.)

SITES IN WALESShotton - Deeside Industrial Park (Clwyd)

15. The Industrial Park at Shotton is about 635 acres. The Welsh Development Agency own 155 acres; BSG (Industry) Ltd. the rest. There is already planning permission for 360 acres. The WDA have cleared 55 acres in readiness for development and are in the process of clearing the remainder of the land in their ownership together with that part of the BSC's ownership which has been granted planning permission. There are no problems foreseen in clearing the site. Servicing costs would be in the region of £5.5 million.

16. The Industrial Park is immediately adjacent to the Shotton Steelworks site in Clwyd, bordered by the A550 to the east, the Shotton-Neston railway line to the north-east and the Shotton-Sealand railway line to the south-east. Unemployment could reach 13.5% when Steel making ends. The Industrial Park is within a Development Area and which is likely to be made a Special Development Area when Steel making ends.

Morrison (West Glamorgan)

17. The area of about 218 acres is made up of 3 distinct sites. Firstly a 20 acre block in the ownership of the Welsh Development Agency on which the Agency have built 4 advance factories. Two have already been let. The second portion of the area, amounting to about

74 acres, is owned by the Swansea City Council and partly leased to Wales Gas. The local authority are currently negotiating to re-purchase the lease. The area has been declared an Industrial Improvement Area by the local authority under the Inner Urban Areas Act 1978 and at present provides employment for about 700 people. The third portion of land is an industrial park of 124 acres on reclaimed derelict land and is also in the ownership of the local authority. Cost of pre-development works and servicing would be around £2.5 million.

18. The site at Morrison is bounded by the A48 trunk road to the north, the A4067 to the west and the main London-South Wales railway line to the immediate south. Unemployment is currently 8%. At present has Development Area Status - to become an intermediate area in August 1980.

Briton Ferry - Duport Steelworks Site (West Glamorgan)

19. The total acreage available on this site is about 160 acres. The land was acquired by the West Glamorgan County Council after the Duport Steelworks closed in November 1978. Demolition and clearance of the site is due to be completed by the Autumn of this year. A contract has been let to provide adequate road access to the site. There is still some in-filling to be undertaken and full clearance is difficult because of existing road and rail infrastructure through and over the site. Cost of pre-development works and bridge/road access to site - £6.5 million.

20. The site is bounded by the main London railway line, the works of BP Chemicals, Baglan, the navigable River Neath, and the bridge carrying the A48 trunk road over the river. Unemployment is currently 9%. At present it is a SDA but will assume Development Area Status in August 1980.

SITES IN NORTHERN IRELANDBELFAST: NORTH HOWARD ST INDUSTRIAL SITE

21. Approximately 24 acres, half-a-mile from the City Centre. Land largely in private ownership and consists mainly of 19th Century Textile

Mills, many of which are now occupied by a variety of small industrial concerns. Some property is vacant/derelict. Consultations have already begun over clearance and rebuilding. Area is adjoined by residential districts housing both Republican and Loyalist communities. Unemployment in the Belfast travel-to-work area is running at 10%, although in the immediate vicinity of the site it is up to 3 times as high. Redevelopment costs should not exceed £600,000. (The site in question is very much smaller than the potential Enterprise Zones suggested in GB, and Northern Ireland officials are examining the feasibility of including a wider inner urban area of Belfast within the boundary of the Belfast Areas of Need (BAN) programme).

LONDONDERRY

22. The precise site has not yet been delineated. Unemployment in the travel-to-work area is 16.6%.

SITES IN SCOTLAND

Glasgow-Braehead

23. 7km from Glasgow city centre. 500 acres, of which 300 are undeveloped. Allocated in Structure Plan as large industrial site for primarily dock-based industry - Special Development Area Status. Part of the site is designated district under Inner Urban Areas Act. Infrastructure reasonably good. Majority of available land owned by Clyde Port Authority. Unemployment in district 12.1% among males. Pre-development costs would be minimal, access costs should not exceed £100,000.

Glasgow-Cambuslang: Clyde Iron Works Site

24. A 210 acre site formerly occupied by Clyde Iron Works within the 500 acre Cambuslang Recovery Area. The site is 5 kilometres south-west of the city centre and within the Glasgow East End Renewal Area and is within a Special Development Area. The whole site is within the ownership of the British Steel Corporation and they, together with Scottish Development Agency and EEC support, have drawn up a report

identifying the area as suitable for a range of industrial service and commercial activities. Major reclamation of waste tips and foundations is necessary. Unemployment in district 16.2% among males. The site is within a special development area and is a designated district under Inner Urban Areas Act. Cost of pre-development works £3-6 million.

Inverclyde District - Greenock and Port Glasgow

25. This is a district with a population of around 100,000 but experiencing continuous population loss. Unemployment is high (11.5% in July 1979). It is a highly industrialised area with a concentration of old established heavy industry, mainly shipbuilding which occupies 188 acres. The rundown of older industries means that there is under-used and vacant land though it tends to be scattered in small pockets. It also has new industrial estates being developed which have attracted new industries particularly electronics. Sugar refining is important but one of the two mills is to be closed. The district has special development area status and is a designated district under the Inner Urban Areas Act. The local authority is considering the declaration of an extensive improvement area. It is linked to Glasgow by electric railway, lies to the west of the almost completed M8, is 12 miles from Glasgow Airport and has within it the Clyde Container Port. Pre-development costs should not exceed £1 million.

Planning Controls

Builders and developers need some degree of certainty, especially about infrastructure and the character of neighbouring developments. A Special Development Order would give effect to zoning proposals of a rudimentary local plan. Development that conformed to the zoning would automatically have planning permission by virtue of the order and planning delays and detailed requirements would be eliminated. There would be virtually no control over size, shape, plan or aesthetics of development.

Building Regulations*

Local authorities have the power to relax building regulation requirements. But the High Court has ruled that the local authorities may be liable in perpetuity for any damage or loss sustained as a result of a defect in a building that they have approved. This has made authorities cautious. If they refuse an approval or a waiver, the applicant can appeal to DOE, who may then issue an approval. The possibilities for relaxation of controls in this area are being examined urgently, but the problems of introducing a separate basis of liability solely within EZs/PAs seem considerable. One possibility might be to transfer liability to builders, who could then insure themselves. This would require major legislation. In the absence of such a change the local authority might be asked to undertake that building regulation applications for an EZ would be dealt with quickly and flexibly.

Pollution Controls

Possibilities for speeding up approval and control procedures are being examined.

DEREGULATION OF RENTS IN PRIVATE RENTED SECTOR HOUSING

It is clearly within the spirit of the EZ/PA concept to consider deregulation of rents in the private rented sector it could make an

* denotes need for primary legislation.

important contribution to labour mobility. But there could be problems: deregulation if applied to existing tenants could cause unacceptable hardship; if applied to existing tenancies when they became vacant it could lead to fears of pressures on tenants to move out. Even deregulation limited to newly constructed premises would probably be ineffective in stimulating investment in rented accommodation and might have repercussions on wider policy for the rented sector.

Deregulation, will not bring about investment in rented accommodation unless it is regarded as permanent. The mere possibility of future reimposition of rent controls and security of tenure would discourage investment, particularly if it were open to the developers and builders to build for sale within EZ/PAs - as of course it would be. No Parliament can bind its successors; so no credible guarantee could be given against such reimposition.

Even limited deregulation within an EZ/PA might be interpreted as a precursor of nationwide changes. This could give rise to political opposition which would prejudice the chances of gaining widespread backing for the short hold tenancy proposals that the Government is putting forward in the forthcoming Housing Bill. This modest step towards introducing a much needed measure of flexibility in the rented sector will require a degree of consensus to be effective.

HOME OFFICE

Fire Regulations*

If it were considered right to disapply the requirements of the Fire Precautions Act 1971 to premises in EZs/PAs, it must be borne in mind that the removal of sections 30-32 of the Act in respect of such premises would have the effect of re-activating a number of other statutes, including local statutes, imposing fire precautions requirements which would otherwise have been rendered inoperative by the provisions of these sections. Furthermore, unless action were also taken to disapply part 1 of the Health and Safety at Work etc. Act 1974, it might well be possible under the general duties imposed by that part, for safety representatives of the workforce to ensure

* denotes need for primary legislation.

that employers provide fire safety requirements broadly comparable in their effect to those which would otherwise have been imposed under the 1971 Act. Even were those duties to be removed, employers would presumably still be liable to civil litigation in the event of injury to employees or other persons resulting from any neglect of adequate fire precautions. There is no power in the Fire Precautions Act 1971 to grant exemption from its requirements on a purely geographical basis. Any such exemption would therefore require new substantive legislation.

DEPARTMENT OF TRANSPORT

Local Roads

1. Studies in some inner-city areas suggest that the general standards for roads in urban areas may be unnecessarily high for the amount of traffic likely to use local distributor and access roads in areas of urban decay. Such roads are the responsibility of local authorities to provide or take over. They can relax recommended Departmental design standards, but significant relaxations involve discussions with regional offices. The standards for the width of most local roads have remained unchanged for some years. The Department of Transport is willing to consider further, in conjunction with the Department of the Environment (who are currently reviewing construction standards for residential access roads) the question of standards for the layout and construction of local roads, particularly in relation to the amount of money that might be saved by reductions in quality, to safety and to value for money.

2. Stopping up of footpaths and highways to enable development to proceed. Orders, made at the request of developers, can be made by the local planning authority in the case of footpaths and, if opposed, require confirmation by DOE. For other highways, only the Minister of Transport can make Orders: though it is proposed under the relaxation of controls exercise to extend local planning authorities' powers to cover these orders, subject here also to Ministerial confirmation of opposed orders. The Department of Transport will consider the constraints further in consultation with DOE and, in particular, of that Department's views on the scope for relaxing development control - which is of course the basic bureaucratic control.

3.* Traffic Regulation Controls on Heavy goods vehicles. The Road Traffic Regulation Act enables local authorities to specify through routes for heavy commercial vehicles (defined as those of 3 tons or over unladen weight), or to prohibit or restrict the use of such vehicles in specified zones or on certain roads on amenity grounds. The Act laid on local authorities the duty to consider the importance of regulating the use of roads by heavy goods vehicles to preserve or improve amenity when exercising their traffic regulation functions. While most local authorities appear to use their powers very sensibly, some orders have imposed heavy costs on industry in terms of extra time travelled. Such orders do not come to the Minister for confirmation; if he were to seek to intervene in the operation of local authorities' powers, he could do so only by recourse to his general default powers over local authorities' traffic regulations. Otherwise primary legislation would be required.

4. Bus licensing. The Minister of Transport's proposals, recently endorsed by colleagues, for reforming the bus licensing system will give private operators freer entry into the market. Under the legislation, to be introduced at the beginning of the Session, it will be for the existing operator to prove that a proposed competing service is contrary to the public interest, rather than for the newcomer to prove its worth. The Department of Transport will, however, consider further the case for making it particularly easy for new services to be established in EZs provided that they operated entirely within the zones, or had a terminus in them and did not go more than, say, a few miles outside. Thus relaxations which would make little sense in enterprise zones could have considerable effect in larger pilot areas.

DEPARTMENT OF INDUSTRY

IDCs

1. Under the changes in regional industrial policy announced last July, industrial development certificates will be required in the non-Assisted Areas only (with effect from 6 August 1979). The exemption limit will be raised to 50,000 square feet leaving only relatively large projects subject to control. If it were thought to be desirable that IDC controls should not apply in Enterprise Zones,

this could be achieved by statutory instrument (negative resolution procedure).

Statistical Surveys

2. It would be technically feasible to exempt firms in Enterprise Zones from the need to fill in statistical forms. Names and addresses of potential respondents for regular or ad hoc surveys are held on computer and an appropriate locational indicator for exemption purposes would be the postal code.

3. The principle of exempting certain firms from the need to participate in surveys is, of course, open to objection on statistical grounds. Where comprehensive information is required, any omission renders the result incomplete and in the case of a sample survey, any non-random exclusion (and firms in Enterprise Zones will probably be typical) causes bias. This factor would need to be balanced against the prospective benefits of exemption.

4. While DOI conducts the regular censuses of production and wholesale price index surveys, Employment, MAFF, DOE and others are responsible for many regular and ad hoc surveys. Any exemption programme would therefore probably have to be co-ordinated by the CSO.

DEPARTMENT OF EMPLOYMENT

Employment Protection*

Individual employee rights guaranteed by the Industrial Relations Act 1971, the Employment Protection Act 1975 and subsequent legislation reflect for the most part what is good employer practice and are in line with practice in other Western European countries. Nevertheless, complaints have been made by employers about the burden which the legislation places on them in terms of managerial time, cost of defending cases taken to Industrial Tribunals, difficulty for small firms of reinstating an employee in her original job after maternity leave, etc. As a result the government has already approved changes to the provisions in the legislation which deals with unfair dismissal, industrial tribunal procedures, maternity pay and reinstatement, and

guarantee pay. In addition it is proposed that small firms with under 20 employees should be exempted from the unfair dismissal provisions during the first 2 years of trading (the qualifying period proposed for employees in other firms is 1 year).

In the face of these proposed changes to the existing legislation, the question arises as to whether even more radical amendments could be introduced in the small areas which might be designated as Enterprise Zones. The argument for doing this is that in all probability the changes now under consideration, extensive though they are, will not remove all the criticisms which have hitherto been voiced by employers, especially in the case to offer an employee suitable alternative employment after maternity leave as opposed to having to reinstate her in her original job could still cause problems for very small firms employing say 7 skilled/unskilled labourers and one typist. If the aim is to generate maximum employment in an area which is depressed/derelict, it could be worth experimenting with discriminatory and radical relaxations of the legislation to test the effect. The workforce would be aware of the experiment. If people declined to accept reduced rights they would be free to seek work elsewhere. The assumption is that EZs would be in areas virtually bare of economic activity although there would be cases where existing workers would lose rights. But some people might prefer to work with reduced rights than be unemployed. On the other hand better quality workers (eg skilled) might prefer to work outside the EZ's where the statutory terms and conditions applied, and so many employers in EZ's might in practice need to reinstitute employment protection provisions in order to attract/keep a suitable workforce. Moreover, the suggestion that employee rights be diminished significantly in EZ's would be likely to be strongly opposed by the workers and their trade unions who might regard it as a point of principle to restore the lost employment protection provisions through collective bargaining and industrial action in individual EZ firms.

Health and Safety at Work*

The basic statutory requirement is that health and safety regulations should be designed to maintain or improve the standards of health, safety and welfare established by or under the earlier enactment that are now within the ambit of the Health and Safety at Work Act.

The arguments for relaxing the requirement in EZs are broadly the same as in the case of Employment Protection, though health and safety requirements by their nature are likely to be more difficult to relax. In a number of cases we are obliged by the EEC to maintain certain standards. There may however be some scope for removing some of the administrative burden imposed on employers by the current legislation: the latter would in any case remain liable under civil law and this would be an incentive to them to take reasonable precautions to prevent industrial accidents. This area would need further examination to see if specific relaxations could be proposed.

Training

Under the 1973 Employment and Training Act the Manpower Services Commission has the duty "to make such arrangements as it considers appropriate for the purpose of assisting persons to select, train for, obtain and retain employment suitable for their ages and capabilities and to obtain suitable employees". As regards training in industry, there are 24 Industrial Training Boards operating under the MSC with powers under the 1964 Industrial Training Act, as amended by the 1973 Act, to raise levies from employers within their scope to finance training activities, to exempt from levy employers whose arrangements for training satisfy the relevant ITB as being adequate in relation to training criteria specified by the Board, and to exempt from levy very small firms. It might be feasible to exempt from levy for a limited period firms coming into an enterprise zone or smaller firms already operating in the zones.

GLOSSARY OF TERMS

PROGRAMME AND PARTNERSHIP AUTHORITIES

The inner city Partnerships are special arrangements concerning seven of the worst urban areas in England, involving direct participation of central Government with the relevant Local Authorities and other public agencies. Through a Partnership Committee which is chaired by DOE Ministers, they draw up an annual Inner Area Programme for each area, which is supported by main programme expenditure and additional funds from the Urban Programme.

The fifteen Programme Authorities are district level local authorities whose areas, although their problems do not justify full level Partnership treatment, nevertheless merit special measures. These Authorities also draw up Inner Area Programmes and receive an allocation of Urban Programme funds, but in this case without the direct involvement of central Government.

ENTERPRISE ZONES: FISCAL COMPONENT

Introduction

This Annex considers the possible fiscal components of an Enterprise Zone. It has been prepared by a fiscal group, consisting of the Treasury, Inland Revenue and Customs and Excise. The proposals are:

- i. relief from development land tax (DLT);
- ii. de-rating of industrial and commercial buildings;
- iii. capital allowances for industrial and commercial buildings;
- iv. tax holiday for profits;
- v. a free port;
- vi. concessions in respect of indirect taxes including VAT.

They are being examined by a fiscal group consisting of the Treasury, Inland Revenue and Customs and Excise. Other Departments will receive papers, and be invited to participate in the discussions as appropriate.

Development Land Tax

2. Possible DLT reliefs are being considered, in conjunction with the Departments of Environment and Industry and the Inland Revenue. The main options are to extend the existing deferral for industrial developers to commercial development, to exempt some or all types of development in the Enterprise Zone, or to exempt all disposals of land (ie actual disposals as well as development). The first would probably be too narrow to have much impact, while the third possibility of exempting all actual disposals may not result in development: the difficulty in, for example, Merseyside is to stimulate demand for development land rather than to encourage existing owner to sell. (A high proportion of land in derelict urban areas is in any case owned by public bodies, who are either exempt from DLT or already under

heavy pressure from Government to sell). The most promising possibility seems to be the second one, to exempt all forms of development: that would encourage, for example, industrial estate developers, who develop the land first and then lease or sell to others.

3. In practical terms, any of these options would be relatively straightforward and there would be little danger of manipulation to extend the benefit outside the Zone. The cost, in terms of revenue forgone, would of course depend on the number and size of Enterprise Zones, but, assuming they were limited, would be small. It is still unclear what beneficial effects would flow from a DLT change. The effects are likely to be complex, affecting original owners, developers and owners of developed property. Further analysis may be necessary, for example, the effect could be to raise land prices in the Zone and thus provide a windfall profit to existing owners selling to developers. But we judge that DLT could be a useful component of a fiscal package.

Industrial and commercial de-rating

4. The implications of de-rating industrial and commercial properties in Enterprise Zones are being looked at in consultation with the Departments of Environment and Industry and the Inland Revenue. There would be no practical difficulty in exempting all non-domestic properties in the designated areas from payment of rates, but there would be problems in attempting to confine the exemption to "new" firms or particular classes of enterprise.

5. Assuming the Enterprise Zones are in areas of urban decay the initial cost in rates forgone should be small, though it would increase as new development took place. The local authorities would expect to be compensated. If this were done through the resources element of Rates Support Grant, the effect would be to increase slightly the rate burden elsewhere in the UK, unless the true amount of RSG was increased. But the local authorities would probably press for re-imburement by specific grant as both speedier and more direct

6. It is not easy to judge how effective rating relief would be in promoting enterprise. The benefit accruing to occupiers may encourage investment or stave off bankruptcy, but they could well leak away in a number of directions, eg into wages, prices, dividends and landlords' pockets, as time goes on. Some of these leakages would benefit the area, others would not. But, overall, relief from rates could have a useful impact, particularly if combined with other steps to remove obstacles to new development.

7. Relief could be either full or partial. Partial relief, though a bit cheaper, would create problems of definition. So, if this is thought to be a helpful measure, full relief seems to be right.

Capital allowances for buildings

8. The first report suggested that it would be feasible to allow capital allowances for both industrial and commercial buildings in respect of new constructions in an Enterprise Zone, but sounded a note of caution about the possibility that, once conceded in a limited area, the pressure to extend over the whole country would become very powerful. Apart from doubts about the economic case for improving the initial allowance on industrial buildings and introducing an initial allowance for commercial buildings, the revenue costs, initially small, could build up over time.

9. If, however, Enterprise Zones were set up on the restricted basis discussed in this report, the risk might be worth taking in order to achieve a rounded package: ie a fiscal component essentially directed towards land and buildings physically located in the Enterprise Zone. This would cover the DLT concessions and the industrial and commercial de-rating proposals, already discussed, as well as enhanced capital allowances for industrial buildings and the introduction of capital and writing down allowances for commercial buildings.

10. The form of the options on capital allowances has yet to be discussed with departments, but the options could be:-

- On industrial buildings, an increase in the initial allowance from 50 per cent to 75 per cent or 100 per cent bringing it in line with the allowances for plant and machinery.

- A 20 per cent initial allowance for commercial buildings with a balance over 20 years. (This is the same as the existing provision for hotels).

A tax holiday for profits

11. The first interdepartmental report discussed the case for a tax holiday (exemption), but rejected it on the grounds of the administrative complications and the opportunities for abuse. Treasury Ministers have not been immediately attracted by it. Major problems are the opportunity for the switching of trade to the zone and the handling of transfer pricing; on the latter, there would have to be trade between the Zone and the rest of the economy, and by setting prices at appropriate levels, most or all of the profit could be directed into the Zone. It would be very difficult to draw and maintain what in effect would have to be a ring-fence round a company's operations in the zone, so as to prevent activity carried on elsewhere from being artificially attributed to the tax-free zone (which would become a tax haven). We suspect that the formidable difficulties we envisage about offering a general tax holiday in an Enterprise Zone are not likely to be overcome, but, if Ministers wish, we could look at this again.

Freeports

The establishment of a freeport on Merseyside has been suggested several times by the City Council and local groups, though not by trading interests, most recently to the Secretary of State for the Environment during a visit to Liverpool.

Community legislation recognises a freeport as a zone into which goods may be imported free of duty and placed into storage and then exported outside the Community; a limited range of processing manufacturing operations is permissible. But such duty reliefs are available, irrespective of location, under a number of Community suspensive regimes, eg warehousing and inward processing, so in practice traders in the UK stand to gain no additional benefit from the provision of freeport facilities.

It would be of advantage to traders to conduct their business under freeport conditions only if major processing operations, which contravened Community legislation, were permitted within such a zone in the UK. This could not be contemplated unilaterally and there is little prospect that such a substantial relaxation of the Community's protective policy could be negotiated within the EEC.

Customs and controls would bear only marginally on activities within a freeport and traders would therefore be relieved to some extent from procedural responsibilities. But Customs and Excise consider that any such advantage would be more than offset by the need to secure and police the boundaries of a freeport. Traders would also be involved in additional documentation when goods passed from the freeport to the home market.

Indirect taxes

a. VAT

13. Several possible easements of VAT have been examined in particular -

i. that firms setting up in Enterprise Zones should not be required to register for VAT, and

ii. that firms should register and reclaim input tax but not charge output tax.

14. Neither proposal seems to offer any significant financial or administrative advantage to the majority of firms, and it seems unlikely that many firms would wish to take up either concession if granted. Moreover, either concession would cause considerable control problems and would require derogations from present EEC law.

b. Excise duties

15. It is unlikely that any practicable or useful easements which could be given in respect of the excise duties.