

Budget 2011:

Summary and relevant issues for Kent

The Budget was announced on 23 March and was accompanied by a further 'Plan for Growth' outlining actions across Government to support economic growth. The Budget contains a number of measures to promote local economic development, including the establishment of Enterprise Zones.

This note summarises the main issues within the Budget statement and its associated documents and their implications for economic development in Kent.

1. Enterprise Zones

Enterprise Zone locations

The Budget announces the establishment of 21 new Enterprise Zones. Ten Local Enterprise Partnerships and the Greater London Authority have been 'guaranteed' an Enterprise Zone each, with London already stating that its EZ will be at the Royal Docks in the Thames Gateway.

For the remaining ten Enterprise Zones, there will be a competitive bidding process. **So potential locations in Kent will need to compete for an EZ.** The process for securing an EZ will be through the Local Enterprise Partnership - it appears unlikely that there will be more than one EZ per LEP - and an invitation to bid will be sent to LEP chairs shortly. Decisions on the final ten EZs will be made in the summer.

It is unclear what Government regards as the optimum size for an Enterprise Zone. Within the 1980s/ 90s programme, EZs were site-specific (the last four to be established averaged 117 hectares over 4-10 sites). Given the similarity of the new EZs to the 1980s model, it seems likely that they will again be site-based.

Enterprise Zone incentives

The EZ concept envisaged in the Budget is a package of planning and tax incentives, consisting of:

- 100% business rate discount worth up to £275k over five years for businesses moving into an EZ;
- Business rate growth within the zone over at least 25 years will be 'retained and shared by local authorities in the LEP area'. Clearly however, the benefits of an EZ will only accrue to part of a LEP area (especially in a

large LEP such as Kent, Essex and East Sussex), so it is not clear what this will mean in practice;

- 'Radically simplified planning approaches' using Local Development Order powers;
- Government support to superfast broadband within the EZ.

In addition, Government may offer capital allowances for plant and machinery if there is a focus within the EZ on manufacturing and offer the potential for tax increment financing and additional inward investment support.

The risks of displacement associated with the proposed package appear at first glance to be quite high. Presumably there will be further guidance in the invitation to bid.

Proposals for an Enterprise Zone are already well advanced in East Kent associated with the Pfizer closure, as well as in the Thames Gateway. As there will probably only be one EZ in the LEP area, competition with Essex and East Sussex is likely to be high and we will need to make a strong case for Kent.

2. Regional Growth Fund

The Budget confirms that successful bids to the first round of RGF (of which there were six from Kent) will be announced shortly. We know that the first round was heavily over-subscribed, and that a high proportion of projects nationally are likely to fail state aid compliance.

The next round will be launched in April. It has already been stated that the next round will permit 'programme-based' applications (as opposed to the requirement for standalone projects in Round 1), and there may be a value in linking these with EZ proposals. However, the Budget contains no further detail on this.

The Growth Plan also states that Government has encouraged Capital for Enterprise Ltd (CfEL, the Government-run SME investment body) and private sector business angels to submit a bid to RGF for a **Business Angel Co-investment Fund** to support angel investments in SMEs in areas most affected by public spending cuts. It is unclear whether this would operate nationally or through a regional structure.

3. Infrastructure

As anticipated, there is little provision for infrastructure investment. The only specific announcement for new infrastructure is an additional £200 million for **rail projects** (with a specific scheme in Manchester highlighted for support). There is also a commitment to publish a 'forward view' of infrastructure and

construction projects in autumn 2011 as part of the National Infrastructure Plan.

The Budget also confirmed that the initial capitalisation of the **Green Investment Bank** will be £3 billion (of which £1bn was announced in the Spending Review and a further £2bn will be gained through sale of assets). The GIB will begin operation in 2012/13, with borrowing powers from 2015/16.

4. Planning reform

Reform to the planning system forms a major plank of the associated Plan for Growth. Key elements include:

- Introduction of a **presumption in favour of sustainable development** (i.e. the assumption that where plans do not explicitly say otherwise, applications for development and job creation should be accepted. Further details will be published in May; in the meantime a written statement by DCLG has been published alongside the Budget.
- As already underway, production of a **National Planning Policy Framework** intended to be 'focused and inherently pro-growth' and finalised by the end of 2011.
- Requirements on community-based **neighbourhood plans** to consult with business and to 'shape development, not block it'. Associated with this, businesses will be able to bring forward their own neighbourhood plans, for example for a single industrial site.
- Piloting of **land auctions**, through which local authorities would auction planning permission on parcels of land owned by the public sector or participating private landowners. The first pilot schemes are anticipated over the next 12 months
- Removal of central targets on the proportion of development to take place on **previously developed land**.
- Consultation on proposals to permit **change of use** from business use (B1, B2, B8) to residential without planning permission, associated with a wider review of use classes.
- Various measures to speed up **planning applications**, including a 12 month guarantee for the processing of all applications, including appeals. This commitment is extended to major infrastructure applications.
- Introduction of a duty on local authorities and public bodies to **co-operate** on planning issues. The Government also reiterates a number of *potential* roles that LEPs could have in the planning system, although this remains to be determined.

5. Innovation and business support

Research and development

The Budget announces a number of measures to support research and development, including an increase in the R&D tax credit for SMEs to 200%

(from 175%) and a simplification of the R&D tax credit regime. Locally, a significant emphasis had been placed on the need for these reforms as part of the Pfizer exit strategy.

A further £100 million in capital funding is announced for facilities for the commercialisation of science research. The first **Technology Innovation Centre (TIC)** is also announced for advanced manufacturing, linking a number of existing centres (none of which are in Kent or the South East). Plans to select further TICs will be made in May.

Trade

The Growth Plan includes a commitment to a new package of support for SMEs new to exporting, operated by UKTI and providing advice on firms' export capacity and potential export markets.

Business regulation

The Growth Plan sets out a number of measures to reduce the regulatory burden on business. These include a moratorium exempting micro businesses (i.e. those with less than 10 employees) from compliance with new domestic regulation for three years from 1 April 2011.

In addition, specific regulatory proposals include a decision not to extend the right to request time to train to businesses with fewer than 250 employees.

Access to finance

Measures include **tax incentives** to support investment in SMEs, including an increase in the lifetime limit on capital gains qualifying for Entrepreneurs' Relief and an increase the rate of Enterprise Investment Scheme income tax relief to 30%.

In addition, as previously announced in the Spending Review:

- Extension of the **Enterprise Finance Guarantee** (which guarantees bank lending);
- Extension of the **Enterprise Capital Funds** programme, which provides equity finance
- Rollout of the **Business Coaching for Growth** service, trailed in the recent Business Support Review from January 2012.

Sector specific actions

In addition, Government announces a number of specific actions in relation to the low carbon, advanced manufacturing, healthcare and life science, digital and creative, business services, retail, construction, space and tourism sectors. These amalgamate several measures already announced as well as new spending commitments. A further note outlining these will follow.

6. Housing

The Budget announces £250 million for the **FirstBuy** programme to support first time buyers in new-build accommodation with equity investments jointly funded by housebuilders. Although with little detail in the Budget report itself, the Government also commits to making Real Estate Investment Trusts easier to establish, to encourage investment in the **private rented** sector.

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