

TOWARDS RECOVERY AND GROWTH

**First report of the Sandwich Economic
Development Task Force to HM Government**

March 2011

Foreword

By Paul Carter, Chairman of the Sandwich Economic Development Task Force and Leader of Kent County Council

Over the last 60 years Pfizer and its talented workforce have made a major contribution to the national economy and to economic growth in Kent. Groundbreaking new drugs have been developed and many lives saved as a direct result of the world-class research and highly-skilled scientists based in Sandwich.

Pfizer's announcement to exit the Sandwich site as a result of changes in the pharmaceutical market worldwide now presents a major challenge. But we will leave no stone unturned in stimulating new business at the Pfizer site and growing wider employment in East Kent.

Since the Task Force was established by Secretary of State Vince Cable and Science Minister David Willetts, we have worked closely with Pfizer as the company seeks new business opportunities that could utilise the site. We have developed exciting proposals to incentivise business start ups and high-tech firms to locate in a new Research, Innovation and Technology Zone covering Sandwich, Manston and key sites in the East Kent Assisted Area.

We have begun to learn lessons from successful science and technology parks worldwide, speaking and meeting with those who have taken risks to develop them and reaped new rewards from their industry and endeavour. These include Fusion in Runcorn, where new scientific businesses employ more skilled people now than did industrial giant ICI ten years ago. We continue to seek and assess new ideas and opportunities.

We have listened to venture capitalists who have told us what they need to set an environment conducive to new business, including better transport links. Our proposals to bring high speed rail from London to East Kent would cut journey times to the capital to less than an hour, linking up with a growing Manston Airport, accelerating inward investment and new business growth throughout East Kent.

And we're working with Pfizer to provide the very best support to attract interest in the site worldwide and to help staff to take advantage of targeted training and support, investigating the availability of European funding to make this happen. Fast action to retain these top class skills will be vital to enable the site to flourish and grow.

In the Sandwich Economic Development Task Force we have assembled a unique combination of skills and experience from business, finance, universities, politics and local government. Critical experts are on hand to hone and strengthen our propositions.

The exit of Pfizer from the Sandwich site presents a significant challenge. But it is one to which we must rise if we are to continue our drive for local growth and national prosperity.

Paul Carter
Leader, Kent County Council
Chairman, Sandwich Economic Development Task Force

Executive Summary

This report updates Government on the progress made by the Sandwich Economic Development Task Force. It sets out our initial recommendations for action to support economic growth following Pfizer's decision to exit the Sandwich site and the impact of wider public sector and other job losses in East Kent.

Chapter 1 outlines the challenges and opportunities we face. Chapter 2 sets out our solutions and recommendations, including action to support the current workforce and contractors; the creation of a Research, Innovation and Technology Zone combining a range of tax and other incentives for Sandwich, Manston and key sites within the East Kent Assisted Area; and a wider East Kent Recovery and Growth Package to support economic development. Chapter 3 summarises our recommendations and proposed next steps and sets out the key issues that need to be addressed.

Introduction

1. Pfizer announced on 1 February that it will exit its research and development facility at Sandwich by the end of 2012. This will affect 2,400 staff directly employed at the site and will result in significant additional indirect job losses through contractors and the supply chain supporting Pfizer's activity. We therefore need to move swiftly to retain this critical knowledge base and to develop new business opportunities for East Kent.
2. The Government established a Task Force under the chairmanship of Paul Carter, Leader of Kent County Council shortly after the exit announcement to scope the actions that we must take to support the future of the local economy. This report details the Task Force's initial findings and sets out its preliminary recommendations.
3. Pfizer's decision to exit reflects global changes in the pharmaceuticals industry. The potential for job losses is significant, especially given that they coincide with substantial redundancies in the public sector. The Pfizer workforce is also highly productive and skilled – so retaining the knowledge base for the East Kent economy and for the country is essential.

The opportunities of transition

4. The loss of a significant private sector employer presents major challenges. Yet Pfizer's exit is an opportunity to take advantage of the changes in the global pharma industry to build a new economic future – capitalising on the potential for new employment in smaller, research-intensive enterprises as well as other high-tech businesses.
5. The Task Force has identified that ideally, the transition will take place in five phases, moving from an immediate focus on preserving jobs and activity on the site through to the longer term delivery of wider opportunities for East Kent:
 - **Phase 1:** Pfizer's efforts to attract contract research organisations (CROs) to the site will hopefully result in the transfer of some assets and staff. Pfizer is currently in detailed and commercially confidential negotiations with a number of CROs, which

could provide a positive basis around which further economic activity and job opportunities can be generated.

- **Phase 2:** Building on a CRO core, further opportunities to attract venture capital investment in new business start-ups. Pfizer is currently reviewing a number of proposals and considering spin-out opportunities for some of its assets.
- **Phase 3:** Over the medium term, a range of options for additional R&D and other high-tech activity (for example in food sciences, aviation and environmental technology) at Sandwich, Manston and the East Kent Assisted Area;
- **Phase 4:** Looking beyond Pfizer's exit in 2012, consideration of longer term ownership and management options for the future of the site and links with neighbouring locations to provide a core of other high-value activity
- **Phase 5:** Delivery of a longer term strategy for the future of East Kent.

What we have done so far

6. The Task Force has made significant progress in four weeks. As well as developing the proposals set out in this document, we have:
 - Visited and investigated examples of former R&D facilities which have found new futures after major industrial restructuring;
 - Drawn together venture capital experts to advise us on the right incentives to stimulate business investment;
 - Co-ordinated collaboration between Pfizer and Locate in Kent in promoting the site;
 - Initiated a coordinated approach to support for the existing workforce and contractors affected;
 - Commissioned, via Kent County Council a full assessment of the impact of Pfizer's exit, in the context of wider changes to the East Kent economy and a longer term strategy for growth.

Solutions and recommendations

7. While much has been achieved already, the Task Force is clear that we must maintain momentum. We have therefore focused our future activity on three major solutions that support each phase of the transition process.
8. Firstly, action must be taken quickly to support the staff, contractors and communities directly affected by Pfizer's exit. Pfizer is already supporting its staff through the transition with a comprehensive outplacement service that includes training events to help them develop business proposals. Work is in progress to co-ordinate this with the support that can be offered by other agencies, and to align EU, national and other funding to support enterprise development. We recommend a focused effort on support for training and enterprise, and we will bring forward more detailed recommendations in our second report to Government.
9. Secondly, we recommend that Government designates the Sandwich, Manston and key sites within the East Kent Assisted Area a **Research, Innovation and Technology Zone (RITZ)**. This would bring together a range of potential incentives backed by Government and by local partners, including:
 - Full exemption from business rates on empty properties
 - Capital incentives for further business growth

- National Insurance contributions holiday for business start-ups
 - Support to business to secure R&D tax credits
 - A full R&D business support package Incentives to attract equity investment, similar to the Business Expansion Scheme of the early 1990s
 - Streamlined regulatory and planning processes
 - Promotion and marketing of business and investment opportunities
10. We propose that Government formally identifies the RITZ designation based on these incentive measures. Kent County Council has commissioned further work to quantify costs and benefits which will take place over the coming month. We are also seeking the views of experts in venture capital to establish the priority incentives to drive forward business growth.
11. Thirdly, we need these incentives to be supplemented by investment in critical infrastructure, jobs and skills to support substantial economic growth. We therefore recommend the creation of an **East Kent Recovery and Growth Package**, to add value to the RITZ, building on Assisted Area status. In particular, the development of High Speed rail access to Manston and a reduction in journey times to Thanet and Dover will have a significant impact on the potential of the Sandwich site and the wider local economy: a proposal to the Regional Growth Fund has already been prepared and discussions with Network Rail have been highly positive. The Task Force has discussed this with the Secretary of State for Transport and Ministers at BIS and CLG and we recommend that Government supports **Regional Growth Funding** for East Kent (See page 15).

Moving forward

12. Over the coming weeks, we will focus on establishing the costs, benefits and viability of our proposals, working with Government and Pfizer on the long term options for the Sandwich site, its knowledge base and the East Kent economy. In particular, we will:
- Complete our work to understand the impacts of Pfizer's exit and wider economic change in East Kent, incorporating the outcomes in our next report to Government;
 - Establish a Skills and Employment Sub-Group to align national, local and European programmes and funds and investigate the potential for additional resources. The sub-group will hold its first meeting on 17 March;
 - Co-ordinate the contribution of the higher education sector to support the retention and expansion of the East Kent knowledge base;
 - Build on the current work between Locate in Kent and Pfizer to co-ordinate a marketing and inward investment strategy for the area, establishing a closer understanding of the product and its unique selling points;
 - Investigate the full costs and benefits of the proposed Research, Innovation and Technology Zone;
 - Develop an integrated approach to the wider economic growth of East Kent, to support the Recovery and Growth Package, building on the work achieved to date in advancing proposals for significant transport improvements focused on the enhancement of high speed rail.

About us: The Sandwich Economic Development Task Force

The Government moved swiftly to establish a Task Force to deal with the challenges and opportunities presented by Pfizer's withdrawal. The Secretary of State charged the Task Force with producing a report after thirty days outlining our key recommendations.

The Sandwich Economic Development Task Force brings together Pfizer, local government leaders and industry experts. Chaired by Paul Carter, the Leader of Kent County Council, the membership of the Task Force by invitation includes:

- Ian Anderson, Pfizer
- Rob Bennett, BBP Regeneration
- Sir Brandon Gough, Locate in Kent
- Laura Sandys, MP
- Paul Watkins, Leader of Dover District Council
- Simon Walker, British Venture Capital Association
- Pam Alexander, SEEDA
- Prof Dame Julia Goodfellow, University of Kent
- David Smith, BIS

The Task Force is also advised by a wider group of experts in the life science, property and finance sectors.

The terms of reference for the Sandwich Economic Development Task Force have been set by the Secretary of State. They state that the Task Force should examine all the issues relevant to supporting local people and communities in dealing with the Pfizer's decision to exit the Sandwich site, including:

- Maximising the employment opportunities at the site and assistance for those individuals facing potential redundancy;
- Activities to encourage new partnerships to emerge between Pfizer, contract research organisations and companies that could relocate to or develop at the Sandwich site, building on the work that Pfizer is already doing;
- Longer term strategic partnering and site opportunities

Building on these, the primary **objectives** of the Task Force are to:

- Stimulate R&D and wider business opportunities to maintain and create employment in East Kent;
- Maximise public funding and partnerships to support and grow employment in East Kent;
- Communicate the potential of the Pfizer site;
- Provide support to current staff in seeking employment opportunities

The work of the Task Force has focused on ways to mitigate the effects of the Pfizer exit on the East Kent economy. However, given the importance of the pharmaceuticals and life science sector to the national economy, the Task Force will follow closely the Government's work in support of the national strategy for life sciences.

1. Challenges and opportunities

This section sets out the challenges that East Kent faces in dealing with Pfizer's exit – and the opportunities that we have to build on Pfizer's past investment. It outlines our understanding of Pfizer's exit proposals, provides a preliminary analysis of the economic impacts of closure in the context of developments elsewhere in the East Kent economy and sets out the key issues that need to be addressed.

1.1. Pfizer's importance and the decision to exit

- 1.1.1. Pfizer has had a presence in East Kent since the 1950s, currently employing around 2,400 people, all supporting research and development activity. The buildings on the site cover around 3 million sq ft, 2.3 million sq ft of which is purpose-built, high-quality R&D and office premises.
- 1.1.2. Pfizer's economic role is significant. Nationally, the company has been spending around £500 million on medicine research and development in the UK – much of it at Sandwich. Locally, Pfizer has been an important anchor for the East Kent economy, creating significant opportunities for small businesses, many of which benefit greatly from trade generated by Pfizer, and has over many years played an important part in community life.
- 1.1.3. Pfizer's decision to exit reflects longer term changes in the structure of the pharmaceutical industry, rather than local considerations. Globally, large pharmaceutical firms such as Pfizer, GSK and AstraZeneca are all exiting direct research and development activity. In recent years, this has affected large, high value facilities elsewhere in the UK (for example at Harlow and Loughborough) and throughout Western Europe and North America while big pharma spreads its risk, reducing the amount of R&D undertaken in-house.

1.2. A transition vision: Five phases of transformation

- 1.2.1. Pfizer's planned exit from the Sandwich site will be complete by the end of 2012. But managing the impact of the exit and developing a new economic future for East Kent will be a five to ten year journey. The Task Force recognises that there will ideally be five phases to the transition process:
- 1.2.2. **Phase 1:** In the immediate term, Pfizer is working actively to seek opportunities which can utilise the facilities and buildings. In particular, the company is in detailed commercially confidential negotiations with a number of contract research organisations (CROs), which may result in the transfer of assets, facilities, equipment and staff. Potentially, these CROs could employ a few hundred of the site's current staff. At the same time, Pfizer is already supporting staff through the transition

period, providing outplacement support to staff and providing training opportunities for colleagues to develop business proposals.

Map 1: Pfizer in East Kent



- 1.2.3. **Phase 2:** Building on employment and activity provided by a CRO core, efforts need to be made in the short-to-medium term to retain as much as possible of the intellectual capacity embedded in the existing workforce by attracting additional investment onto the Sandwich site focused in pharmaceutical, bioscience and related research and development.
- 1.2.4. **Phase 3:** Based on a core of R&D activity, further efforts need to be made over the medium term to attract a broader range of activity through new business start-ups and inward investment. These activities may extend beyond life sciences, potentially including for example aviation, food sciences and environmental technologies.
- 1.2.5. **Phase 4:** Looking beyond Pfizer's exit in 2012, consideration then needs to be given to longer term ownership and management options for the future of the site and links with neighbouring locations to provide a core of world-class high-value activity at the centre of the East Kent economy. This will be associated with wider opportunities for higher and further education investment in East Kent.
- 1.2.6. **Phase 5:** Finally, we hope that new solutions emerging from the Pfizer's exit will support the success of the wider East Kent economy – and will be impacted by investment and economic growth elsewhere in the area. Looking to the long term, we need to focus on a coherent strategy for the future of East Kent.

1.2.7. We have used these phases of activity to guide the recommendations for action that are set out in the next chapter. These phases overlap, as the chart below indicates:

	2011 H1	2011 H2	2012 H1	2012 H2	2013 H1	2013 H2	2014	2015+
Phase 1								
Phase 2								
Phase 3								
Phase 4								
Phase 5								

1.3. The impact of exit: the worst-case scenario

1.3.1. We believe that Pfizer’s exit from the Sandwich site could open up new opportunities. However, before we consider the potential upside, let’s look at the challenges we face.

1.3.2. Assuming all of the current staff are either made redundant or move to other sites in the UK, there would be the direct loss of around 2,400 jobs to the area. This will have a significant effect on the local economy through impacts on contractors, the wider supply chain and loss of consumer spending. Initial analysis using the Kent Economic Forecasting Model developed by Experian indicates that a further 1,600 jobs in the wider East Kent economy could be affected through these multiplier effects. The combined loss of 4,000 jobs is equivalent to 2.6% of all jobs in East Kent¹.

1.3.3. Of course, the losses at Pfizer come at a time of significant forecast job losses elsewhere in the economy. In particular, East Kent is noticeably vulnerable to the consequences of cuts in public expenditure. Currently, 38,200 employees in East Kent work in the public sector, representing just over 22% of the workforce (compared with 20% nationally). Based on the forecasts issued by the Office for Budget Responsibility, we estimate that by 2015, around 2,920 jobs will be lost in the public sector in East Kent, leading to a further 1,000 indirect losses². Combined, the impact of forecast public sector redundancies and the potential job losses at Pfizer could mean a loss of over £380 million to GVA, representing nearly 9% of total output for East Kent³.

1.3.4. In addition, the area is unusually vulnerable to a number of other major economic shocks, which are likely to disproportionately hit higher-value sectors of the economy. For example, the planned closure of Dungeness nuclear power station by 2018 will lead to further job losses, many of which will be highly-skilled technical roles in a fragile labour market.

¹ KCC Research & Intelligence/ KEFM

² KCC (January 2011), Public sector dependency and an assessment of the effects of public sector job cuts in Kent

³ KCC Research & Intelligence/ KEFM

- 1.3.5. Apart from the potential loss of human capital that this scale of job losses represents, it would also have a substantial financial impact on Government. The cost of 1,000 people unemployed is around £8.8 million (not including lost tax take). Even assuming average proportions regain employment within six months, the cost to the Exchequer of combined job losses in East Kent will be highly significant.
- 1.3.6. The potential loss of employment at Pfizer and the threat of higher-value losses elsewhere are important in the context of East Kent's comparatively weak workforce skills base. For example, 26.6% of working age residents are qualified to degree level, compared with almost 30% nationally, and 32% in the South East⁴. The Pfizer exit therefore both compounds aggregate job losses in East Kent and threatens the area's knowledge base.
- 1.3.7. Our current evidence base demonstrates that Pfizer's exit is a significant shock to the local economy, especially in the current economic circumstances. However, more work needs to be done to establish the full local economic impact. Kent County Council has therefore commissioned DTZ to carry out a full economic impact assessment, to be completed by early April. The University of Kent and Kent County Council are discussing a longer-term evaluation of the impacts of Pfizer's exit on the East Kent economy, which will be important in helping Government and local partners to evaluate the success of their interventions over time.

1.4. Seizing the potential

- 1.4.1. While Pfizer's decision to exit the Sandwich site presents an economic challenge, it creates new opportunities. The Sandwich site is unique, offering an attractive stock of modern, high quality buildings associated with greatly improved road infrastructure, proximity to Manston and excellent European connections with the prospect of easy access to air and high-speed rail connections.

An excellent quality of life

- 1.4.2. In addition, East Kent offers a comprehensive package for an excellent quality of life and is likely to prove attractive to existing staff as a place to stay. Residential prices remain competitive compared with the rest of the South East; Canterbury is a centre of culture of international significance; East Kent's heritage and coastline add to its quality environment and the area's schools, colleges and cluster of universities are of excellent standard. With improved rail infrastructure, Thanet and Dover will be as close to London as Oxford or Cambridge – and much closer to continental Europe. Much is already being done to further enhance the environment of East Kent as a place conducive to business and investment – for example, the Eurokent site just north of the Sandwich site is currently being planned to provide a high quality new community to the highest environmental standards. Pfizer's long-standing presence as a major employer has resulted in a specialist workforce and strong aspirations to science-oriented employment. For example, one school in Canterbury already produces 1% of the country's undergraduate physics students.

⁴ ONS, Annual Population Survey

- 1.4.3. Significant investment in infrastructure in recent years has greatly enhanced accessibility. In particular, the **East Kent Access** scheme has led to £117 million of largely public investment in improvements to the A256, which will leave greatly improved road access to benefit future occupiers.
- 1.4.4. Substantial work is underway to build on this investment. The Sandwich site lies just to the south of **Manston Airport** and the significant, development-ready **Manston Business Park**. Both the airport and the business park will benefit from well-advanced proposals to provide a parkway station on the High Speed 1 rail line – reducing the journey time to London to less than an hour, at relatively modest capital cost. The area also benefits from a number of other substantial employment sites, such as **Whitfield** and **Betteshanger** (both of which are well advanced in planning) and enjoys **Assisted Area** designation covering the whole of Thanet and part of Dover district.

Potential for success: Manston and Eurokent

Combined, the Manston and Eurokent business parks within Thanet Central Island have the potential to support 3,000 new jobs. In addition, the potential for new job creation through the development of Manston Airport is huge: the airport's master plan forecasts direct and indirect employment rising from 100 in 2011 to 2,800 in 2018 and 6,000 in 2033 in areas such as aviation technology and cargo services.

Neighbouring Eurokent has the potential to offer some 62,000 sq m of employment floorspace alongside a new, high-quality community of around 600 homes. Part of a joint public/ private venture involving Kent County Council and Thanet District Council, Eurokent provides a perfect fit with the revitalised and regenerated Sandwich estate.

- 1.4.5. Experience from elsewhere also suggests that former single-owner research and development facilities can have bright new futures after major industrial restructuring. The chairman and members of the Task Force have visited and investigated a number of major industrial sites to examine what might be possible at Sandwich. Clearly, no two sites face exactly the same circumstances, but we have been encouraged by the experiences of locations as diverse as Michigan in the United States and Runcorn in Cheshire.
- 1.4.6. The global pharmaceutical industry is diversifying risk and opening up opportunities for smaller firms. In East Kent, we already have a strong knowledge base within the sector and excellent infrastructure, educational and quality of life assets. The Task Force believes that Pfizer's exit from the Sandwich site gives us a unique opportunity to build on these to generate a new economic future.

What's worked elsewhere? Case studies of success

Michigan Life Science and Innovation Center

When Pfizer closed its research and development facility in Ann Arbor, Michigan in 2007, 2,100 staff were affected. Four years later, the site is home to the Michigan Life Science and Innovation Center, a 57,000 sq ft incubator and science park led by the former head of the former Pfizer facility. As well as life science R&D companies, the centre is home to a range of support and business development organisations offering a concentration of resources for entrepreneurs.

The Heath, Runcorn

For many years an ICI R&D facility, a buy-out by the facilities management part of The Heath has created a multi-use business and technology park, which, ten years on, now employs 2,000 people within some 160 businesses – more than the ICI did before it exited, and largely in highly specialised roles. Competing with heavily-subsidised science parks elsewhere in the local area, The Heath is now developing solutions for other locations throughout the country.

1.5. Rising to the challenge; grasping the opportunity

1.5.1. Faced with the opportunities and challenges highlighted above, the Task Force considers that we need to address four major questions in responding to Pfizer's exit:

- How do we retain the **skills and knowledge** of the existing workforce in the short term, so that they are not lost to East Kent and the UK?
- How do we **build on the knowledge base** to ensure that it stays and expands over the longer term?
- How do we **support the wider East Kent economy** in building an environment conducive to business growth in the context of the loss of the area's largest private sector employer?
- What options are there for the **Sandwich site**, given its high-quality building stock and extensive footprint?

1.5.2. All these challenges are linked. However, given the globalised nature of the industry, the skills that Pfizer has built up over many years could quickly be lost to East Kent and to the country. The Government acted quickly to establish the Task Force, and we have moved swiftly to prepare our initial proposals. In particular, we have:

- Visited and investigated examples of former R&D facilities which have found new futures after major industrial restructuring;
- Drawn together venture capital experts to advise us on the right incentives to stimulate business investment;
- Initiated collaboration between Pfizer and Locate in Kent in promoting the site;
- Initiated a coordinated approach to Government-backed and other initiatives that could support the existing workforce and contractors affected;

- Agreed to a co-ordinated approach to higher education input into the retention and expansion of East Kent's knowledge base.

1.5.3. However, it is critical that we build on the momentum that we have achieved to date, retaining the knowledge base and enabling it to be developed into new economic opportunity. The next chapter sets out our proposals for further action and our recommendations to Government.

2. Solutions and recommendations

This section sets out the Task Force’s proposed strategy in responding to the Pfizer’s exit of the Sandwich site. It recommends that Government considers a series of business incentive schemes for Sandwich and key sites within the East Kent Assisted Area, within the context of a wider recovery and growth package for East Kent. It outlines the options that are currently being costed and sets out the remaining work that the Task Force intends to undertake.

2.1. Recommended approach and work in progress

“We will tackle the barriers and bottlenecks that inhibit growth...”
Coalition Agreement, 2010

2.1.1. The Government has clearly outlined its positive approach to local growth, focusing strongly on supporting enterprise and removing the obstacles to business expansion. Building on this approach, the Task Force will:

- Focus action to support the existing workforce, contractors and communities affected by Pfizer’s exit;
- Co-ordinate action to promote the Sandwich site;
- Develop a full understanding of the impact of Pfizer’s exit on the local economy;
- Create a Research, Innovation and Technology Zone, creating a stimulation package for business growth and investment;
- Develop a wider East Kent Recovery and Growth Package, creating an environment for competitiveness

2.2. Support for the existing workforce and community

2.2.1. Pfizer is already offering support to staff in taking up new opportunities through a comprehensive outplacement service. The Task Force will work closely with Pfizer to better understand their support package and add value to these efforts by engaging appropriate Government agencies and public services. These agencies must also engage with contractors and others in the supply chain.

2.2.2. We will work with Jobcentre Plus, the Skills Funding Agency, Cogent (the sector skills council covering the pharmaceuticals sector), higher and further education and local government to add value to Pfizer’s efforts to support the workforce. It should be noted that many potential redundancies will be in non-scientific roles and we will work with Jobcentre Plus, DWP’s Rapid Response Service is used to provide a wider range of support to those faced with the threat of redundancy. A paper will be prepared for the next Task Force meeting on 22 March with emerging proposals.

- 2.2.3. To provide effective support for Pfizer’s staff and contractors, we will work to understand Pfizer’s supply chain impact and the skills available among the existing workforce, to support the Economic Impact Assessment which has now been commissioned.
- 2.2.4. There may in addition be European funding opportunities to support the workforce. In particular, there is £23 million still to be allocated in the South East from the **European Social Fund** (ESF), offering potential support for adult training. Discussions are already underway with the Skills Funding Agency to access this. In addition, there may be opportunities to progress an application to the European Global Adjustment Fund, which should be investigated.
- 2.2.5. To take these actions forward, the Task Force has established a Skills and Employability Sub-Group to work with Pfizer to support training and enterprise development and access available external funding. This will meet for the first time shortly, bringing together further and higher education and support agencies.
- 2.2.6. Pfizer’s exit, combined with sharp cuts in public expenditure, will also have a wider community impact. We recommend that the community impact is considered within the Economic Impact Assessment and that efforts are made to secure European and other funding to support the transition of communities hardest hit by the economic transition.

A leading role for higher education
 East Kent is fortunate in having one of the South East’s largest concentrations of higher education, with key strengths in science and technology. Building on the engagement that the universities of Kent and Greenwich already have with Pfizer and with businesses across East Kent, there is an opportunity to build a co-ordinated approach to enterprise development. The Task Force is working to maximise these opportunities.

2.3. Promotion

- 2.3.1. It will be essential to attract inward investment into the Sandwich site, making the most of the incentives recommended in the paragraphs below and East Kent’s improved infrastructure and quality of life. Joint work between Pfizer and Locate in Kent is already well under way. Building on this, the Task Force recommends that UK Trade and Investment (UKTI) develop an action plan over the short to medium term in conjunction with Locate in Kent and Pfizer to explore all avenues to promote East Kent, reporting back to the Task Force.

2.4. Understanding the impact

- 2.4.1. As set out earlier in this report, our preliminary analysis indicates that Pfizer’s exit, coupled with the significant public sector and other job losses anticipated in East Kent will have a major economic impact. However, we need to understand this further. Kent County Council has already commissioned a comprehensive economic

impact assessment, the outcomes of which will feed into the Task Force's next report to Government.

- 2.4.2. The economic impact assessment will be accompanied by an initial 'growth strategy' for East Kent, taking account of emerging growth sectors and the impact of new investment in infrastructure and skills. This will assist in informing our incentive and stimulus proposals set out in the paragraphs below.

2.5. The Research, Innovation and Technology Zone

- 2.5.1. Pfizer's exit presents a unique opportunity to retain high-value employment. The Research, Innovation and Technology Zone (RITZ) is a stimulation package which brings together Government incentives and coordinated local action to attract a concentration of high-value pharmaceutical (and potentially other scientific) R&D businesses from Phase 2 of the transition onwards. We suggest that the RITZ could include:

- Full exemption from business rates on empty properties
- Capital incentives for further business growth
- National Insurance contributions holiday for business start-ups
- Support to business to secure R&D tax credits
- A full R&D business support package bringing together access to finance and a coordinated higher education offer
- Incentives to attract equity investment, similar to the Business Expansion Scheme of the early 1990s
- Streamlined regulatory and planning processes

- 2.5.2. Taking each of these proposed measures in turn:

Zero business rates on empty property

- 2.5.3. Pfizer plans to exit the Sandwich site by the end of 2012. This then prompts the question of who would take over the empty space and ensure that the facilities are maintained and marketed. We recommend that consideration is given to all potential options, including as a last resort a form of **public-private partnership** to own or manage the site, if all other opportunities have been exhausted.
- 2.5.4. In the shorter term, full **exemption from business rates** for all empty business premises on the site would significantly reduce the costs of maintaining the building stock on the site. This is an immediate priority, given that facilities of similar quality would be obviously expensive to reinstate.
- 2.5.5. Based on the current levels of business rates collected from Pfizer, the cost of full rates exemption over around half the site would be around **£2 million** per year.

Capital incentives to promote further business investment

- 2.5.6. We recommend that Government considers **tax allowances for capital expenditure** on premises across the RITZ area. This could provide a significant incentive both to investors in parts of the RITZ outside of the Sandwich site and to potential investors seeking to sub-divide or upgrade the existing facilities within the site.

National Insurance holiday

- 2.5.7. The Government has already granted a **National Insurance contributions holiday** to business starts outside the Greater South East. This measure could be easily extended to East Kent on a localised basis: the cost for 1,000 jobs created would be relatively small to the Exchequer (in the order of £600,000).

R&D Business support package

- 2.5.8. There is also potential to develop a **consolidated R&D business support package**. This could include:
- **Patent and technical assistance** to be offered through localised growth zone packages;
 - Support for small businesses in securing **R&D tax credits**, which can credit up to 175% of the costs of research;
 - Enhanced access to existing **University-funded innovation and business support** products, enabling a strong university link despite the absence of an HE presence on site. This could add value to the work that Pfizer is already doing in support of staff seeking to establish their own businesses;
 - Coordinated **'one stop'** service to manage liaison with public sector regulatory bodies (for example in relation to planning or environmental issues) and to help firms make best use of the incentives and support packages offered by the Zone
 - Unlocking of the **Grants for Business Investment (GBI)** scheme operated by BIS, which has been an important source of finance for firms investing in the East Kent Assisted Area, but which is currently suspended at national level.

Incentives for equity investment

- 2.5.9. We are also investigating the capacity of the venture capital industry to take up opportunities for spin-offs and management buy-outs and the potential for a package of **localised incentives to attract equity investment** in R&D and other high-tech start-ups. These could be taken forward along the lines of the former **Business Expansion Scheme**, which granted significant tax relief to new business starts in the early 1990s. One way of supporting this may be to give firms based within the RITZ 'fast-track' access to the assessment stage of the Business Growth Fund (a Government-backed equity fund to support small businesses in their first year of operation), potentially with a role for the coordination service described above⁵. This measure could operate at no additional cost, but may nevertheless be a positive incentive to business starts.

⁵ Centre for Cities (2011)

Business Expansion Schemes

The Business Expansion Scheme (BES) provided equity finance for expanding companies and new investment opportunities for investors. Launched in 1983, the scheme allowed individual investors to claim tax relief on equity investments in unquoted new companies. The BES encouraged investors to take risks they would otherwise not have taken, and retain investments for the longer term. Potentially, a BES-style approach could support the development of high-risk (but potentially high-return) research-intensive businesses.

- 2.5.10. Alternatively, there may be scope for a focused, **local business capital fund** created using public investment matched by the private sector. Potentially, such investment could come from the Regional Growth Fund or the South East ERDF Competitiveness fund, some of which is currently managed by Finance South East, with funds recycled for continuing investment in the area and managed via a private financial institution.
- 2.5.11. As well as potential spin-outs from Pfizer itself, it will be essential to attract inward investment into the RITZ, making the most of the incentives provided through the Zone and East Kent's improved infrastructure and quality of life. The Task Force recommends that UK Trade and Investment (UKTI) develop an action plan over the short to medium term in conjunction with Locate in Kent, Pfizer and other key developers to explore all avenues to promote the opportunities of the proposed RITZ area internationally.

Regulatory freedoms

- 2.5.12. The Sandwich site has developed through a positive approach to planning over many years. However, streamlined approaches to planning within the context of a clear development plan could help to create a more positive environment for business growth, building on the positive approach that has been taken to date. We recommend that potential flexibilities within the proposed RITZ area are more fully investigated.

Boundaries of the RITZ

- 2.5.13. We recommend that a full analysis is undertaken regarding the **boundaries of the RITZ**, bearing in mind that while the costs to Treasury will increase as the RITZ expands, so will the benefits. We believe that there are two options for the RITZ's boundaries, either:
- **All major employment sites in the East Kent Assisted Area.** This would include the Sandwich site (including additional sites currently owned by Pfizer beyond the main site boundary); Thanet Central Island (encompassing Manston Business Park, Eurokent and Westwood); Betteshanger and Whitfield; or
 - **The core area** of the Sandwich site and Thanet Central Island.
- 2.5.14. The Task Force recommends that both options are considered in the light of the costs and benefits of the RITZ measures (including potential displacement effects within the Assisted Area), taking into account Government's national views on the

potential for Enterprise Zones and related measures. Map 2 illustrates the locations of the key sites within the Assisted Area.

Map 2: Key site locations in the East Kent Assisted Area



2.6. East Kent Recovery and Growth Package

2.6.1. The loss of Pfizer will have a wider impact on East Kent, especially given the area's vulnerability to public sector job losses in the short to medium term. Building on the development of the growth strategy described in para. 2.4.2, the Task Force recommends that we develop an East Kent Recovery and Growth Package to:

- a) **Reinforce the RITZ**, by including measures taken beyond the Sandwich site which could have a significant impact on the attractiveness of the RITZ; and
- b) **Encourage wider growth potential** by improving the environment for business growth and competitiveness.

2.6.2. The Recovery and Growth Package will require investments in transport infrastructure. A priority for East Kent is the delivery of a package of infrastructure

improvements associated with Manston. This includes **line speed enhancements to improve the operation of High Speed One**, the provision of a new station at Thanet Parkway to serve both Manston Airport and business park and the Sandwich site itself, immediate provision of HS1 services to Deal and Sandwich and associated local transport infrastructure. Potentially, Manston could deliver 5,000 jobs with the provision of additional infrastructure and the further development of the airport. The combined cost of the Manston package is £28.4 million, of which £10.8 million is currently sought from the Regional Growth Fund⁶.

- 2.6.3. In addition to these critical infrastructure improvements, efforts to promote the area's **skills** offer should be supported, for example through support for the investments proposed by the further and higher education sectors at Betteshanger and Canterbury.
- 2.6.4. The Recovery and Growth Package is still in its early stages of development. Although our work is currently primarily focused on the Sandwich site and the potential for the RITZ at this stage, the Task Force recommends an increasing focus on developing a wider sub-regional strategy over the coming weeks, with a view to developing a full package capable of securing Regional Growth funding in the next round.

State aid

The whole of Thanet and part of Dover is within an Assisted Area, removing the need for specific European Commission clearance for an incentive package. Within the Area, any enterprise may receive state aid up to 15% of project value. For medium-sized firms, this ceiling rises to 25%, and for small firms to 35%⁷. However, state aid regulations are complex, and the full implications of tax incentive measures (especially those not directly linked to capital expenditure) need to be investigated further.

Assisted Area status could be important in attracting investor interest in the RITZ, and it will be important that it will be retained in the forthcoming review of Assisted Areas.

⁶ Regional Growth Fund application, January 2011

⁷ European Commission (2006), State Aid N673/2006: UK Regional Aid map 2007-13

3. Moving forward

The Task Force has made significant progress in identifying the key measures that need to be taken to promote economic growth in East Kent. However, much remains to be done. This section summarises our recommendations and next steps.

3.1. Emerging Task Force recommendations and work in progress

3.1.1. We recommend that in the next few weeks, the Task Force:

- **Develops a full package of transitional support for the existing workforce and local community**, adding value to the support offered by Pfizer and developing a coordinated response. This should include aligning national and European funding sources and the efforts of national, local and higher education support services.
- **Develop a joint action plan between UKTI, Locate in Kent and Pfizer**, building on the current joint work between Pfizer and Locate in Kent.
- **Fully understands the impact of Pfizer's exit**, in the context of wider economic change, concluding a comprehensive economic impact assessment and growth strategy for East Kent.
- **Works with the higher education sector** to develop a coordinated approach to university support for business development. This will be led by the vice chancellor of the University of Kent.

3.1.2. We further recommend that Government works with us to:

- **Establish a Research, Innovation and Technology Zone** at Sandwich, Manston and key sites in the East Kent Assisted Area to stimulate business growth. This could include a number of measures, including:
 - Full exemption from business rates on empty properties
 - National Insurance contributions holiday for business start-ups
 - Support to business to secure R&D tax credits
 - A full R&D business support package
 - Incentives to attract equity investment, such as the Business Expansion Scheme
 - Streamlined regulatory processes
- **Create an East Kent Recovery and Growth Package**, including existing proposals to improve line speed on High Speed One, bringing Thanet and Dover to within an hour of London at minimal public cost.

3.2. Next steps

- 3.2.1. The Task Force has made great progress in just one month. We will continue to work with Pfizer and with Government in refining our proposals, building on evidence of what has worked elsewhere and taking expert advice. The Task Force next meets on 22 March, when we will provide a further update, and we will follow this with a further report to Ministers in April.

- 3.2.2. We believe that there is a bright future for Sandwich, Manston and the Assisted Area – and for the whole of East Kent. At limited cost to the public purse, we now have the opportunity to build on a world-class concentration of skill and knowledge which could be just an hour from London. From the challenge of industrial change, we are on the cusp of an economic opportunity.