

# Financial Times

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# Exemption for regions branded 'geography tax'

## National insurance

By FT regional staff

Measures to stimulate the private sector in the north and Midlands provoked a backlash in the south, with one council leader labelling national insurance exemptions a "geography tax".

George Osborne announced a three-year scheme that exempts new companies from the first £5,000 of NI contributions for up to 10 employees for their first year in the job. It would not apply in London, the south-east and east, the only regions with

above-average prosperity. The aim was to stimulate growth in the rest of the UK to narrow that gap, and compensate for the bigger impact of public sector spending cuts.

However, Andrew Finney, leader of Basingstoke and Deane council, said: "This ill thought-through tax on geography stacks the odds against the small businesses we're depending on for recovery."

Advisers warned it could drain places such as Milton Keynes and Peterborough, on the fringes of the prosperous zone, of new small businesses.

Graham Farquhar,

employment and tax partner at Ernst and Young, said: "It's a big incentive to locate just inside the east Midlands or south-west. A lot of entrepreneurs will be poring over the Treasury's regional maps."

A regional growth fund also aims to create new jobs between 2011 and 2013. But Ross Smith, head of policy at the North East Chamber of Commerce, questioned what it could achieve in just two years, especially as regional development agencies are to be replaced with city-based, council-led economic partnerships.

"The big question is, what will be the strategic

economic architecture of the region after the regional development agency is no longer here?" he said. "The concern will be... whether a series of reliefs for a number of businesses can add up to the provision of major developments and facilities."

Nevertheless, some big transport projects were spared, mostly where contracts had already been awarded. The Tyne & Wear Metro, linking Newcastle and Sunderland to surrounding areas, is being upgraded. Manchester's Metrolink tram system is to be extended.

The two projects on the

mainline railway – the upgrading of Birmingham New Street station and improvements to lines to Sheffield and across the Pennines – were part of Network Rail's five-year funding programme.

Changes to any of the big projects in that period would require a formal re-opening of the funding deal and are therefore likely to be minimal.

Mike Whitby, leader of Birmingham city council, said: "I am delighted that George Osborne has recognised the strategic importance of the [New Street] Gateway scheme and reiterated the government's sup-

port for a project that is not only significant regionally and nationally but is also a statement about how Britain values good public transport infrastructure."

Damian Waters, north-west regional director of the CBI employers' body, said east-west transport links needed to match the improved north-south ones. "The coalition has talked about rebalancing the economy away from the public sector and financial services. There has to be a geographic rebalancing too."

*Reporting by Andrew Bounds, Chris Tighe, Jonathan Guthrie and Robert Wright*