INVESTMENT ZONES
What are they, and will they work?

In its *Growth Plan*, published on 23 September, the Westminster government announced its intention to create Investment Zones across the whole of the UK. The label may be new but the concept is not. At the core, the new Investment Zones are a new generation of Enterprise Zones – something that has been a feature of the UK's economic development landscape since the 1980s.

So in understanding the likely impact of the new Investment Zones we don't start with a blank sheet of paper. There is a lot of evidence that tells us what to expect. There is also a lot of practical experience on what works and what doesn't.

The UK government's proposals

The government says that Investment Zones "aim to drive growth and unlock housing". To this end they will benefit from "tax incentives, planning liberalisation, and wider support for the local economy". The government also says that "development sites may be co-located with, or separate to, tax sites, depending on what makes most sense for the local economy".

In England, the tax incentives, time-limited to ten years, will comprise:

- **Business rates** – 100% relief on newly occupied business premises and certain existing businesses where they expand in the zones.

- **Investment in plant and machinery** – 100% first year capital allowance for companies' qualifying expenditure.

- **Investment in buildings** – taxable profits reduced by 20% of the cost of qualifying non-residential investment per year, rising to 100% of the cost of investment over five years.

- **Employer's NI contributions relief** – zero-rate on new employees working at least 60% of time on-site, up to earnings threshold of £50,270 p.a.

- **Stamp Duty** – full relief on land and buildings bought for use or development for commercial purposes, and for purchases of land or buildings for new residential development

Some of these taxes are presently the responsibility of the devolved administrations. The government says it will legislate to create tax and development sites where powers are presently reserved.

The government says that councils hosting Investment Zones will receive 100% of the business rates growth above an agreed baseline for 25 years. The government also says that "subject to demonstrating readiness, Mayoral Combined Authorities hosting Investment Zones will receive a single local growth settlement in the next Spending Review period".

Detail on the level of streamlining for planning permission is to be set out later.

It's worth noting that the tax incentives on offer in Investment Zones overlap with those in Freeports, where exemptions from customs duties also apply. The government says it will work to ensure that both programmes complement one another.

Where will Investment Zones be located?

The government's intention is that, in England, Investment Zones will be delivered in partnership with upper tier local authorities and Mayoral Combined Authorities, who in turn are expected to work in partnership with their relevant districts and/or constituent councils. In Scotland, Wales and Northern Ireland the Investment Zones will be delivered in partnership with the devolved administrations and local partners.

Investment Zones will be chosen following a "rapid Expression of Interest process open to everyone".

It's clear that the Zones will be *sites*, or possibly groups of sites, rather than broader local areas. The government's *Growth Plan* includes an illustrative list of 24 sites of the type that might be considered.

The *Growth Plan* also includes a list of 38 authorities, spread widely across England, that have already expressed an interest in hosting a site. There are likely to be others too.

There are no details, however, of just how many Investment Zones the UK government might consider designating.

How does the new package compare with Enterprise Zones?

Like the new Investment Zones, the first-generation Enterprise Zones (designated by the Thatcher and Major governments) included 100% relief from business rates for 10 years, 100% capital allowances for investment in buildings, and relaxed planning controls.

The second-generation Enterprise Zones (designated by the Cameron government) involved a weaker package of incentives. Relief from business rates was just for five years and limited to a total of just £275,000 per business. There were capital allowances for investment in plant and machinery (on a limited basis) but not for investment in buildings.

The new Investment Zones come with a distinctly more powerful package – all the incentives on offer in the first-generation Enterprise Zones plus relief from employer's NI contributions and Stamp Duty.

The likely impacts

Given that the financial incentives in the new Investment Zones are at least as powerful as those in the first-generation Enterprise Zones, these EZs probably offer the best guide to the likely impacts.

The evidence is that the first-generation Enterprise Zones were successful in generating large numbers of jobs on-site and that a substantial proportion of the jobs, especially in manufacturing but less so in retailing, were additional to the wider local economy. This evidence, mainly from government-funded evaluations, is robust and there is no strong reason to dispute the findings. It is an assessment shared in the academic community, at least among numbers-driven researchers.

There is, for example, little evidence that large numbers of firms move on to the sites to take advantage of the tax breaks and then move away as soon as they come to an end. Some closures and relocations do happen all the time, of course, in the normal run of business.

The key incentive is arguably the 100% capital allowance for investment in buildings – something missing from the later Enterprise Zones but restored in Investment Zones. This attracts speculative property developers, who invest heavily in industrial and warehouse units and in office space. Businesses are then attracted in by the ready availability of premises, and by the bonus of a rate-free holiday.

That said, some Enterprise Zones were much more successful than others. The success stories included, amongst others, Canary Wharf in London's Docklands and the Dearne Valley in the former heart of the South Yorkshire coalfield, where thousands of new jobs are now located.

Nevertheless, it must be accepted that a proportion of the new jobs on Investment Zones will be:

- *Deadweight* – where the jobs would have been created on-site anyway, without any public financial support

- *Displacement* – where the jobs would instead have been located elsewhere in the local area, so there is no net addition to local employment

It's not easy to put a figure in advance on either of these, or indeed on how much of the job growth is likely to be additional to the UK economy as a whole.

What is also clear, however, is that Investment Zones are unlikely to have a rapid impact on the volume and location of economic activity. It will take time to go through the legal process

of designation. In the devolved nations there is the further complication of possible legislation. Then it takes time to get building work underway and completed, and for occupiers to move in. It's unlikely that there will be much if any impact on jobs and businesses this side of a general election. By 2030 much more will have happened on the ground but, as with Enterprise Zones, the full impact may not be felt for ten or fifteen years.

Pitfalls to be avoided

Enterprise Zones went through a difficult learning process in the 1980s and 90s. It's important that Investment Zones do not have to re-learn the lessons:

- Investment Zones should not be designated on land that isn't ready for development, for example because it needs reclamation or infrastructure investment. Site preparation introduces long delays and major public sector costs.

- Investment Zones need more planning, not less. Developers need certainty rather than a free-for-all, so a clear masterplan for the whole site needs to be in place at an early stage.

- Investment Zones will work best where there is not complex land ownership, and best of all where the land is in public sector hands.

- Investment Zones in the heart of big cities run the greatest risk of being filled by local relocations. More retail parks can be the unintended result.

Conclusions

1. The package of incentives in Investment Zones is quite powerful, and in the longer-term likely to have a significant impact on the location of businesses and jobs.

2. However, only a proportion of the jobs will be new to the local area. There is a risk that neighbouring areas will lose out as businesses are sucked in to the Zones.

3. Nevertheless, if Investment Zones do steer jobs and growth to some places rather than others it's important that, to assist Levelling Up, they are predominantly located in the less prosperous parts of the country where additional economic activity is needed most.

Prof Steve Fothergill
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