THE NEW INVESTMENT ZONES
An assessment of their likely impact

The Spring Budget announcement

In the Spring Budget on 15 March, the UK government announced new plans for Investment Zones. These should not be confused with the Investment Zones announced in last September's *Growth Plan* and then scrapped in November – there are points of overlap, but the new Zones are significantly different. Full details were set out in an *Investment Zone Policy Offer* published by the Treasury alongside the Budget.

The government says that, subject to agreement, it intends to establish 12 Investment Zones – eight in England (one in each existing or proposed Mayoral Combined Authorities in the Midlands and North[1]) and four across Scotland, Wales and Northern Ireland, with at least one in each. Regarding England, the government adds "this shortlist will be kept under review with a view to adding other places to it where they have a clear potential to host an Investment Zone".

Each Zone is expected to focus on growing clusters aligned with "one or more" of five specific sectors:

- Green industries
- Digital technologies
- Life sciences
- Creative industries
- Advanced manufacturing

In England, each Zone will have a support package worth £80m over five years. This is split between £35m for "a portfolio of interventions based on the opportunities of each cluster" (which in turn is split 60:40 between capital and revenue spending) and £45m for a package of tax incentives lasting five years:

- **Stamp duty** – 100% relief for land and buildings bought for commercial use or development.

- **Business rates** – 100% relief on newly occupied or expanded premises.

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

[1] East Midlands, Greater Manchester, Liverpool City Region, North East, South Yorkshire, Tees Valley, West Midlands, West Yorkshire.

- **Investment in buildings** – taxable profits reduced by 10% a year of the value of qualifying non-residential investment, rising to 100% over ten years.

- **Employer's NI contributions** – zero rate on new employees working on the site for at least 60% of their time, up to an earnings threshold of £25,000 p.a., for three years per employee.

The tax incentives will only be available on designated sites, totalling no more than 600 hectares on a maximum of three sites within each Investment Zone. The intention is that there will be streamlined planning controls on each site but there will be no relaxation of normal building, environmental or labour standards.

Each Investment Zone in England is to be led by the Mayoral Combined Authority with the involvement of a wide range of local players. Local universities are expected to play a prominent role and local MPs are to be engaged in developing the plans. Central government's approval will be required. The lead authority will be allowed to keep 100% of the increase in Business Rates on the Investment Zone sites for 25 years but will be required to demonstrate how business rate retention will be used to support local economic growth.

The UK government says it will consult with the devolved governments in Scotland, Wales and Northern Ireland on the implementation of Investment Zones in the devolved nations.

How do the new Investment Zones differ from……

……the original proposed Investment Zones?

- The tax incentives are broadly the same but their duration has been reduced from ten years to five. The exemption on employer's NI contribution has been cut from an earnings threshold of £50,270 and reduced to just three years. The new tax relief on buildings investment is at a reduced annual rate.

- The financial support for each Investment Zone is now cash-limited, which wasn't the case with the Zones proposed in September 2022.

- Each Investment Zones is now to be targeted at a specific, tightly defined industry. The original proposed Zones were open to all businesses.

- There are fewer of the new Investment Zones than anticipated back in September, and in England the opportunity to have one is for the moment restricted to specific places.

……*Enterprise Zones past and present?*

- The package of financial incentives is a lot stronger than the one available in the Enterprise Zones established under the Cameron government.

- The incentives are closer to those in the first-generation Enterprise Zones established under Thatcher and Major but at the margins less generous – the rate-free holiday in the first-generation EZs was for ten years, not five.

- Unlike the new Investment Zones, successive generations of Enterprise Zones were not targeted at specific industries.

……and Freeports?

- Putting aside the exemption from customs duties in Freeports, the financial incentives in the new Investment Zones are the same.

- The geography is however different. Freeports are focussed on or around ports (including airports) whereas Investment Zones are intended to focus on clusters of high-tech businesses. That said, the government does not rule out overlap between the designated areas for Freeports and Investment Zones if that makes local sense.

Shortcomings

There are at least four shortcomings in the new proposal for Investment Zones.

The first is **timescale**. One of the lessons from Enterprise Zones, learned the hard way in the 1980s and 90s, is that drawing lines on a map and then expecting firms to move in simply doesn't work, especially for brownfield sites. There is a sequence to follow: land needs to be cleared, basic infrastructure (roads, utilities) needs to be installed, buildings are constructed and only then do firms move in. The whole process is a lot easier too if there is a single, preferably public sector landowner. Businesses move in and job growth happens only when sites are ready for development. The short timescale of the new Investment Zones – just five years for the financial interventions – looks too short to allow delivery on all but the most ready-to-go sites.

Second, the **financial incentives** really aren't that generous, especially to the sought after high-tech end users. Their duration is limited – just three years in the case of employer's NI relief and just five years on rate relief. Bear in mind too that transformative investments by businesses sometimes require large amounts of public support. For example, £100m in government aid was recently offered to a single battery factory and £300m to each of the UK's two main steel producers.

Third, it's hard to see the new Investment Zones straying beyond the **big cities**. The universities that might be involved are mostly located in the cities rather than surrounding towns and it's in the cities that the larger stock of existing business will make it easier to find the specialist clusters around which to build the Zones. The Treasury's *Policy Offer* says it expects growth in the cities to benefit surrounding towns. There is an element of truth in this but in general the further from the location of business and job growth the less the benefit is felt. For cities in England beyond the chosen Mayoral Combined Authorities, let alone towns

at some distance from their neighbouring big city, it would be surprising if the new Investment Zones offered much.

Fourth, there is too much **wishful thinking** about the development of high-tech clusters. Clusters of successful businesses, in any sector, take a long time to become established and grow. They evolve out of existing businesses and institutions, build on existing skills, markets and suppliers, and involve an important element of chance or good fortune. It's not at all clear that public sector intervention, however well-intentioned and designed, can conjure up a new cluster where one barely existed previously. To expect to do so in five years – the lifespan of the new Investment Zones – is probably unreasonable.

The likely impact

The experience of the Enterprise Zones of the 1980s and 90s tells us that interventions of this kind – that is, business incentives targeted at specific sites – can make a quite big difference to number and location of jobs[2]. Canary Wharf in London and the Dearne Valley in the heart of the former Yorkshire coalfield are two very different but successful examples, though in both cases there was much preparatory investment before EZ status was granted.

However, the shortcomings of the new Investment Zones limit what might be expected of this particular model. Indeed, the original plan for Investment Zones, set out in September 2022, was much closer to the tried-and-tested first-generation EZ model and might therefore have been expected to have a bigger impact, and not simply because there might have been a lot more of them.

None of this is to suggest that Investment Zone status is not worth having, or that there will be no positive impact on growth and jobs. The impact is however unlikely to be transformative, locally or nationally.

Scope for improvement

The intention behind the new Investment Zones – to help promote business investment and growth, and to do so in the less prosperous regions of the UK – is surely sound. It's the detailed design of the present initiative that's the problem. So what might be done to make them real success?

This is not an abstract question. An incoming Labour government in early 2025, presently a distinct possibility, would inherit an Investment Zone initiative that had barely got started. The Treasury, for instance, does not expect the first spending on the Zones until the 2024-25 financial year. Should Labour scrap the initiative, which might not be easy once they are underway? Should it let the Zones just wither on the vine? Or should it make a determined effort to make them work?

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[2] PA Cambridge Economic Consultants (1995) *Final Evaluation of the Enterprise Zone Experiment*, HMSO, London.

Three straightforward steps would strengthen the new Investment Zones:

- **Extend the duration of the financial incentives from five to ten years**. In the short-run at least this would not cost the Treasury a great deal but this would markedly increase the attractiveness of the sites to businesses.

- **Lift the £80m cap on financial support** available to each Investment Zone. Instead, let the scale of support to businesses be driven by demand rather than arbitrarily constrained, using the UK's new Subsidy Control regime to ensure that discretionary support is deployed when and where it is justified. There would be an up-front cost to the Treasury but if extra growth and jobs are the result this would generate extra revenue.

- **Widen the list of target sectors** in all Investment Zones to encourage growth in all the five sectors presently specified by the government rather than just focussing on "one or more". This would increase the chances of securing a good volume of development. There is in practice a lot of interaction in knowledge and skills between the five sectors the government is aiming to promote. In each Zone there is the potential to develop a diverse cluster of high-tech activities rather than one narrowly based on just a single sector.

The Investment Zone concept is not fundamentally flawed. However for the moment, at least until the present initiative is revamped, expectations need to be kept in check.

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