What are investment zones and will they boost the UK economy

Harold Wilson famously opined certainly been a very long one for all of those with an interest in our economic fortunes. Politically 22 years is a lifetime and so it was in October 2000, in the distant early days of devolution that I was involved, in a backroom role, as a special advisor to Mike German the economic development minister in Wales's first coalition, alongside Paul Griffiths, now deputy leader of Monmouthshire Council and a certain Mark Drakeford, Wales's First Minister.

The then partnership agreement, Putting Wales First, was published with a commitment that "we will rigorously pursue the scope for fiscal variations and other special measures which can exploit to the full the benefits of the regional state aid status given to West Wales and the Valleys."

That process involved research, lobbying Brussels and London and learning from the Celtic Tiger Irish economy which had used tax policy so effectively to achieve record growth. Our efforts were in vain, at the time. UK Government Treasury policy has generally avoided geographically varied taxation as a policy tool in economic regeneration, apart from some experimentation in stamp duty exemptions for deprived areas and tax breaks to encourage investment in community investment finance and urban regeneration companies, until recent developments including enterprise zones and more expansive measures for freeports.

It is incredibly significant then that the government has announced a new policy that will allow a range of local authorities to set up investment zones. These zones could offer a range of financial and regulatory advantages that could help bring forward both commercial and residential development and regeneration.

All combined authorities and upper tier local authorities in England can bid to designate land as investment zone. The Westminster government expects similar arrangements will be confirmed in Scotland, Wales and Northern Ireland subject to devolved decision making. Local authorities are strongly encouraged to secure ‘business sponsors’ ready to lead and drive investment opportunities. We take this to mean partnerships with landowners, developers and key occupier businesses will be beneficial. Our experience is that there are strong advantages in tapping into private sector proposals and work, but that it can also lead to complexities over public sector requirements to demonstrate they are not unduly favouring specific private sector organisations.

Investment zones have many elements in common with freeports and enterprise zones. Key relevant characteristics include:

- 100% business rates relief for newly occupied business premises for 10 years
- 100% council retention of rates growth for 25 years.
- 100% first year enhanced capital allowances.
- Enhanced structures and buildings allowance.
- Employer national insurance contribution relief on new employees paid up to £50,000 per annum.
- Stamp duty land tax (SDLT) relief ‘for land and buildings bought for use or development for commercial purposes, and for purchases of land or buildings for residential developers;
- Possible grant funding.
- Simplified town planning requirements.

The total package is potentially attractive enough to influence the location and possible scale of growth.

Of these measures we have found that the one that could generate the most significant investment sums on larger commercial schemes is the 100% rates retention to local authorities over 25 years. In principle this could be capitalised and the local authority could use prudential borrowing to pay for significant infrastructure investment to unlock development. However details will need to be worked out and agreed, for example including sharing of development risks and guarantees of future rates income. There appear to be no definitive restrictions on the types of activities eligible for inclusion.

In freeports these are fairly tightly defined and intended to be orientated toward export related and higher value added activities. In contrast a wider approach can be taken for example allowing large distribution centres, provided relevant value in achieving growth is demonstrated.

The benefits for housing development are currently less clear than for commercial schemes. Most of the business related incentives will not apply. The most relevant elements are stamp duty relief, possible grant funding, and planning reforms. Details of planning reforms are not confirmed yet but for example might include reduced thresholds triggers for environmental impact assessments, though this will depend on the Welsh Government response.

In England expressions of interest are sought until October 14th. It is clear that the UK government wants to prioritise schemes that can be delivered quickly and with good chances of going ahead

After this stage there will be a fuller submission and assessment process. Details are not confirmed yet, but such processes usually follow a structure set by the Treasury’s Five Case model, setting out the strategic, economic, financial, commercial and management cases for the proposals. Questions will inevitably arise on whether this new innovative approach is simply displacing investment from elsewhere and/or that would have happened anyway. Whether investment zones genuinely create new growth and activity will depend on the degree to which local markets are demand or supply constrained, and whether they are addressing market failure and viability gaps.

Current guidance also emphasises an approach where the economic benefits are calculated via a land value uplift to society approach such effects can be substantial but the analysis and concepts can easily become "involved". Published government guidance has not kept pace with actual practice in appraising proposals which adds further lack of clarity.

If handled well investment zones represent significant incentives to development, incentives which the Welsh economy so badly needs, no less than 22 years on from its first official interest in fiscal variations.

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