INVESTMENT ZONES PLACE SELECTION IN SCOTLAND

INTRODUCTION

The Scottish and UK Governments are committed to a partnership approach to developing a policy offer for Investment Zones in Scotland, tailored to Scotland's needs and opportunities. The Investment Zone Policy Prospectus published on 15 March 2023 sets out three principles for engagement between the Scottish and UK Governments, which have been established through previous joint working on programmes, such as Green Freeports:

- **Partnership:** the Scottish and UK Governments will play a joint role in co-design, decision-making and overseeing the delivery of Investment Zones;
- **Parity**: the overall offer in Scotland will be of equivalent value to the overall offer per Investment Zone in England; and,
- **Strategic Fit:** Investment Zones will align with the Scottish and UK Governments' policy frameworks, including the Scottish Government's National Innovation Strategy and National Strategy for Economic Transformation, be a good fit for the regional economic and governance landscape and reflect devolution settlements.

Through this engagement, the Scottish and UK Governments reached agreement and jointly announced that there will be two Investment Zones in Scotland, and that the regions offering the most potential to host these are:

- The Glasgow City Region Regional Economic Partnership; and
- The North East of Scotland Regional Economic Partnership

The Scottish and UK Governments intend to work collaboratively with Regional Economic Partnerships (REPs) to co-develop Investment Zone proposals, offering support and advice throughout the process. Investment Zones must be founded on long-term partnership and collaboration – between regional actors in a place, and between all levels of government – to maximise the impact of coordinated investment and intervention. Through this shared commitment and partnership, Investment Zones will support long-term growth of high-potential clusters on the journey to becoming nationally significant and, in time, globally leading.

These Investment Zones will be able to make the most of both reserved and devolved levers offered by the Scottish and UK Governments.

This document provides further information on the policy model in Scotland and how places were selected. Further detail on the parameters of the co-development process and guidance on the development of proposals will be published in due course.

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OBJECTIVES AND POLICY MODEL

Priority Sectors

In keeping with the approach already set out by the UK Government in England, Scottish Investment Zones will focus on five wide-ranging priority sectors in which the UK is well-positioned to play a leading role globally – Digital and Technology; Green Industries; Life Sciences; Advanced Manufacturing; and Creative Industries. Investment Zones will need to focus on growing clusters aligned with one or more of these sectors, to boost Scottish and UK competitiveness in these high-potential industries.

The barriers to the growth of emerging clusters of activity will look different between sectors and across different parts of Scotland and the UK. This means there is no one size fits all model, as each region will require different interventions depending on what is already in place and the drivers of growth for specific clusters.

Funding envelope

Subject to proposals meeting specific requirements and being agreed across all parties, Investment Zones in Scotland will each receive a total funding envelope of £80 million over 5 years, which can be used flexibly between spending and a single five-year tax offer, scalable based on number and size of sites. This would consist of:

- **A minimum £35 million flexible spend**, split 40:60 between resource spending (RDEL) and capital spending (CDEL), to use across a portfolio of interventions based on the opportunities of each cluster; and
- **Tax incentives**, available for five years, offered over a maximum 600ha across up to three sites, ideally of no more than 200 hectares each. If a place chooses not to take up tax reliefs to the full extent available, they will have a larger spending envelope available to them. The precise costs of tax sites will vary by site, however the estimated cost of 600 hectares of tax reliefs is £45m, to be deducted from the overall £80m envelope available to an Investment Zone.

The principle of flexibility is woven throughout the policy offer and will respond to evidenced regional priorities, reflecting that regional partners know their economy best.

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Fiscal Incentives

The Scottish and UK Governments are offering the following tax reliefs in designated tax sites within each Investment Zone. These will be available for 5 years and include:

- Land & Buildings Transaction Tax
- Non-Domestic Rates Relief
- Enhanced Capital Allowance
- Enhanced Structures and Buildings Allowance, and
- Employer National Insurance Contributions relief

The precise costs of tax sites will vary by site, however the estimated cost of 600 hectares of tax reliefs is £45 million, to be deducted from the overall £80 million envelope available to an Investment Zone. Any tax sites must be tightly defined and located on underdeveloped land.

Flexible Spend

Within the overall fiscal envelope, the spending envelope will be split between resource and capital funding at a 40/60 split. Funding can be used for Research and Innovation, Skills, Infrastructure, Regional Enterprise and Business Support, and Planning and Development.

Non-Domestic Rates Retention

Investment Zone sites will be able to benefit from 100% retention of non-domestic rates growth over an agreed baseline for 25 years. In drawing up proposals for Investment Zones, REPs will need to demonstrate how non-domestic rates retention will provide for inclusive economic growth within the region, support each priority sector within the Investment Zone, and represent value for money for the Scottish and UK Governments.

Government support

Alongside funding, the Scottish and UK Governments will provide support to REPs in the development of their proposals to ensure they are robust, evidence-based and achieve the objectives of the programme. The Scottish and UK Governments would welcome evidence that shows how REPs intend to align their Investment Zone proposals with existing and planned public and private investment in the area, including current and future infrastructure plans, such that regional and national strategic aims are met.

All proposals should include a degree of secured and anticipated match funding from the private sector and research institution partners.

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PLACE SELECTION

The Scottish and UK Governments co-developed a bespoke approach to identifying Investment Zone areas in Scotland to reflect Scotland's specific policy, governance and economic landscape.

Core Principles

This methodology is underpinned by a set of core principles that have been agreed between the Scottish and UK Governments. These have guided the development of the approach.

a. **Objectives**: The methodology and criteria used to identify areas best suited to establish an Investment Zone flows directly from the policy objectives. Investment Zones are ultimately aimed at leveraging research and innovation strengths to boost productivity and increase innovation within the Investment Zone geography. They will focus on growing knowledge-intensive clusters linked to research institutions and building on existing strengths while promoting strategic fit. Investment Zones will take a whole ecosystem approach to ensure the benefits and opportunities of growth are felt by communities throughout Investment Zone regions.
b. **Strategic Fit:** Investment Zones will align with the Scottish and UK Government's policy frameworks, be a good fit for the regional economic and governance landscape and reflect the devolution settlement.
c. **Place-based:** A place-based approach was undertaken to identify areas with the potential to support the policy objectives, and which have the fundamental characteristics to create the environment in which the private sector can prosper, and clusters flourish.
d. **Geography**: To best align with Scottish Government's policy frameworks, such as the National Strategy for Economic Transformation, and reflect the recommendations of the independent Regional Economic Policy Review, a regional approach has been taken, with Regional Economic Partnerships (REPs)[1] proposed as the geographies for selecting and delivering Investment Zones.

[1] When identifying and ranking places for an Investment Zone, two local authority areas span across multiple REPs. We decided to include these local authorities within each REP rather than split the local authority out (this makes no material difference to the results).

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Identifying and Ranking Places

All REPs (as an economic and delivery geography) in Scotland were scored according to the following criteria to determine the potential for places to benefit from Investment Zones.

1. **Economic potential:** a key policy ambition is to boost productivity. A key route to aggregate productivity growth is by focussing on high population areas with significant scope for 'catch up' economic growth. This criterion therefore targets Investment Zones towards places that have greater scope for increased productivity and output;
2. **Innovation potential:** increasing innovation and adoption of new ideas is one of the key drivers of long-term productivity and prosperity. This criterion therefore targets Investment Zones towards places with high levels of business dynamism and high-skilled labour;
3. **Wellbeing Economy Need:** a key outcome of the Investment Zone policy in Scotland is to address pockets of deprivation within and between regions. This reflects similar outcomes to the Levelling Up Need criteria used in England, and therefore targets places with high levels of deprivation within them.
4. **Strength of knowledge anchors:** knowledge intensive clusters are driven by research-intensive institutions and we want to leverage regional research strengths to spread the benefits of the innovation economy more widely. This factor therefore targets Investment Zones towards places with a strong network of research-intensive institutions, such as universities and catapults to boost innovation capacity and raise the productive potential of areas.
5. **Sectoral Strength:** the Investment Zone policy is designed to support development of the Chancellors key priority sectors to boost productivity and opportunities for high-skilled employment. This criterion uses information on employment shares in each priority sector and other sources of information, such as offshore-wind placement, to determine if a place has an established economic cluster.

Two further thresholds were applied:

1. **Minimum size:** places that fall within the REPs in Scotland with the smallest total population are unlikely to have the size to support the mature clusters that will result from a successful Investment Zone policy. Since fewer people live in such areas, the benefits of Investment Zones would also be felt less widely. Consequently, the least populous areas, i.e., the bottom 25% of REPs were excluded.
2. **Presence of a knowledge anchor**: knowledge anchors are an essential part of the Investment Zone ecosystem. As a consequence, we exclude all places that do not have at least one knowledge anchor with the characteristics required to support an Investment Zone.

To assess which REPs rank highly using the above criteria, economic potential, knowledge anchors and population sizes were assessed at REP level. For innovation potential and wellbeing economy need the highest scoring local authority score was taken as the REP score for each domain. Sectoral strength was assessed at the local authority level. Each of these elements are critical to Investment Zone objectives and therefore all are given equal weight in the assessment.

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Criteria or threshold	Metrics	Commentary
Economic potential	Below average GVA per worker working population in REP.	This metric captures the economic underperformance of a place, and therefore the potential space for growth if constraints to productivity are alleviated.
Innovation potential	Knowledge-intensive business services employment as % of total jobs; % businesses that are high-growth and have more than 10 employees. Both measures are given equal weight.	Often used as a proxy for business dynamism and high-skilled labour, key ingredients for innovation. An existing concentration of high-skilled workers is considered to be a good indicator for the potential supply of high-skilled workers specifically for the Investment Zone, given the liveability of places and assortative mixing are both key determinants of the choice of location for all types of high-skilled workers.
Wellbeing economy need	Selection of wellbeing economy monitor indicators used: Healthy life expectancy; % employees receiving the Real Living Wage or above; Scotland Index of Multiple Deprivation (SIMD) overall score. Half of this domain is made up of SIMD. The other metrics are equally weighted to make up the other half of the domain.	Scottish Government's National Strategy for Economic Transformation (NSET) sets out an ambition for Scotland as a wellbeing economy. As part of the implementation of this strategy, Scottish Government has published a Wellbeing Economy Monitor which brings together a wide set of indicators to assess progress towards a wellbeing economy. We have factored wellbeing indicators into the methodology to reflect this as a priority area for Scotland.
Sector strengths	Evidence of at least one priority cluster, using employment data from Business Register; Employment Survey SIC Data or presence of an offshore wind cluster using Crown Estate Spatial Hub (as of 8 June 2023).	LA in top 3 of employment shares for one of the four priority sectors (Digital & Tech; Life Sciences; Advanced Manufacturing; and Creative Industries) or presence of an offshore wind cluster to act as a proxy for a Green Industry cluster. Like our approach in identifying offshore wind opportunities in England, using the offshore wind data (as of 8 June 2023) and INTOG applications area data (as of 5 May 2023), we have looked at each REP to determine proximity to a windfarm. This includes all current offshore windfarms in pre-planning, planning, construction and operational phases in Scottish waters.
Strength of knowledge anchor	1 point – TRAC Group A-C university / Top 3 Scottish universities in terms of 2021/22 UKRI grant allocations and IUK	We reward a REP for either having a research-intensive university and/or an Innovate UK Catapult (a sector-focused research and innovation hub that provides business

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Criteria or threshold	Metrics	Commentary
	Catapult within the REP boundary. 0.5 points – TRAC A-C university / Top 3 Scottish universities in terms of 2021/22 UKRI grant allocations or IUK Catapult within the REP boundary. 0 points – Neither a TRAC A-C university, top 3 Scottish university in terms of 2021/22 UKRI grant allocations or IUK Catapult within the REP boundary	support, spinout / scale-up and adoption of innovation). Having both indicates enhanced opportunities for research and commercialisation of innovation so would score most highly.
Minimum size threshold	Exclude bottom 25% of REPs by population	This excludes the two lease populous REPs.
Minimum knowledge anchor requirement	Exclude REPs without at least one of a TRAC A-C university, top 3 Scottish university in terms of 2021/22 UKRI grant allocations or an IUK Catapult	-

The following considerations were also taken into account to determine the strongest pairing of REPs to host Investment Zones:

- Existing government investment and current delivery activity to ensure the most efficient use of funding across Scotland;
- Capacity and capability of REPs to deliver an Investment Zone;
- Fair geographic spread across Scotland.

Based on the application of these criteria and considerations, Glasgow City Region and the North East of Scotland REPs were determined as the strongest pairing to host an Investment Zone in Scotland.

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