APPENDIX B

INVESTMENT ZONE POLICY

The Policy Prospectus highlights that the purpose of Investment Zones (IZs) is to boost productivity, provide more high-priority jobs in places, and level up the economy. They will be locally led and aimed at supporting two key national growth priorities:

- Growing strengths in national priority sectors.
- Addressing economic disparities that persist between and within regions.

Specifically, the Policy Prospectus states that Investment Zones will support the development and growth of clusters to increase local innovation capacity, attract investment and strengthen the private sector. This in turn will help to boost regional productivity and growth, which is felt by local communities.

These are not isolated objectives, and support the overarching UK Government ambition, to deliver on specific missions in the Levelling Up White Paper:

- Mission 1 - by 2030, pay, employment and productivity will have risen in every area of the UK, with each containing a globally competitive city, and the gap between the top performing and other areas closing; and

- Mission 2 - by 2030, domestic public investment in R&D outside the Greater South-East will increase by at least 40%, and over the Spending Review period by at least one third. This additional government funding will seek to leverage at least twice as much private sector investment over the long term to stimulate innovation and productivity growth.

The Investment Zone programme is intended to achieve these objectives by nurturing the expansion of high-potential strengths in key sectors and technologies to deliver significant growth and increase employment opportunities. The UK Government has identified the following five priority sectors to focus Investment Zones on:

- Digital and Tech - The UK has a world leading technology sector and is the third country to reach a trillion-dollar valuation milestone after the US and China. The ambition is to replicate the success of digital and tech companies in London, Oxford, Cambridge, by leveraging digital strengths and untapped potential all around the country.

- Green Industries - UK based green business sectors are going to be critical in delivering Net Zero and environmental ambitions. Government wants to create the long-term certainty and demand needed to bring in investment to allow UK businesses to capitalise on Net Zero and environmental opportunities.

- Life Sciences - Government wants to build on the UK's world-class science and research capabilities, make the NHS the country's most powerful driver of innovation, and create an outstanding business environment for life science firms.
- Advanced Manufacturing - the UK has a history in manufacturing. Harnessing the synergies between manufacturing and innovation strengths in areas across the country is core to supporting jobs, driving productivity, and helping to deliver the UK's net zero commitments.

- Creative Industries - Evidence shows businesses in creative industry clusters grow faster than those located outside, generating economic spillovers for non-creative businesses, and contributing to pride in place for local communities. Government wants to build on these sector strengths, supporting growth and ensuring benefits of the creative industries are spread across the UK.

The Scottish policy offer mirrors the key objectives of the Investment Zone Policy Prospectus outlined above. It is founded on long-term partnership and collaboration, ensuring co-development between UK Government, Scottish Government, and regional partners.

This has led to the development of three core principles for engagement between the Scottish and UK Governments:

- Partnership – Scottish and UK Governments will play a joint role in co-design, decision-making and overseeing delivery of Investment Zones
- Parity – The offer in Scotland is on equivalent value to the offer in England.
- Strategic Fit – Investment Zones will align with Scottish and UK Government policy frameworks, be a good fit for the regional landscape, and reflect devolution settlements.

The fiscal offer to Glasgow and the North East of Scotland is similar to the offer to English Investment Zones. Subject to Investment Zone proposals being agreed across all parties, each Investment Zone in Scotland will receive a total funding envelope of £80 million over 5 years and a single 5-year tax offer, which is scalable based on the number of tax sites within the Zone. The Investment Zone funding envelope comprises of:

• £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

• £45 million tax incentives, which can cover up to 600ha across up to three sites, lasting for five years. Where places choose not to opt for the maximum tax offer of 600ha, tax incentives can be exchanged for a greater amount of spend. If a place chooses not to take up the full extent of tax reliefs available, they will have access to a larger spending envelope. A number of English investment zones have decided to have no tax sites and instead use £80m for spending on a portfolio of interventions, rather than £35m, this is flexible.

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 six hundred 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.

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, there will be a need to demonstrate how non-domestic rates retention will provide for inclusive economic growth within the region, support each priority sector within the

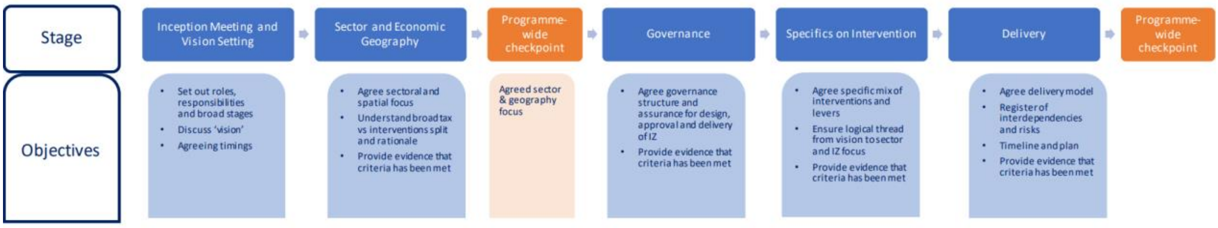
Investment Zone, and represent value for money for the Scottish and UK Governments should this be incorporated into the Investment Zone model for North East of Scotland.

In recognition of the variations across regional economies the governments have committed to flexibility throughout the financial elements of the policy offer to respond to evidenced regional priorities. Further, all proposals should include a degree of secured and anticipated match funding from the private sector and research institution partners.

The Investment Zone Technical Document outlines the processes underpinning the establishment of an Investment Zone and provides guidance on the tax incentives, rate relief offer and capital/ revenue funding available. One Local Authority is required to undertake the role of Accountable Body. The Accountable Body can be resourced from the overall funding envelope.

The Investment Zone Process

The process followed in England to establish Investment Zones and proposed for Scotland comprises of five stages as detailed in the diagram below:



- Stage 1 Vision setting – covering the overall vision for the proposal.
- Stage 2 Sector and economic geography – agreeing a sector focus and spatial focus for the Investment Zone, understanding the broad approach to tax and flexible spend interventions, and reviewing evidence that the criteria have been met.
- Stage 3 Governance – agreeing the governance structure and assurance processes for the design, approval, and delivery of the Investment Zone and reviewing evidence that the criteria have been met.
- Stage 4 Interventions – agreeing the specific mix of interventions and levers to be deployed and where, ensuring a logical link from the vision to the key opportunities and challenges identified, the portfolio of interventions selected and outputs, intermediary and overall outcomes for interventions and reviewing evidence that the criteria have been met.
- Stage 5 Delivery – agreeing the delivery model or models, including any delivery vehicles for planning interventions, register of interdependencies and risks, finalising timelines, and plans, and reviewing evidence that the criteria have been met.

A logic model is provided within the Investment Zone Technical Document that sets out the framework for how Investment Zone interventions should hang together in a place. The logic model introduces 4 of the 6 Levelling Up capitals which Investment Zone interventions should reasonably improve as part of delivering the programme objectives. The four capitals are:

- Human capital – for example, skills available and the local labour market.
- Physical capital – for example, access to appropriate specialist premises, transport infrastructure and need for new plant and equipment.
- Intangible capital – for example, opportunities to develop new technologies, equipment, processor, or supply chains.
- Financial capital – for example, availability of FDI, bank finance, private equity finance.

Current state of target cluster in priority sector	Place Inputs	Place Activities (Interventions)	Place Suggested Outputs	Place Suggested Intermediate Outcomes	Place Outcomes (Impact)
Current State: Constraints or unrealised opportunities from: • **Human capital** – e.g. skills available and the local labour market • **Physical capital** – e.g. access to appropriate specialist premises, transport infrastructure and need for new plant and equipment • **Intangible capital** – e.g. opportunities to develop new technologies, equipment, processes or supply chains • **Financial capital** – e.g. availability of FDI, bank finance, private equity finance	**Central Government Input** **Local Government Input** **Non-Government Input**	**IZ Activities:** **Flexible spend:** • Research and Innovation • Skills • Local Infrastructure • Local Enterprise and Business Support • Planning and Development **Fiscal incentives:** • Stamp Duty • Buisness Rates • Enhanced Capital Allowance • Enhanced Structures and Buildings Allowance • Employer National Insurance Contributions relief. **Non-IZ Activities:** • For example, Freeports, local skills improvement plan, skills bootcamp etc.	**Regional Outputs IZ** Expected direct outputs from interventions (expect to be realised within the 5 year programme lifetime), eg: • Number of training courses available • Number of apprenticeships available • Number of businesses receiving non-financial support • Number of businesses receiving grants **Regional Outputs Non-IZ (If different)** Expected improvements from interventions, for example: • Number of Freeport related trade activities	Improvement in **Physical Capital,** for example increase in: • Floor space unlocked. • Investment in plants and machinery. Improvement in **Intangible Capital,** for example increased: • Time to market for R&D product. • R&D activity undertake by businesses Improvement in **Human Capital,** for example increase in: • Learners enrolled in sectoral skills assessments (SSAs) in Local Sills Improvement Plans (LSIPs) Improvement in **Financial Capital,** for example: • Increase in size of investment rounds	**Boost productivity in the FEA** **Increased real earnings for high and low skilled workers within the FEA** **Increased internationally competitiveness of companies within the cluster** **Internationally demanded new technologies**
Setting out the binding constraints and opportunities at the selected geographical location.	General inputs such as funding and other resources that will be delivered at the selected geographical location.	IZ interventions being delivered at the selected geographical location. *Non-IZ interventions should also be accounted for.*	The outputs of IZ interventions at the selected geographical location. *If outputs of IZ interventions differ to Non-IZ interventions, this should be accounted for.*	The impact of the IZ interventions at the selected geographical location on regional intermediate outcomes, linked to the six capitals. *Non-IZ interventions should be linked to the IZ intermediate outcomes.*	The impact of the IZ interventions at the selected geographical location on place outcomes, linked to the the national outcomes. THESE CAN NOT BE CHANGED.