

24 NOVEMBER 2023

INVESTMENT ZONE FOR SOUTH EAST WALES

BRIEFING NOTE

Policy Introduction

1. In November 2023 the UK Government (UKG) launched a refocussed programme of Investment Zones (IZs) that aim to catalyse 13 high potential, knowledge-intensive growth clusters across the UK regions. Each of the chosen regions will drive growth of at least one of the UK's 'key future sectors'; Green Industries, Digital Technologies, Creative Sector, Life Sciences, and Advanced Manufacturing.
2. IZ policy focusses on building successful local economies through a partnership approach between businesses, innovators in universities and research institutes, and strong local leadership.
3. Regions will be deemed to have sufficient scale and critical mass, along with the wider research-excellent capability and the knowledge concentrations to support levelling-up and boosting productivity, quality of life, and growth.

Policy Model

4. The policy model is based upon four core pillars:
 - i. Spatial focus for tax and business rate retention sites with a focus on interventions that can; facilitate co-location of businesses, foster collaboration, drive innovation, and support planning for accelerating site developments;
 - ii. Collaboration between industry and research institutions;
 - iii. Wider cluster eco-system and how IZs will support component parts and functional economic area; such as, upskilling and introducing opportunities to work within the cluster; and,
 - iv. Strong local leadership that can pull levers available to them across skills, development, and infrastructure.

Appendix 1 is an illustrative example of an Investment Zone provided by UK Government.

Updated Policy Offer November 2023

5. A region will receive £160M in total value from UK Government for Investment Zones, split into two streams; (i) **fiscal** incentive, (ii) capital and revenue **flexible** spend. Estimated costs for 600-hectare tax site is c£125M and would be deducted from the total value of £160M. In this example, a 600ha tax site would leave c£35M for horizontal

levers to embed benefits in the local economy and labour market through schemes such as skills packages, research and innovation grants, and accelerated site development initiatives. The policy is 10 years in length.

6. A designated **business rate retention** area is available with a maximum of 600 hectares and across two different sites, for a period of 25 years that can be linked directly, indirectly, or not at all to the **fiscal** incentives site(s). **This will be the WG contribution.**
7. The selection criteria for successful locations stated that places must demonstrate economic potential, innovation potential and a 'levelling-up need'.
8. Selection criteria used Travel To Work Areas (TTWAs) to define geographic benefits beyond the investment zone sites. A Cardiff and Newport focussed Investment Zone, using TTWA highlights how benefits extend to the wider region. Likewise, there will be supply chain; jobs; upskilling & reskilling; private sector engagement and leverage; infrastructure improvement and other benefits that will be realised across the region.
9. The process for developing the IZ will robustly interrogate the benefits that will be realised across the region.

CCR Response and Updates

10. The South Wales compound semiconductor cluster is nationally important and recognised worldwide as a leading cluster. A compound semiconductor (CS) is a physical component in digital technologies. It's an enabling technology that can drive innovation across the digital landscape with potential for new products and opening new markets across each of the UKG 'key future sectors'. Vaughan Gething, Minister for Economy, made a statement earlier in November endorsing compound semiconductors for inclusion in an Investment Zone in the CCR.
11. Designing, testing, and manufacturing digital technologies requires a highly skilled workforce. IZ policy can support the development of new skill and upskill in the foundational economy across CCR, whilst also attracting leading engineering talent to build on our universities' academic excellence and knowledge economy.
12. Digital technology and electronic devices require significant connectivity and cyber security expertise to integrate technology with usability and functional applications. The region has physical assets to support data and cyber requirements for digital tech. Local data assets and centres can act as enablers for innovation through the technology roadmap from concept to market.
13. IZ policy provides scope to build the blocks for a future regional economy in bleeding edge advanced manufacturing and product development. A skilled and talented region can drive innovation in this space to further enhance reputation, products, and productivity.
14. The development of the IZ will entail interrogating opportunities across and beyond CCR's priority clusters and will consider digital technology and data as enablers for growth.

Expected Next Steps

15. Regions awarded an IZ in England were required to develop partnership driven proposals. We expect the process to be the same for Wales. The Autumn Statement announcement states that the investment zones in Wales will be delivered by the Corporate Joint Committees. This complements the position taken by Regional Cabinet at its meeting on 9 October 2023.
16. We do not anticipate that the technical requirements for a proposal will differ dramatically from the proposal development process in England – possibly with a Welsh flavour reflecting the Innovation Strategy in Wales for example. We expect this to include:
 - A suite of quantitative and qualitative evidence to identify the focus sectors/clusters;
 - analysis of the desired geographical locations to be the focus of the IZ fiscal benefits;
 - development of proposals for the allocation of the c.£35m flexible spend to delivery;
 - the IZ policy objectives – removing barriers to economic growth and attracting private sector investment; and,
 - development of partnership arrangements to oversee the development of the IZ delivery.
17. The CCR team will liaise with UKG and WG officials to understand the next steps of the process throughout late November and will give an interim report back to Regional Cabinet on 4 December.
18. The Investment Zone should also be considered as part of a wider set of opportunities. With the potential that exists around Fund 2, the prospect of additional R&D funding, and the opening up of UKIB for investment in innovation infrastructure – Investment Zones should be viewed as seeds and catalysts for bolder, bigger, sustainable and inclusive growth.
19. Aligned with this, is building the delivery capability of the region through the Corporate Joint Committee. This will advance the region’s capacity and capability and achieve better co-ordination to leverage benefits through multi-level governance.
20. As the work continues in parallel on the Economic Review, consideration should also be given to the potential for CCR to be bold about its ambitions to lead a new brand of contemporary place-based industrial policy.

Appendix 1

