

# REVIEW OF ENTERPRISE AREAS IN SCOTLAND SUMMARY REPORT

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December 2015

## SUMMARY REPORT

### Introduction

- E1 This review was commissioned to assess:
- The effects on companies of locating within Scotland's Enterprise Areas (EAs);
  - The benefits to agency stakeholders of having designated EAs to promote to businesses;
  - The impact of EA incentives in influencing company investment decisions.
- E2 The purpose of Enterprise Area designation was to create a business environment to support employment, investment and growth. Incentives and support available to companies within Scotland's EAs include:
- Business rates discounts or enhanced capital allowances.
  - A streamlined planning approach.
  - High speed broadband connections.
  - Skills, training and other support.
- E3 The Scottish Government designated 14 sites with EA status in April 2012, augmented by one further site in West Lothian in March 2013.<sup>1</sup> These sites are grouped into four clusters:
- Life Sciences* (BioCampus Midlothian, BioQuarter Edinburgh, Forres Enterprise Park, Inverness Campus, and Irvine);
- Low Carbon / Renewables North* (Arnish Isle of Lewis, Hatston Orkney, Lyness Orkney, Nigg Cromarty Firth, and Scrabster Caithness);
- Low Carbon / Renewables East* (Ports of Dundee and Leith); and
- General Manufacturing / Growth Sectors* (Creative Clyde Glasgow, Prestwick International Aerospace Park, and West Lothian, including plots in Broxburn and Livingston).
- E4 To-date there are no new employers in 9 of the 15 EAs, whilst a number that have taken up occupancy since April 2012 had planned to do so prior to designation or would have done without the EA incentives. In practice, identifiable additional employment generation in local areas due to EA status has been small and, in Scotland as a whole, once displacement of activity is taken into account, minimal to-date. This is perhaps not surprising as the EA incentives are relatively modest and the sites given EA status were generally already focused on the clusters above.
- E5 An important consideration in evaluating EAs to-date is the slower than expected progress in supply chain activity associated with offshore wind, wave, and tidal installations. This has limited the demand for space by businesses that might become involved in these renewable energy sub-sectors, which means that the EA incentives associated with the Low Carbon/Renewables North and East sites have in the main yet to become relevant.

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<sup>1</sup> In September 2015, BioCity Scotland in Newhouse, Lanarkshire, was also given EA status – after our research and analysis had been completed.

## **Method**

E6 Our research, consultation and analysis for the EA review consisted of:

- Review of monitoring data.
- Interviews with stakeholders
- Interviews with beneficiary companies and organisations.
- Assessment of impacts from this information for each EA.

## **Literature Review**

E7 There has been a fairly extensive and in-depth programme of evaluation of Enterprise Zone (EZ) designations in the UK, specifically of those established and operational in the early 1980s. In summary, these evaluations have found that:

- Up to 80% of the jobs created in EZs would otherwise have existed in other places.
- EZs do very little to promote lasting economic prosperity. Most EZs create a short-term boom, which can be followed by a reversal back into depression.
- Evidence from the 1980s suggests that EZs cost at least £23,000 per new job they create.
- The main advantage of EZs is that they have stimulated rapid investment from businesses in the short term, and created a burst of momentum that normally lasts up to three years. The relaxation of planning regulations offered by EZs is considered much more cost effective than tax breaks.

E8 It is important to acknowledge that EU state aid rules introduced since the EZ era significantly limit the extent to which member states can offer incentives to businesses to attract investment to a particular area or support business growth.

## **Stakeholders Review and Analysis**

E9 The following stakeholders were consulted: Scottish Enterprise (SE), Highlands and Islands Enterprise (HIE), Local Authorities, Skills Development Scotland (SDS), Scottish Government, Scotland Development International (SDI), Irvine Bay Regeneration Company, and Private Sector Site & Property Owners (Global Energy, Scrabster Harbour Trust, Local Authorities and other Building Owners).

E10 Their views are summarised in the report under seven broad topic areas:

### **1. *The development process of the EAs***

- a. The selection of the geographic areas and specific EA sites was driven by a number of factors including: to ensure that Scotland is on a par with the rest of the UK when competing for inward investment; that there should be a balance in the distribution of EAs across Scotland; to reflect the Scottish Government's priority growth sectors; and a focus on locations that were 'ready to go'.

- b. In terms of the available incentives, the consensus among stakeholders is that: the financial incentives are less significant than other available incentives in attracting inward investors to locate on an EA; the significant incentives are those that facilitate the overall process of locating on an EA site (e.g. the Planning Protocol), and those that provide the potential investor with confidence in the public sector stakeholders, e.g. by demonstrating a partnership approach; and that the designation of an EA location demonstrates the Government's commitment to an area.
- c. The EAs were based on opportunity. The Scottish Government's priority growth sectors provided a predetermined core of opportunity based sectors.
- d. In terms of sectoral prioritisation, the agencies were already implementing sectoral strategies, which means that the value added of the EA designations is limited.
- e. A market driven process was considered important to ensure that the EAs are relevant to the needs of businesses.

## **2. *Usage and perceptions of the EA label/brand***

- a. The EA brand and what this implies in terms of Government commitment to an area were considered to be the most significant element of the EA offering.
- b. There is no evidence to date of the EA status itself having had an impact in attracting inward investment to Scotland.

## **3. *Use of EA status in locational and sectoral promotion and strategies***

- a. For most of the EAs, sectoral and area strategies were in place before the development of the EA policy, and EAs have not changed the content or implementation of these strategies.
- b. The EA label has been used to promote specific sites, and the tendency has been to weave the EA and its incentives into promotional material alongside a large volume of other information.
- c. However, the use of EA status in promotional material for certain of the sites thus far was acknowledged by consultees as minimal.
- d. A number of the local authorities that we consulted would like to see more prominent publicity and active promotion of the EAs.
- e. In promoting Scotland as a business location, SE and SDI make reference to the EAs particularly in material aimed at the renewables sector. EAs as incentives would normally only be raised in a limited way with larger potential inward investors, however, due to the modest incentives available compared with other public assistance that can be provided. Also, due to State Aid ceilings, the EA incentives would not be available to businesses that will have reached their de minimis limits through taking up other incentives.

#### 4. *EA influence on public and private sector investment*

- a. Across Scotland, the extent to which EAs have influenced public and private sector investment has been variable. This has ranged from significant levels of public sector investment in sites post EA designation, through funding being earmarked for future investment, to no investment at all.
- b. Investment in infrastructure and buildings possibly exceeding £300 million in total was made by the public sector in and around the EA areas prior to their designation – reflecting the opportunity-focused selection of the EAs.
- c. Since designation, investment by SE has included infrastructure work to facilitate development at Creative Clyde, with shovel-ready funding allocated to Irvine Bay Generation Company.
- d. Within the HIE area, the experience has been varied. For example, there has been no public sector investment at Nigg or Scrabster specifically related to the area's designation as an EA, whereas there has been significant public sector investment in other sites through shovel-ready funding where the case for this to Scottish Government included the EA status of the sites.

#### 5. *Responsibilities for EA incentives and extent of joined-up approach*

- a. An expectation of an EA is that it will encourage and benefit from a joined-up approach by the stakeholders in developing the site and in their relationship with potential inward investors. The experience across Scotland, however, is variable – with a well-developed partnership between the Enterprise Agency and the Local Authority in some areas.

#### 6. *Reasons for differing development patterns across EAs*

- a. There are geographical areas and sites where companies in the priority sector would choose to locate irrespective of its EA status. Those EAs focussing on the life sciences sector have to-date built up their employment more rapidly than EA sites focussed on other sectoral priorities.
- b. The economic climate has been a major constraining factor in uptake on some of the sites. The private sector is investing less than before the recession in industrial development, and the banks are not lending as much.
- c. Slower progress in the deployment of devices than had been expected has constrained uptake on sites focussing on offshore renewables.

#### 7. *Stakeholders' suggestions for changes and improvements to EA incentives and their timescales*

- a. There is a general impression that the financial incentives are lightweight and would not be significant in larger companies' location decisions. A need was therefore suggested to strengthen the incentives available, although there was a general acknowledgement of state aid constraints.

- b. The life of the EAs should be extended beyond the initial five year term because of the time lag between a company now deciding to move onto an EA site, building new accommodation, and the business beginning to trade and thus benefitting from the EA status.
- c. Specifically in relation to the offshore renewable sector, the EAs should be extended beyond 2018 to take account of the delays in the sector developing.
- d. There should be enhanced promotion of the sites and their EA status through, for example: case studies that evidence the impacts of EAs; visual imaging of what a built out EA would look like; and more generally, better packaging and presentation of particular EAs.
- e. The sectoral focus of incentives should be broadened to increase uptake on some of the sites.
- f. In the future, the process of selecting sites and giving them a particular focus should be transparent and involve all of the stakeholders, including private sector site owners where relevant.
- g. There is a general view that if they are to remain a core element of economic development policy in Scotland, the EAs should be reviewed and potentially refocused. This could mean some sites no longer having EA status, some having a broader remit, and some new sites being brought in.

### **Findings from Company Interviews and other Information Related to EA Occupants**

E11 The key findings, based on interviews with companies and organisations who own or occupy leased premises on the EAs, were that:

- Overall, between 2012/13 and 2017/18, *business rates savings* by 18 companies currently on the EAs are estimated to be likely to have totalled around £500,000 – an average of around £100,000 p.a. This would increase with further occupancy by 2017/18.
- There was only one example to-date of a company that has claimed *capital allowances*, but this was on a relatively small investment of around £90,000.
- The only EA where some businesses are unhappy with their *broadband* connection or *speed* (or with the plans to enhance speed) is the Bioquarter in Edinburgh.
- Neither the process nor *speed of planning* approval have constrained businesses locating or expanding on the EAs.
- Few examples of advice or assistance from SDS for companies' *staff recruitment or training* came to light. Some people interviewed were not aware of this EA benefit.
- None of the companies locating on an EA since 2012 and eligible for incentives would be classed as inward investment attracted to the EA.

- Many companies were not aware when they took up occupancy that they were locating in an EA.
- Only one company said that the EA incentives were very important in their location decision.
- For most other businesses locating on EAs, the site would have been best for them even without the EA incentives due, for example, to the availability of suitable and affordable property, proximity to a harbour, proximity to relevant research institutions, and the availability of other more substantial incentives (e.g. from SE or HIE).
- Some businesses have found that sectoral clustering on-site is useful, especially where business relationships have been formed.
- Interviewees believed more businesses would have become established on EAs if public sector site and property owners had been more flexible in providing space for activities unrelated to the growth sector focus of particular EAs.

## **Conclusions**

E12 Our key conclusions from our research and analysis were that:

- The EAs should be regarded as offering benefits to businesses that are complementary and additional to other available benefits, as well as giving an additional marketing angle to site owners and organisations promoting investment on the sites.
- The financial benefits of EA incentives to businesses locating on an EA are of a much lower order of magnitude than (i) other incentives that EA occupants could obtain, and (ii) the public and private sector costs of EA infrastructure and property development.
- In general, the EA locations were already, or in the process of being, developed for growth sector activities, and are the natural places for businesses in these sectors to locate. It is therefore difficult to attribute additional employment on the EAs to these incentives.
- To date, the capital allowances available on some EAs have not been a significant factor. At least 18 companies have benefitted from rates relief, although most of this benefit has been “windfall” gain to the businesses as they would have been on-site without this incentive. However, new businesses in marine renewable energy, life sciences, and the creative industries often take time to become commercially viable and this relatively modest incentive increases their survival prospects and capacity to grow.
- Measures to streamline Planning appear to have been successful.
- The prominence of EA status in site marketing has been variable, e.g. on websites, with agency representatives varying in their views on the extent to which the EA label is a significant marketing tool.

- The main reason for slow uptake of space across the EAs as a whole has been the weaker or slower growth of demand for supplies and services related to offshore wind, wave and tidal developments than had been expected prior to the EA designations.

## **Recommendations**

E13 Our principal recommendations are that:

- EAs might be continued for at least another five years after 2018 – most importantly to acknowledge the slower than expected demand for space related to offshore renewables development, and to capitalise on infrastructural expenditure that has been made relatively recently (e.g. at Inverness Campus).
- Some EAs might be expanded, and/or additional non-contiguous sites added, since circumstances in some local areas have changed since designation.
- Some EAs might be substituted by other sites targeted at the same growth sectors if they continue to have no or limited uptake.
- On some EAs, space might be allocated more readily to businesses not in the specific target sector – for example where buildings are vacant.
- Target sector eligibility might be extended in some areas – for example to food & drink or the creative industries in parts of the HIE area.
- Those site owners and support partners who do not currently feature their EA status prominently on their websites or other publicity material might be encouraged to do so to help promote the EA brand.
- SDS might produce a customised short document for distribution to all EA occupants in the target sectors to increase their knowledge of the workforce development assistance and incentives available.
- Case study material might be produced that demonstrates the benefits to particular companies of EA incentives – e.g. testimony of the role of rates relief in sustaining a business during its early period.



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