

# Research Report

## Enterprise and Investment Zones: 'What works' for rural enterprise?

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## 1. Non-technical abstract

The research project critically evaluates the ways in which Enterprise Zones established across England have met the needs of rural enterprise and the lessons which have emerged in order to inform new policy approaches such as 'Investment Zones'. The latter have recently been introduced to support economic growth across the UK but have been refocused around major urban areas. The research highlights how Enterprise Zones could be re-designed in several ways to offer greater rural reach and potential for rural businesses. Furthermore, the report also highlights that Investment Zones - as currently designed and targeted - have limited application in rural areas or scope for releasing the considerable potential of rural economies. However, this can be avoided with some important modifications or through the development of an equivalent spatial and sectoral investment vehicle for rural areas.

## 2. Acknowledgements and funding

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## 4. Non-technical executive summary

There have been long-standing attempts to develop place-based tools for securing economic growth in rural, as well as urban areas. In the UK, new Investment Zones were announced in 2022 which offer a series of tax breaks to businesses, alongside more liberalised planning regulations that aim to support businesses within a specific location to grow, and focused on five priority sectors. Initially, it was proposed that Investment Zones would be established in both rural and urban places across the UK. However, there has subsequently been a significant refocussing and reconfiguration of Investment Zones towards urban areas.

Through exploring i) the lessons that have emerged from a predecessor policy initiative - Enterprise Zones - that were also set up in rural areas in the UK and ii) examining a number of city-focused Investment Zones that are currently being established across England, this research project seeks to identify 'what works' for rural enterprise and to consider what an equivalent Investment Zone approach would look like in more rural areas of the UK.

Via an on-line survey and interviews with those involved with rural Enterprise Zones and urban-focused Investment Zones across England, the research identified five key themes of relevance. First, Enterprise Zones set up in rural locations across England do not necessarily have a rural inflection and as such are not perceived as a specific policy tool for rural areas. Second, market failure in some rural areas has led to challenges in delivering Enterprise Zones in remote rural locations with either obsolete / derelict infrastructure or with no infrastructure at all. Third, planning has been a key factor in the success of Enterprise Zones in rural locations across England, but which can also be challenging given long-standing discourses of rural protectionism and concerns relating to managing areas of environmental value. Hence planning consents for development - along with the overall strength of the local property market, the nature of previous development on Enterprise Zone sites and access to markets from the Enterprise Zone - are key determinants shaping development on rural Enterprise Zone sites. Fourth, the importance of business rate relief and retention is also crucial to enterprise development due to the frequent absence of private sector investment for preparing and developing infrastructure on rural Enterprise Zones. Finally, in terms of looking forward and considering the potential for rural areas of new policy initiatives such as Investment Zones, there is a need for these sector-based approaches to be considered alongside place-based thinking to enhance opportunities in rural locations.

Subsequently, we make 10 recommendations for the implementation of new Investment Zone approaches and any future roll-out to rural locations.

## RURAL ENTERPRISE ZONES TO RURAL INVESTMENT ZONES: 'WHAT WORKS' FOR RURAL ENTERPRISE?

### 10 RECOMMENDATIONS FOR ACTION

Widen the selection of sectors in future Investment Zones through negotiations between national government and rural local authorities	Extend the period of business rate relief / retention (and other tax measures) in rural locations
Provide further support for infrastructure development to kick-start zones	Secure key 'anchor' businesses to attract others onto rural Enterprise Zone sites / Investment Zone sites and to help generate place-based clustering
Give greater consideration to the challenges of planning de-regulation in certain rural contexts and provide time-related extensions of benefits	Scale up the configuration of zones in rural locations for rural areas to benefit from future designations
Use appropriate rural-urban classifications to acknowledge the (rural) place-based context within which designations are operating	Create and sustain arrangements for pooling of income from retained business rates to cross-subsidise rural enterprise development
Establish flexible arrangements to support enterprise growth for rural SMEs and rural micro-enterprises	Introduce active travel hubs in order to enhance connectivity and access

## 5. Introduction and background

Successive governments in the UK have sought - over time - to develop place-based tools for securing economic growth in rural, as well as urban areas. To this end, new Investment Zones were announced in the UK Government's Growth Plan published in September 2022 (HM Treasury, 2022) and which involved the Government working with 38 upper-tier local authorities (including a number of rural areas) and mayoral combined authorities (MCAs) to encourage rapid development and business investment. Investment Zones offer a series of tax breaks to businesses alongside more liberalised planning regulations that aim to support businesses within a specific location to grow and are focused in the UK on five priority sectors - Digital and Technology; Green Industries; Life Sciences; Advanced Manufacturing; and Creative Industries - to boost UK competitiveness.

It was initially noted by the Government how Investment Zones could be established in rural and urban places with significant unmet productivity potential to help increase opportunities for local communities. However, there has been a significant refocussing and reconfiguration of Investment Zones towards urban areas, as initially announced in the Autumn Statement (2022) and confirmed in the March 2023 Budget (HM Treasury, 2023). This signals the potential marginalisation of the needs of rural businesses.

A key question when considering the impact of Investment Zones in the UK is their ability to generate new economic growth and development beyond pre-existing economic activity. Hence this project seeks to answer this and other related research questions through i) a focus on the lessons that have emerged from previous Enterprise Zones set up in rural areas of England (as an example of a government-driven, enterprise-focused policy) and ii) examining a number of current Investment Zones that are being created in urban areas of England to explore their potential 'reach' to rural businesses and to consider what an equivalent Investment Zone approach would look like in more rural areas.

In the first Enterprise Zone programme (1981-1996), more remote rural areas and a number of rural-urban fringe 'accessible' sites on the edge of major cities were included. In total, at least half of those designated in England had a rural dimension. The second iteration of Enterprise Zone policy (2011 onwards) - which this study focuses upon - equally had a rural coverage, with approximately a third (16 out of the 48) of Enterprise Zones set up in England having a rural footprint (see Section 7). Consequently, the reconfiguration of new Investment Zones around urban-focused combined authorities raises the risk of deepening an urban/rural divide in economic development policy in England moving forward and questions concerning the viability of investment zone-type approaches for rural areas.

Via an on-line survey and interviews with those involved with rural Enterprise Zones and urban-focused Investment Zones in England, this research project explores four key themes of relevance. First, the economic development model of Enterprise Zones in rural areas of England and the extent to which 'rural' actively figures in the definition and implementation of such zones, as well as issues of 'added value'. Second, the challenges of developing Enterprise Zones in rural locations more generally and the importance of accessibility and infrastructure. Third, the planning and governance issues of relevance to

rural Enterprise Zones, including the relative importance of Local Development Orders (LDOs) in providing certainty for developers and also issues relating to land ownership and business rate relief and retention. Finally, the similarities (if any) and key differences between Enterprise Zone and Investment Zone approaches, including sectoral versus area-based approaches and the use of grants and / or tax incentives. Subsequently, a number of recommendations are set out which identify the ways in which Enterprise Zone / Investment Zone-type approaches could work better for rural businesses.

The report also contains short case study vignettes that sit separately from the main text. The purpose of these is to provide a broader insight into the diverse nature of Enterprise Zones in England. As such, they aim to present the broader thematic issues faced in the delivery of Enterprise Zones and how their geographies influence the viability of this type of economic development approach.

## 6. Literature review

### Introduction

Enterprise Zones are policies that focus on specific locations and are used as a means of promoting regional economic development. The zones are selected based on many criteria such as unemployment rates, poverty levels, population density and other relevant factors (Scavette, 2023). Tax incentives, abatements and other exemptions - for a fixed period of time - are provided to companies which choose to establish their operations in these zones. The fundamental premise is that businesses and workers within the designated zone have advantages stemming from a decrease in the cost of capital and / or labour, leading to increased investment and job creation as a result of deregulation (Sridhar, 2004).

Currently, there is little empirical information available regarding Enterprise Zones that have been set up in rural areas (Reeder and Robinson, 1992). Despite many being set up in rural regions, their potential impact on rural enterprise development has been underexplored within research and policy (Steiner and Teasdale, 2019).

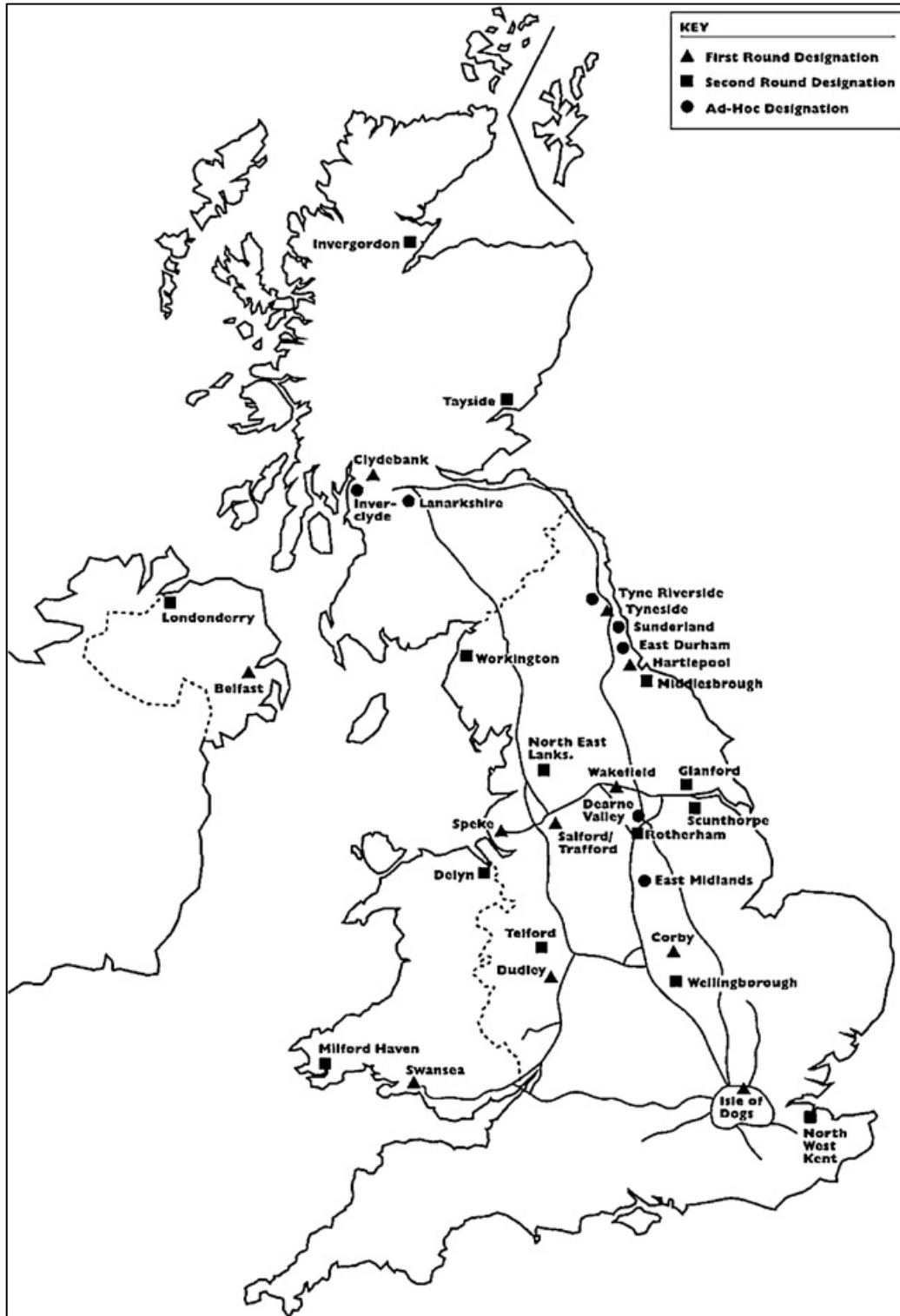
### Development of Enterprise Zone policy

During the 1970s, proposals emerged for stimulating new forms of enterprise and investment as a solution to the problems of the inner-city (Hall, 1982). In 1978 Professor Peter Hall delivered a lecture that introduced the phrase "Enterprise Zone" and advocated for a free market approach to urban development. This strategy aimed to liberate businesses from the constraints imposed by the state via the elimination of taxes and government regulations. According to Catalano (1983), Hall's model emphasised the promotion of entrepreneurship, while the then Shadow Chancellor of the Exchequer - Sir Geoffrey Howe - embraced the idea of alleviating bureaucratic obstacles for both business owners and the community (Jones, 2006).

In 1981/82, the Conservative Government designated 11 Enterprise Zones in England as an experiment to see how far industrial and commercial activity could be encouraged by the removal of certain fiscal and administrative burdens, and in 1983/84 a further 14 zones were designated across England and Wales (Figure 1). In total, three were set up in 'remote' rural locations; eight in urban areas and the remainder in 'accessible' areas, some of which had a rural footprint (Jones, 2006). They ran until 1996, had a 10-year life span and particularly focused on areas that had suffered from industrial decline and restructuring. They offered 100 per cent tax allowances for constructing / improving industrial buildings, exemption from business rates and simplified planning procedures (Department of Environment, 1995).



Figure 1: Enterprise Zones in the UK 1981-2006 (32 in total - England 22; Wales 3; Scotland 5; Northern Ireland 2)



Source: Jones (2006)

Following a 15-year hiatus, in 2011 the then Chancellor George Osborne announced the re-emergence of Enterprise Zones in the UK “to assist parts of Britain that had missed out in the last 10 years”. These subsequently became operational in 2012 when 24 Enterprise Zones were established, followed by a further 24 between 2016 and 2017 (Ward, 2023). Of these, around 16 have a rural footprint (see Section 7).

The re-emergence of Enterprise Zones in the UK sparked renewed discussions over the efficacy of using geographically-targeted incentives as a principle means of stimulating economic growth (Chaudhary and Potter, 2018). The establishment of prosperous local economies is contingent upon the formation of collaborative alliances across many tiers of society, including a wide array of enterprises, visionaries, and community stakeholders (Mayer et al., 2015). Innovative clusters of economic activity may emerge when individuals convene to engage in collaborative efforts, share information, and use the unique characteristics of a particular location. These clusters are facilitated by a favourable business climate and the presence of supportive infrastructure. The resulting advantages extend to communities across the area.

### **Lessons from previous Enterprise Zones**

According to a House of Commons Report (House of Commons, 2014), the most comprehensive research on the assessment of the impacts of the first wave of Enterprise Zones in the UK was the one commissioned by the Department of Environment in 1995 (Department of Environment, 1995). This pertains to 22 out of the 25 zones that were declared between 1981 and 1984. Subsequent studies have increasingly relied on the research conducted by Sissons and Brown (2011) and Larkin and Wilcox (2011). One important takeaway from the original Enterprise Zones set up in the UK is the recognition that facilitating growth itself is often more feasible than ensuring that such development aligns with desired policy objectives. A second key message that emerged related to displacement consequences. It was found that approximately 50 per cent of the economic and employment activity documented in the designated zones had originated from other locations prior to their designation. As a result, a substantial portion of the public money allocated to the zones might be categorised as “deadweight” or superfluous. Consequently, it was found that those individuals tasked with the development of zones should prioritise constructing infrastructure and attracting investments that have long-term sustainability, rather than just accepting any kind of investment that may arise (Tyler, 2012; 2015). This may help to reduce the extent to which zones just relocate local economic activity within the local area. Furthermore, it was also noted how the tax and planning deregulation inherent in the Enterprise Zone concept, while significant, did not prove to be a sufficient need for achieving sustainable regeneration (Department of Environment, 1995).

A substantial body of research also exists (Clelland, 2020; Frick and Rodriguez-Pose, 2023; Knoerich et al., 2021; Narula and Zhan, 2019; Sosnovskikh, 2016; Zeng, 2021) about the accomplishments of Enterprise Zones in other countries characterised by a wide range of zone types and characteristics. For example, Mayer et al. (2015) examine the effects of a French programme known as the ‘Zones Franches Urbaines’ (ZFU) on both the establishment of sites and labour market results. Their findings highlighted how the ZFU policy has had significant and favourable effects on the likelihood of businesses choosing to locate in certain urban districts. Specifically, the policy is associated with a 27

per cent rise in this probability when compared to the level seen prior to the policy's implementation. However, it was also noted how the influence of the policy was more pronounced when there was a minimal disparity in socio-economic conditions between areas targeted and those elsewhere in the urban district. This observation implies that Enterprise Zones may exhibit reduced efficiency when implemented in areas with the greatest economic challenges. Ultimately, the findings indicate that the strategy does not inherently generate (additional) economic activity at the municipal level. Instead, it can result in a redirection of economic activities towards specific zones that are targeted inside municipalities.

Furthermore, several studies (Chaudhary and Potter, 2018; O'Keefe, 2004; Zhang, 2019) have considered the impact of Enterprise Zone policy in the United States. The employment generation benefits of Enterprise Zones were studied by Bondonio and Engberg (2000). The available evidence indicated that the impacts were somewhat constrained and, notably, not responsive to the quantity of incentives provided. In subsequent research, Greenbaum and Engberg (2004) examined the factors contributing to the limited influence of Enterprise Zone policy on economic outcomes. The researchers discovered that the benefits of such zones ("Economic Zones" in the United States) were mostly driven by the influx of new enterprises to these zones. However, they also observed that these gains were often counterbalanced by the deliberate closure of pre-existing businesses in the surrounding vicinity because of their establishment (Bond et al., 2013). Such findings thus again draw attention to issues of "additionality" and "substitution" associated with the creation of Enterprise Zones.

### **Factors determining economic impact**

In the UK, regions characterised by favourable economic access, denoting relatively abundant economic opportunities, and little need - and indicating a low prevalence of market failure - have tended to be the most advantageous in leveraging the advantages associated with their classification as Enterprise Zones. In contrast, areas characterised by limited market potential and significant needs, such as high costs of clean-up and inadequate infrastructure have a lower likelihood of benefiting from Enterprise Zone assistance and requiring a longer period to realise the advantages associated with such support. While the availability of market opportunities has a significant role in the economic success of zones, it is crucial to acknowledge that there are other elements that hold equal importance. Specifically, these factors include:

- the importance of developing connectivity infrastructure between the designated zone and the local / extra-local economic area. Indeed, in many instances, it is clear that the establishment of such infrastructure is necessary prior to the transformation of Enterprise Zone sites into competitive destinations for future investments; and
- the need for effective leadership and to establish a comprehensive development strategy for Enterprise Zone sites - formulated by zone stakeholders - and which should be an integral component of a broader development plan for a region. The strategy should carefully consider the sectors and companies that are most suitable to be attracted to such zones, with the aim of fostering long-term competitive advantage. Furthermore, it is crucial to maximise additionality and

minimize the displacement of economic activity within the region whenever feasible (Department of Environment, 1995).

Similarly, Hooton and Tyler (2019) note that one of the key advantages of Enterprise Zones lies in their ability to serve as a mechanism for facilitating collaboration between the private sector and the government. This collaboration, in turn, contributes to the promotion of favourable economic transformations within a given region, particularly in relation to investments in local infrastructure that are often sponsored by the government. In this respect, they also note how it is paradoxical that a concept initially conceived as an experiment to reduce government intervention in neglected and abandoned areas has demonstrated considerable worth in promoting government-supported investment and facilitating flexible land-use planning at a community level.

## **Conclusions**

While the available evidence is somewhat limited, previous achievements of Enterprise Zones in different places have been facilitated by the establishment of governance structures capable of coordinating and harmonising the efforts of various agencies, governmental departments, and private sector participants. These entities play a crucial role in providing the necessary resources for effective land-use development, with a particular focus on infrastructure, land remediation, marketing, and training (Pemberton, 2019). Previous research has shown that the incentives provided by Enterprise Zones alone may be insufficient to achieve robust and enduring growth due to deficiencies in infrastructure and other limiting constraints that need resolution. Notably, during the 1980s, the Enterprise Zones that were established across the UK were relatively well supported due to the availability of several funding sources whereas the most recent iteration of Enterprise Zones were established in a context of relative fiscal restraint.

The lack of consideration as to how Enterprise Zones operate and impact within a rural context (or how urban zones may benefit surrounding rural areas) is a real gap in the literature. This gap may result from the main framing of the Enterprise Zone approach as being set within a metro-centric understanding of economic development. It points to a need for a wider recognition of the circumstances and opportunities associated with developing the rural economy and how this can be a significant driver of economic growth, with the support of new governance and policy approaches (All Party Parliamentary Group, 2022).

## 7. Research design and methodology

An initial task involved identifying the 48 Enterprise Zones set up in the UK since 2012. These include those designated and operational from April 2012 onwards (Table 1 - 24 in total) and an additional set of Enterprise Zones designated and operational from 2016/17 onwards (Table 2 - 24 in total).

For each Enterprise Zone, the Local Enterprise Partnership (LEP)<sup>1</sup> / combined authority area<sup>2</sup> within which it was located was also identified (column 2, Tables 1 and 2). In addition, the Ministry of Housing, Communities and Local Government's Enterprise Zones location finder was integrated with the Office for National Statistics (ONS) 2011 Rural-Urban Output Area classification available via the 'Open Geography' portal to identify which Enterprise Zones in England could be defined as 'rural' on the basis of the predominant output areas - classified as rural or urban - which made up each zone (column 3 Tables 1 and 2). This revealed that the geography of most Enterprise Zones in rural areas was highly localised. Furthermore, a consideration was also made of the wider local context by using the ONS's Rural-Urban Local Authority area classification to identify which zones fell in local authority areas with some element of rurality - as defined by the classification (column 4 Tables 1 and 2).

**Table 1: Enterprise Zones in England and corresponding rural-urban classification - 2012 designations (24 in total)**

2012 Enterprise Zone designations (operational April 2012) (24)	Local Enterprise Partnership (LEP) area	ONS Rural-Urban classification (by predominant output area)	ONS Rural-Urban classification (by local authority area)
Black Country Enterprise Zone - i54 and Darlaston	Black Country LEP and Stoke and Staffordshire LEP	Rural town and fringe / urban major conurbation	Urban with significant rural
Birmingham City Centre (multiple sites)*	Greater Birmingham and Solihull LEP	Urban major conurbation	Urban with major conurbation
Bristol Temple Quarter*	West of England LEP	Urban city and town	Urban with city and town
Discovery Park (Sandwich, Kent)	South East LEP	Rural town and fringe	Urban with significant rural

<sup>1</sup> LEPs (38 in total) were non-statutory bodies responsible for local economic development in England and had responsibilities for managing Enterprise Zones. They were set up in 2011 and disbanded in April 2024, with responsibilities for managing Enterprise Zones passed to constituent local authorities / combined authorities.

<sup>2</sup> A combined authority (10 in total in England) is a legal body set up using national legislation that enables a group of two or more councils to collaborate and take /collective decisions across council boundaries.

Enterprise West Essex (Harlow)	South East LEP	Urban city and town	Urban with city and town
Great Yarmouth, Norfolk and Lowestoft Enterprise Zone*	New Anglia LEP	Rural village	Urban with significant rural
Hereford (Rotherwas Enterprise Zone, Marches)	The Marches Enterprise Partnership	Rural hamlets and isolated dwellings	Largely rural
Humber Renewable Energy Super Cluster and Humber Green Port Corridor*	Humber LEP	Rural village	Urban with city and town
Huntingdon (Alconbury Airfield near Huntingdon / Alconbury Business Campus)	Greater Cambridge and Greater Peterborough LEP	Rural village	Mainly rural
Lancashire Advanced Engineering and Manufacturing (Salmesbury/Warton)	Lancashire LEP	Urban city and town	Urban with city and town
Lower Aire Valley (Leeds City Region - multiple sites)	Leeds City Region	Urban major conurbation	Urban with major conurbation
Manchester Airport City	Greater Manchester Combined Authority	Urban major conurbation	Urban with major conurbation
Mersey Waters	Liverpool City Region	Urban major conurbation	Urban with major conurbation
MIRA Technology Park, Hinckley	Leicester and Leicestershire LEP	Rural hamlets and isolated dwellings	Largely rural
Newquay Aerohub*	Cornwall and the Isles of Scilly LEP	Rural village	Mainly rural
North Eastern Enterprise Zone - River Tyne and Nissan sites	North Eastern Local Enterprise Partnership	Urban major conurbation	Urban with major conurbation
Northampton Waterside Enterprise Zone	Northamptonshire LEP	Urban city and town	Urban with city and town
Nottingham (Infinity Park Derby/Nottingham - Boots Campus)*	Derby, Derbyshire, Nottingham and Nottinghamshire LEP	Urban minor conurbation	Urban with significant rural / Urban with minor conurbation
Royal Docks, London	Pan London LEP / London Borough of Newham	Urban major conurbation	Urban with major conurbation

Sci-Tech Daresbury / Daresbury Science and Innovation Zone	Cheshire and Warrington LEP	Rural hamlets and isolated dwellings	Urban with city and town
Science Vale UK Enterprise Zone (Oxford - multiple sites)*	Oxfordshire LEP	Rural town and fringe	Largely rural
Sheffield City Region (sites along the M1)	Sheffield City Region	Urban minor conurbation	Urban with major conurbation
Solent Enterprise Zone (Daedalus Airport, Gosport)	Solent LEP	Urban city and town	Urban with city and town
Tees Valley Enterprise Zone (multiple sites)*	Tees Valley LEP	Urban city and town	Urban with city and town

\* = extended 2015

Source: HM Government (2016)

**Table 2: Enterprise Zones in England and corresponding rural-urban classification - 2016 and 2017 designations (additional 24 in total)**

<b>2016/17 Enterprise Zone (operational April 2016 onwards) (24)</b>	<b>Enterprise designations</b>	<b>Local Partnership area</b>	<b>Enterprise (LEP)</b>	<b>ONS Rural-Urban classification (by predominant output area)</b>	<b>ONS Rural-Urban classification (by local authority area)</b>
Aylesbury Vale		Buckinghamshire and Thames Valley LEP		Rural town and fringe	Mainly rural
Blackpool Airport		Lancashire LEP		Urban city and town	Urban with city and town
Cambridge Compass		Greater Cambridge and Greater Peterborough LEP		Urban city and town	Mainly rural
Carlisle Kingmoor Park		Cumbria LEP		Urban city and town	Urban with significant rural
Ceramic Valley		Stoke and Staffordshire LEP		Urban city and town	Urban with city and town
Cheshire Science Corridor		Cheshire and Warrington LEP		Rural hamlets and isolated dwellings	Urban with significant rural
Cornwall Marine Hub		Cornwall and the Isles of Scilly LEP		Rural town and fringe	Mainly rural
Corridor Manchester / Greater Manchester Life Science		Greater Manchester Combined Authority		Urban major conurbation	Urban with major conurbation
Didcot Growth Accelerator		Oxfordshire LEP		Urban city and town	Mainly rural
Dorset Green Innovation Park		Dorset LEP		Rural hamlets and isolated dwellings	Urban with significant rural
Dudley		Black Country LEP		Urban major conurbation	Urban with major conurbation
Enterprise M3		Enterprise M3 LEP		Urban city and town	Urban with significant rural
Enviro-Tech		Hertfordshire LEP		Urban major conurbation	Urban with significant rural
Heart of the South West (multiple sites)		Heart of the South West LEP		Rural village / Rural town and fringe	Urban with city and town / Mainly rural / Largely rural
Hillhouse Chemicals and Energy		Lancashire LEP		Urban city and town	Largely rural
Leicester and Loughborough		Leicester and Leicestershire LEP		Urban city and town	Urban with city and town



Luton Airport	South East Midlands LEP	Urban city and town	Urban with city and town
M62 Corridor	Leeds City Region LEP	Urban major conurbation	Urban with major conurbation
New Anglia (multiple sites)	New Anglia LEP	Urban city and town / variable rural	Mainly rural
Newhaven	Coast to Capital LEP	Urban city and town	Urban with significant rural
North East Round 2	North Eastern LEP	Rural hamlets and isolated dwellings	Largely rural
North Kent Innovation Zone	South East LEP	Urban city and town	Urban with city and town
Oceansgate Plymouth	Heart of the South West LEP	Urban city and town	Urban with city and town
York Central	York, North Yorkshire and East Riding LEP	Urban city and town	Urban with city and town

Source: HM Government (2016)

This led to 16 Enterprise Zones in total (out of 48) being identified as having some form of rural footprint based on the ONS Rural-Urban Output Area classification (Table 3). Several of these also fell within largely or mainly rural areas according to the ONS Rural-Urban Local Authority Area classification (Table 3).

**Table 3: Enterprise Zones in England with a rural footprint (in full or part) according to the 2011 ONS Rural-Urban Output Area classification, along with their constituent local authority area classification**

<i>2012 designations (24 in total)</i>		
<i>Name of Enterprise Zone</i>	<i>ONS Rural-Urban classification (by predominant output area)</i>	<i>ONS Rural-Urban classification (by local authority area)</i>
Black Country Enterprise Zone	Rural town and fringe / urban major conurbation	Urban with significant rural
Discovery Park (Sandwich, Kent)	Rural town and fringe	Urban with significant rural
Great Yarmouth, Norfolk and Lowestoft Enterprise Zone (6 sites)	Rural village	Urban with significant rural
Hereford (Rotherwas Enterprise Zone, Marches - 3 sites)	Rural hamlets and isolated dwellings	Largely rural

Huntingdon (Alconbury Airfield near Huntingdon / Alconbury Business Campus)	Rural village	Mainly rural
Humber Renewable Energy Super Cluster and Humber Green Port Corridor	Rural village	Urban with city and town
MIRA Technology Park, Hinckley	Rural hamlets and isolated dwellings	Largely rural
Newquay Aerohub	Rural village	Mainly rural
Sci-Tech Daresbury / Daresbury Science and Innovation Zone	Rural hamlets and isolated dwellings	Urban with city and town
Science Vale UK Enterprise Zone (Oxford - 2 sites)	Rural town and fringe	Largely rural
<b>2016/17 designations (24 in total)</b>		
<b><i>Name of Enterprise Zone</i></b>	<b><i>ONS Rural-Urban classification (by predominant output area)</i></b>	<b><i>ONS Rural-Urban classification (by local authority area)</i></b>
Aylesbury Vale	Rural town and fringe	Mainly rural
Cheshire Science Corridor	Rural hamlets and isolated dwellings	Urban with significant rural
Cornwall Marine Hub	Rural town and fringe	Mainly rural
Dorset Green Innovation Park	Rural hamlets and isolated dwellings	Urban with significant rural
Heart of the South West (Exeter and East Devon EZ / Huntspill)	Rural village / Rural town and fringe	Urban with city and town / Mainly rural / Largely rural
North East Round 2	Rural hamlets and isolated dwellings	Largely rural

The co-ordinators / managers of each of these Enterprise Zones were initially identified, contacted and invited to complete an on-line questionnaire survey. This asked respondents to identify:

- the proportion of the Enterprise Zone considered to be rural;
- key sectors / numbers of rural businesses captured by the Enterprise Zone;
- what constitutes a 'successful' rural enterprise zone and key challenges;

- governance, planning and skills issues;
- the extent to which Enterprise Zones 'add value' or substitute activity; and
- what types of rural areas offer the most potential for both Enterprise Zones and new Investment Zone approaches.

However, due to low numbers of responses to the on-line survey (three in total), an alternative approach was adopted which involved approaching and conducting on-line interviews with co-ordinators / managers of Enterprise Zones with a rural footprint across England. This led to nine interviews being conducted and which focused on the same sets of issues as the initial survey.

In addition, a further interview was held with the manager of a Food Enterprise Zone. These were set up in England from 2015 onwards (17 currently operational). The interview focused on similarities and differences in their approach compared to Enterprise Zones and their funding and governance arrangements, as well as their 'added value'.

Finally, two interviews were conducted with senior policy leads in two different combined authorities that have been established across England, and which are predominantly focused on urban areas. Given that the Investment Zone approach (see Table 4) by the UK Government has been reconfigured around combined authorities such individuals were questioned on:

- the Investment Zone approach to economic development;
- how Investment Zones were being rolled out and implemented;
- the extent to which Investment Zones were linking to more peripheral regions;
- the degree to which rural businesses within and beyond combined authorities might benefit from Investment Zones;
- the perceived 'added value' of Investment Zones; and
- how the approach to Investment Zones could be modified and/or tailored to maximise benefits to rural businesses and their economies and what an equivalent Investment Zone approach could look like for rural areas.

**Table 4: Investment Zones in the UK (13)**

<b>England (8)</b>
East Midlands
Greater Manchester
Liverpool City Region
North East
South Yorkshire
Tees Valley
West Yorkshire
West Midlands

<b>Wales (2)</b>
Cardiff-Newport
Wrexham-Flintshire
<b>Scotland (2)</b>
Glasgow City Region
North East Scotland
<b>Northern Ireland (1)</b>
Northern Ireland (sector considerations first; followed by place-based needs of chosen sector)

All of the interviews (12 in total) were recorded, and full transcripts were subsequently produced using General Data Protection Regulation (GDPR) compliant transcription software. The transcripts were read by both members of the research team and edited for readability and to ensure that participants could not be easily identified. Anonymity has been protected by removing some names and locations and each of the participants has been given a number (e.g. 'Interviewee 1') to identify the individual.

A systematic approach was undertaken to code interview and survey responses thematically around key concerns of the research namely:

- the economic development model of Enterprise Zones in rural areas and the extent to which 'rural' actively figures in the definition and implementation of Enterprise Zones in England;
- the challenges of developing Enterprise Zones in rural locations and the importance of accessibility and infrastructure;
- planning, governance and funding issues of relevance to rural Enterprise Zones; and
- sectoral versus area-based approaches and the use of grants and / or tax incentives via Investment Zone and Enterprise Zone approaches.

This led to a common coding framework being produced which the researchers applied consistently to the research material, although it was open to researcher interpretation. Several new themes / sub-themes also emerged through this approach, and which are referred to - where relevant - in the findings and recommendations sections of the report (sections 8-10).

## 8. Findings

The findings from the research are organised around four broad themes that emerged from the interviews and survey responses.

### **i. Perceptions of Enterprise Zones as a tool for rural economic development**

The following section considers the way in which those working on the delivery of Enterprise Zones in rural and peripheral locations perceived the use and deployment of Enterprise Zones within rural settings. In the literature review it was highlighted how previous research and approaches to the delivery of Enterprise Zones has largely been agnostic towards their use in - and impact upon - rural areas. This is also reflected in the framing of Enterprise Zone policy as a spatial development tool, and where there is little reference to its use in rural or peripheral locations. Conceptually, Enterprise Zones are not generally perceived as an economic tool that is particularly targeted for or relevant to rural areas and this perspective was very much present in the views of interviewees. Indeed, there was a lack of recognition of 'rural' *per se* in Enterprise Zone designations and their implementation.

#### ***Perceiving the rural and the rural economy***

Enterprise Zones, as a tool for economic development, seek to create business growth within a defined area. However, one of the issues this study encountered was the way in which this catch-all approach was conceptually understood as a development tool which could be applied in rural areas, but which was rarely tailored to rural needs or circumstances. This was reflected in our interviewees - working in rural or more peripheral Enterprise Zone sites - viewing Enterprise Zones as islands of economic activity within rural settings:

*I think more generally, you know, [you would] describe them as industrial sites in a rural setting as opposed to [being] in a particular rural Enterprise Zone.....we didn't do anything around rural development or anything like that (Interviewee 7, 2024).*

The above quote reflects how many interviewees did not necessarily perceive their activities being particularly focused on the (rural) locations they were set within. Some respondents acknowledged their location within rural areas but did not view their Enterprise Zone - and activities within them - as being rurally orientated:

*I think I would struggle to really point anything out as being like a rural issue..... (Interviewee 4, 2023).*

As such, interviewees' perceptions of rurality did not necessarily impact on the delivery of such sites, with activity often viewed as being unrelated or unconnected to the particularities associated with rural development. Nevertheless, in some circumstances, respondents highlighted in more general terms how 'the rural' was built into what they did and how it shaped the Enterprise Zone itself:

*I don't think any of them were particularly set up with a specific rural brief - if you like - but given the nature of our area, having that kind of rurality stuff [was] built in (Interviewee 3, 2023).*

However, the notion of the rural being 'built in' (to the Enterprise Zone approach) was more ambiguous in respect of what this meant in terms of addressing rural issues or developing the rural economy. This points to a 'fuzzy' comprehension of the use of an Enterprise Zone as a development tool for the rural. Furthermore, whilst Enterprise Zones may exist as singular discreet sites in rural settings, such sites were often part of a larger portfolio of Enterprise Zones straddling a variety of urban and rural locations across a local authority area:

*I think it'd be quite difficult to define how many [of our Enterprise Zone sites] are rural [and] how many are urban because it is all growth corridor.....it's going to be fairly solid development once we've completed. But at the moment [with some Enterprise Zone sites] you're in the open countryside within a mile (Interviewee 1, 2023).*

Therefore, respondents did not view the Enterprise Zone approach as a tool directly for the economic development of a rural area and often had a much broader notion of Enterprise Zones and their role in creating economic development. As such, Enterprise Zone sites within a rural location were often seen as connected to other Enterprise Zone sites and in-turn frequently managed without a specific focus on rural concerns. Concerted efforts had been made to attract businesses to Enterprise Zone sites in rural locations and with co-ordinators of Enterprise Zones noting how they were often very selective in respect of who was allowed to develop on such sites. Nevertheless, many of the businesses which had been attracted to Enterprise Zones being 'footloose' in respect of their locational choices. Moreover, those involved in delivering Enterprise Zones were not necessarily focusing explicitly on the relationships of Enterprise Zone sites (and businesses therein) to the wider rural context:

*It's [the Enterprise Zone] a large-scale industrial estate.....it is really predicated on access to the workforce and markets.....companies [within the Enterprise Zone] work in X and Y sectors in particular. They could be in Z [urban areas]. [But] they're in XXXXX [rural area]. And they wouldn't characterise themselves as rural or urban (Interviewee 5, 2023).*

This example points to a framing of economic activity as being broader and non-place specific (rural or urban). In turn, the rural was often seen as an 'empty vessel' of land available for development:

*We've got the benefit from it [the Enterprise Zone] being [in] a rural area, but it was supposed to be an urban initiative really..But it's a unique selling point [USP]. You know, the availability of land is the USP of counties really and rural areas (Interviewee 2, 2023).*

The idea of developing the rural economy for the benefit of a wider rural community was less evident in approaches to Enterprise Zones which were in rural areas. Quite often they were simply seen as a reflection of land availability, with many of those focused upon in this study located on former industrial brownfield sites in rural locations, characterised by

a 'build it and they will come' approach and associated with (short) time frames for development:

*It [the Enterprise Zone] is not really long enough in my view and I think it's a fairly blunt tax tool. Uh, particularly in the rural areas, it's too simple (Interviewee 6, 2023).*

To summarise, Enterprise Zones in rural areas were generally perceived as being industrial sites in rural settings. There was not - as such - an approach to Enterprise Zones which was 'rural', or rurally tailored, even when they were in rural locations.

## **ii. Market failure and infrastructure challenges**

In a rural context, market failure can take several forms. This may include an absence of economic activity or very low levels of participation within pre-existing forms of economic activity, or indeed a lack of capacity to enable individuals to move to places where employment is available. It reflects the ways in which a series of issues may come together to make the design and delivery of economic development policy in rural locations more difficult. Such issues include (but are not limited to) access to suitable labour markets and an overall lack of suitable infrastructure. These all impinge on developing Enterprise Zones as an economic development tool in rural areas, where they seek to act as a (territorial) 'beacon' to attract new forms of economic activity to their specific locations.

The consensus of interviewees was that it was difficult to deliver a successful Enterprise Zone where market failure was more entrenched. This had three dimensions, and with the first two relating to issues concerned with infrastructure.

First, it was noted how the availability of infrastructure such as road access, the supply of power and utilities and digital connectivity were fundamental to the success of Enterprise Zone sites in rural areas and that the more such infrastructure was in place, the quicker the Enterprise Zone could develop. This is consistent with the findings that emerged from the first round of Enterprise Zones in the early 1980s (Fothergill, 2022). If sites for Enterprise Zones were less developed, this made it more difficult to bring them to a point where they would be viable. Hence it was identified how there were particular challenges of developing Enterprise Zones in rural areas without some form of previous development / infrastructure as the costs of getting power and utilities to such sites could be prohibitive and undermine the viability of any Enterprise Zone developed. In the words of several interviewees:

*Certainly, in our case, a lot of the rural employment land allocation is just not, you know, near market. It's just stuck. It's on a map but.....[it's stuck] (Interviewee 5, 2023).*

and

*If you've just got a greenfield and you need to bring all the infrastructure to it, it's going to take you such a long time before you've got your income flowing in...getting water, electricity, gas to rural sites can be a real challenge and the need to develop new substations etc. This can push costs up drastically and lead to real challenges in developing particular sites....sites in town have trouble with power, and then you if you*

*transfer that out into basically the countryside, it's worse, isn't it?" (Interviewee 1, 2023).*

and

*Infrastructure on [named Enterprise Zone site], that is a rural site, has been just non-existent. They didn't have drinkable water....but that was like a multi-million-pound project to bring that to site. They have gas infrastructure but no mains gas supply despite the fact that they are, you know, basically on a gas pipe which comes in from the XXXXX. So, infrastructure is a problem. Having enough electricity supply. So, we have had sites where....that pushes it over [the] tipping point....whoever's behind that would [have to] pay for it. And it's like well, do we want to be the person [who] does that? Do we want to hang back and see if someone else pushes it over so millions of pounds [are] you know....[spent] for a new substation (Interviewee 4, 2023).*

As a result, interviewees drew attention to the challenges of bringing Enterprise Zone sites to market in some rural locations given the 'abnormal' costs and constraints involved and that if such infrastructure was not available 'from the off' then this would deter developers and limit the potential of such Enterprise Zones:

*[You know] they want to move within a relatively short window and if everything is not in place then that deters them (Interviewee 9, 2024).*

This point - at least to a degree - also reflects the governance and funding model for Enterprise Zones (see next section) in which any large early outlay or time lag relating to infrastructure development in making the site market ready decreases the time in which the Enterprise Zone can benefit from the retention of business rates generated via businesses which move in. This is not to say developing such Enterprise Zone sites is impossible; rather, such issues need to be recognised and with the need for further initial investment to be allocated to move the development process forward. In some instances, it was noted how this could be achieved by linking Enterprise Zone development to other strategic developments:

*....the infrastructure's key...absolutely key, and that's what we found with [named Enterprise Zone]...we knew that [named multinational company] weren't going to come if we couldn't build the motorway junction onto the [named motorway] and that was £40 million. What the Enterprise Zone status gave us was [a] future income stream....so that we could frontload the infrastructure costs (Interviewee 2, 2023).*



### **Vignette 1: Enterprise Zone sites in more remote rural locations subject to market failure**

*Enterprise Zone X was in a more remote rural area of England. Market failure was identified as a fundamental problem given challenges of access to markets for businesses, as well as the time required - and constraints imposed - on securing the necessary planning permissions for the development of new infrastructure. Whilst the Enterprise Zone designation had helped in overcoming problems with the latter issue, there were still challenges in terms of building up a portfolio of investment 'at scale' quickly given the lack of interest in investing in such sites by the private sector - and despite the tax incentives on offer. In turn, this was having a detrimental impact on business rate generation and retention over time to offset initial costs of site preparation / development and to further re-invest in supporting business development in the area.*

Second, it was also argued that there could be problems around viability in relation to sites with previous development, but which were now obsolete and / or derelict and which needed extensive remediation to address challenges of contamination:

*...Buildings full of asbestos and you know, just buildings that are like freezing cold, not fit for purpose or enormous or just completely random (Interviewee 3, 2023).*

and

*[If] a site needs remediation [it could] mean you could wipe out all benefits of your Enterprise Zone just dealing with your mediated land costs.....[there were] quite a lot of issues with that site that needed sorting out before anything could happen with it, so it's just it's taken this long for anything really to happen with it.... (Interviewee 2, 2023).*

Nevertheless, the consensus was that the latter situation was the lesser of two evils:

*You're better off having, you know, your crappy buildings to refurbish [rather] than having to start from scratch by putting in all the utilities and road infrastructure because that just gets you to first base, doesn't it? (Interviewee 6, 2023).*

Third, given such infrastructure challenges, it was apparent that Enterprise Zone sites that existed in the periphery of larger urban areas, which were on previously developed brownfield sites that had been remediated or which were near existing suitable infrastructure were able to get 'up to speed' much more quickly. In several of the sites that participants cited as success stories, these features were apparent:

*Our Enterprise Zone was quite different because we'd had a government laboratory on the site at that point for 50 years; we had [also] set up the Science and Innovation Campus in XXXX and had put in a fair bit of the infrastructure.....so it wasn't like this was a brownfield site that needed a whole load of thinking and work to even get it off the ground (Interviewee 12, 2024).*

and

*We were such a successful economy to start with.....I don't think anything we've done has been empty longer than six months and everything's filled up within six months (Interviewee 7, 2024).*

As a result, the fact that infrastructure investments had already been made in modernising a brownfield site meant that the Enterprise Zone was in a much stronger position to start from. The Enterprise Zone site also sat between two larger urban centres which meant it also benefitted from pre-existing road, rail, energy and digital infrastructure. Consequently, where there was the ability to re-purpose or 'piggy-back' a pre-existing site into an Enterprise Zone, there was a strong belief that this would facilitate economic activity more quickly.

In contrast, the viability of Enterprise Zones in more peripheral locations, where infrastructure was absent or required significant remediation, was much more challenging to generate a sufficient level of return for the private sector:

*.....I think that's a danger with some rural Enterprise Zones that if you if you don't get the critical mass and you don't get the scale.....it's difficult (Interviewee 7, 2024).*

In summary, those Enterprise Zones deemed to be more successful and economically viable were identified as being in closer proximity to major urban centres. This raises a series of difficult questions for the development of Enterprise Zones in rural locations and the extent to which they can correct market failure given how successful economic development is often based upon pre-existing infrastructure investment / economic activity. When this is absent in a rural setting, it makes the Enterprise Zone approach that much more difficult to implement successfully.

#### **Vignette 2: Enterprise Zone sites in the urban periphery**

*In contrast to Vignette 1, Enterprise Zone Y was in a much more accessible rural area but in close proximity to nearby urban conurbations. This meant that there were already several sites with some kind of development on them, and with appropriate planning permissions for further development. The Enterprise Zone designation had allowed local leaders to develop several sites 'at scale' relatively quickly given that there was a latent demand by the private sector to invest in such locations. The Enterprise Zone was treated 'like a portfolio' which offered the possibility to build up reserves given the demand and interest by the private sector and the subsequent generation of business rates. In these locations, market 'failure' was therefore less evident but could still be an issue in that rents sometimes did not cover the 'city centre' fit out of infrastructure demanded by businesses. Hence leaders were often using business rate income to enhance infrastructure over time, rather than continuing to develop new infrastructure.*

### **iii. Planning and governing Enterprise Zones**

A third key theme which emerged related to planning and governing Enterprise Zones located in rural areas. From a planning perspective, rural 'protectionism' featured heavily in discussions, as well as how this could be overcome via special planning designations. The importance of land ownership in planning processes also featured prominently in

helping to shape the development process of Enterprise Zones in rural areas. In terms of governance, issues revolved around connections between rural Enterprise Zones and other types of organisations and policy initiatives, as well as the way in which rural Enterprise Zones could manage and use business rates.

### ***Planning, Local Development Orders (LDOs) and land ownership***

It was evident that Enterprise Zones in rural areas had been expedited where there were already planning permissions in place and where the land associated with the Enterprise Zone had already been allocated for development. In this respect, it was noted how it was important that the boundaries for an Enterprise Zone were drawn as wide as possible in order to have as much influence over infrastructure and planning regulations associated with such sites (for example, roads within and to the site, car parking etc) and to enable future possible expansion of the site:

*We've got like three sites within the Science Park, but we haven't got control over the Science Park parking and that causes some problems then because you haven't got control over all of the infrastructure and so on (Interviewee 7, 2024).*

However, some interviewees highlighted challenges of development associated with long-standing discourses of rural protectionism as slowing up the process of development for Enterprise Zones in rural areas on newly-designated sites with no previous history of development or where other designations - such as SSSIs (Sites of Special Scientific Interest) - were present:

*Some of them have really strict rules around, you know, planning and who can locate there and things like that (Interviewee 6, 2023).*

In turn, individuals also pointed to viability gaps in developing Enterprise Zones in such locations due to planning restrictions as it was argued that whilst land costs may not necessarily be high in many rural areas, build costs in rural locations to meet planning requirements were often significant. The overall strength of the local property market, the nature of previous development on Enterprise Zone sites and access to markets were all deemed - along with planning consents - to be key to any development taking place.

Consequently, Local Development Orders (LDOs) - as a specific planning tool - were identified by many interviewees as being of considerable importance in expediting development on rural Enterprise Zone sites. They can give greater certainty for developers coming onto Enterprise Zones through providing outline planning consent, which means that developers do not need to go through the whole planning process to get the development process moving forward. They can also help to provide greater certainty over what can be developed (with designations up to 20 years) and the speed of development:

*An LDO was put in place for XXXXX as part of you know trying to sort of smooth the planning process. That was part of the pitch for the area (Interviewee 3, 2023).*

However, some respondents argued that the LDO process often depended on how up-to-speed local planning departments were with such processes. In addition, a number of

interviewees also pointed towards examples of where LDOs had become overly complex and had actually delayed development. A key message was that LDOs may help to facilitate the growth of different types of infrastructure on Enterprise Zones in rural locations but that they need to have a clear focus and function that developers can understand and enact upon.

Interviewees also drew attention to the importance of land acquisition and the ownership of Enterprise Zone sites as a critical factor in shaping the success of rural Enterprise Zones. Locating an Enterprise Zone on land owned by the local authority was deemed to help in meeting planning requirements and pulling all the relevant partners (developers, businesses, planners, landowners and Enterprise Zone managers) together much more efficiently and to bring rural sites forward for development. In particular, this could help to sort out any connectivity or contamination issues in order to meet planning requirements, so that developers already know what is 'in the ground', and to de-risk investment as much as possible.

Beyond these arguments, it was claimed that given challenges of market failure in different rural contexts, the local authority could also - in effect - 'gift' the land for an Enterprise Zone with all the necessary planning permissions in place. This would help to bring forward a rural Enterprise Zone - especially in more peripheral locations - where there would not otherwise be a return for a private sector developer.

*The main reason for the success of some [rural Enterprise Zones] and not others is if land ownership is in local authority control. That's really helpful...that's a huge factor in it because it has almost everyone pulling in the same direction (Interviewee 4, 2023).*

On a more practical level, it was also noted how having land for an Enterprise Zone in local authority ownership could help to link existing planning documents and regulations together much more efficiently and speed up the development process - possibly in conjunction with the use of LDOs and existing planning permissions. This was especially important in rural areas - and especially in more pressured rural areas and areas subject to environmental conservation / protection.

### ***Governance and funding of rural Enterprise Zones and business rate retention***

Evidence of rural Enterprise Zones working with other Enterprise Zones was limited. In some areas it was apparent that quarterly development meetings had been set up between different Enterprise Zones to try and generate innovative ways of working, to overcome challenges of development, and to address any planning / energy / utilities issues. This was especially the case for multi-site Enterprise Zones within the same local authority area. However, in other areas, there did not appear to be much joint working taking place, with some claiming that the introduction of Enterprise Zones had led to rural local authorities with Enterprise Zones competing for the same companies. A lack of budget was seen as a key reason undermining collaboration. It was also claimed that it was easier to manage a rural Enterprise Zone where there was a single unitary structure of local government - rather than a two-tier structure involving responsibilities being divided between counties and districts - unless there was very clear guidance in place

about management processes for the rural Enterprise Zone and how any income generated from the Enterprise Zone should be re-allocated.

Concerns were also expressed that the dissolution of Local Enterprise Partnerships (LEPs) across England from April 2024 would further undermine a strategic approach to joint working and the sharing of good practice. Moreover, there was a great deal of uncertainty over what would happen to legal agreements set up between LEPs and developers for some rural Enterprise Zones and how 'shared development pot' monies held by LEPs would be (re-) allocated between multi-site Enterprise Zones.

Nevertheless, the issue that drew greatest attention in relation to the governance of Enterprise Zones in rural locations related to business rate relief and retention. In a rural context, this has several dimensions. On the one hand, business rate relief can be important in more remote and peripheral rural areas where there is often an absence of private sector investment for preparing and developing infrastructure on Enterprise Zone sites, and to provide 'grow on' space for the significant numbers of micro-enterprises in the rural that are based at home:

*Everybody moves up one and they haven't been able to do that previously because there's an inhibition in terms of either land not being ready or they just can't find places to expand (Interviewee 5, 2023).*

However, many rural local authority areas have much lower numbers of rateable businesses, a lower public sector grant and revenue base. This leads to less public funding to match private sector investment, which reduces the potential for attracting inward investment. In turn, this means that the retention of business rates and benefits arising from business rate relief may be more advantageous for larger local authority areas in or near urban centres with a record of attracting medium-sized and / or larger businesses. Consequently, the use of business rate relief and the ability to retain business rates, to reinvest into Enterprise Zone sites, arguably favours Enterprise Zones in more accessible rural locations. This further exacerbates the successful delivery of such Zones in peripheral rural areas.

Furthermore, whilst business rate relief was identified as one of the key mechanisms available to Enterprise Zones, acting as a 'sweetener' for attracting businesses to 'get things going', the research identified how business rate relief was often poorly understood. As such, businesses are only able to receive such relief for a limited period (the first five years of an Enterprise Zone designation). This may not be sufficient to attract businesses into a rural Enterprise Zone, especially in more remote rural areas. As a result, some Enterprise Zones in rural locations had provided additional 'Enterprise Growth Fund' (or equivalent) monies to attract / retain businesses once the initial rate relief period had come to an end. The evidence suggests that this had mixed impacts - sometimes businesses had remained in the Enterprise Zone given such support, but others had left once business rate relief ended - opening up questions about the 'additionality' provided via Enterprise Zones in rural locations.

Another key aspect associated with Enterprise Zones is the ability to retain business rates to develop new infrastructure (such as buildings, roads etc.). This may be crucial in rural areas subject to market failure. The ability to retain business rates in Enterprise Zones can

last for up to 25 years but this reduces year-on-year following the designation of an Enterprise Zone. Consequently, the process of Enterprise Zones, in rural locations, borrowing against future business rate retention to develop sites for new enterprise was described as a 'ticking clock'. As such, it may work well in more buoyant (already developed) rural areas, where development on such sites can move forward quickly. However, where the preparation of Enterprise Zone sites in rural areas is more challenging due to a lack of existing infrastructure / utilities or due to lower levels of business demand, this strategy is more problematic. In essence, there is less time to pay back monies that have been borrowed and this can limit the possibilities for extensive land remediation or wholesale construction.

In relation to multi-site Enterprise Zones within a single local authority area, some areas had developed a 'shared pot' arrangement to allow cross-subsidisation to take place. This allowed for the support of more peripheral rural sites / those sites with significant infrastructure challenges; or to generate 'added value':

*We've got one [Enterprise Zone] site at X, which is warehousing, you know, big sheds on the AXX.....that was not necessarily the Council's aim for that site.....but they have got a site next door to that and we are using some of the money coming from those sheds....to fund advanced manufacturing units...it can be used outside of the Enterprise Zone, but it's got to be used near it, or proportionally (Interviewee 4, 2023).*

In some cases, Memorandums of Understanding (MoU) - instigated and managed by former LEPs - had also been put into place to aid the cross-subsidisation of activities. This provided added support to develop Enterprise Zone sites encountering challenges of market failure, but such MoUs now require renegotiation with the dismantling of LEPs from April 2024 onwards.

In overall terms, planning and governance issues are crucial to the effectiveness of rural Enterprise Zones. Planning processes can impinge significantly on expediting development and investment in such locations. In turn, this can subsequently shape the extent to which one of the key advantages associated with Enterprise Zone designations - the ability to offer business rate relief and retain such income to support future investment - is secured. This may be more problematic in rural Enterprise Zone locations which are more peripheral, under-developed (in terms of existing infrastructure and utilities) and susceptible to market failure.

### **Vignette 3: Multi-site Enterprise Zones in more remote / less remote rural locations**

*Combining elements of Vignettes 1 and 2, Enterprise Zone Z covered a range of sites in more remote and less remote rural locations. For those that were more remote, challenges related to either bringing existing infrastructure on such sites up to standard or developing infrastructure 'from scratch'. Both scenarios could be prohibitively expensive and stall the development of such sites. In terms of the refurbishment and remediation of rural sites with existing infrastructure, this had often involved a huge refurbishment programme subject to stringent planning conditions on the types of businesses that could locate / re-locate to such places and with costs of decontamination often prohibitive to facilitating the development process. On other sites - which were in effect 'fields in the middle of nowhere' - the costs of utility development in terms of making power and water available also meant that they had, in effect, been mothballed given the costs of getting such sites up and running and the slow rate of return from income streams such as business rates to offset such costs. In less remote / more accessible rural locations, the issues at play were different in that demand, to invest in such sites by the private sector was greater and with overall costs of development lower / the time to facilitate development and undertake activity 'at scale' being much shorter. This meant that it was easier to kick-start the development process - 'nobody likes to be first on the dance floor at the wedding...but once things (start) landing then it really picks up' - and generate surpluses to re-invest in supporting rural business development.*

#### **iv. Investment Zones: challenges for rural enterprise?**

A final theme which emerged from the research related to the recent development of Investment Zones across the UK, the ways in which they have evolved in respect of their design and implementation, and their potential benefits for rural areas - including the implications of any future roll-out of Investment Zones for supporting rural businesses.

##### ***Investment Zones - a sectoral policy approach***

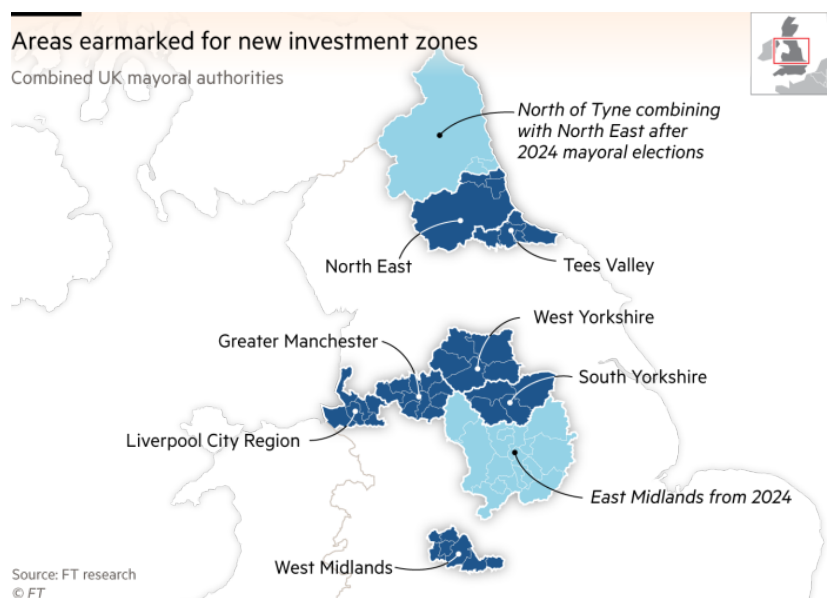
*"How do you resolve this age-old conundrum within Government of how the sectoral policy interacts with the spatial policy? When you have that support going into sectors, how does the rubber hit the road?" (Q182 Chair, House of Commons Business and Trade Committee, 10 January 2024*

In September 2022, the UK Government announced that new Investment Zones would be introduced across the UK - covering both rural and urban areas - and based broadly on the first generation of Enterprise Zones implemented during the 1980s to help 'level up' the UK regions. However, with the Autumn Statement of 2022, the Chancellor announced that the Government would launch a refocussed Investment Zone programme aimed at catalysing a small number of high-potential clusters in urban areas, and predominantly city centre locations (HM Treasury, 2023).

In total, the Government committed to establishing 13 Investment Zones across the UK, with eight located in England (Figure 1). Initially, it was identified that each Investment Zone would benefit from a funding package of £80 million over five years, which could be used flexibly between spending and / or a single five-year tax offer. This included £35 million split between revenue spending and capital spending (on a 40:60 basis) and £45 million in tax incentives. Such incentives cover Investment Zone areas of up to 600ha across a maximum of three separate sites and with streamlined planning arrangements also on offer (for example, through LDOs). Given that the tax incentives are designed to encourage new activity and land development, such sites were to be located on undeveloped land (including empty land, brownfield land, under-utilised land and vacant premises). In addition, the lead local authority of relevance to the Investment Zone sites is able to retain 100 per cent of the increase in Business Rates from such sites for 25 years (HM Treasury, 2023).

In November 2023 it was announced that the funding package for each Investment Zone would be doubled to £160 million over ten years to support skills development, research and innovation and infrastructure. Each Investment Zone is expected to have a clear spatial focus (or 'core') and with businesses benefiting specifically from a tax offer including full Stamp Duty Land Tax relief; 100 per cent Business Rate relief; an Enhanced Capital Allowance (Year 1) for plant and machinery assets; an Enhanced Structures and Buildings Allowance (relieving 100 per cent of costs of structures and buildings over 10 years); and Employer National Insurance Contributions relief (HM Treasury, 2023).

**Figure 2: Investment Zones in England**



Source: Financial Times (2023)

A fundamental point that emerged from the research related to the ways in which Investment Zones are being implemented across the UK. Participants in the study



identified how they were not a 'zone' as such. Rather, several respondents argued that they were now a development plan focused around a priority sector. Whilst some areas had indeed identified multiple 'sites' for their Investment Zone, the general consensus was that they were more about identifying a place where a particular sector would develop. It was also noted that some sectors may have a strong place dimension in respect of the development of particular types of infrastructure:

*We don't actually have to draw a line around anything...but some issues will have spatial implications such as infrastructure planning and development, local business support, research innovation and skills issues....it's very different from an Enterprise Zone model where you draw a line around a place and have tax incentives etc. And I think that's partly in terms of how it has evolved from the initial approach, which was much more 'draw a line around the place and give them some tax incentives and change planning powers'.....it has actually moved into what was become a sectoral development process (Interviewee 8, 2023).*

Consequently, a move from Enterprise Zones to Investment Zones has involved a shift from spatial development to sectoral development. Yet in similarity to multi-site Enterprise Zones within a single local authority area, it is possible to reinvest and re-allocate business rates in areas beyond where they were initially generated. In theory, this means that businesses associated with a particular sector located in one area could benefit from rates raised elsewhere in another area. However, some interviewees confirmed that they would not be using tax incentives at all given the complexity of implementation (the use of capital was seen as a quicker way to move forward) and the risks of displacing economic activity (also see Fothergill, 2022).

### **Investment Zones and rural areas**

As with Enterprise Zones, Investment Zones were not perceived by respondents as a specific economic tool for rural areas. This was due to the refocusing of Investment Zones on cities, with any benefits to the rural identified as being limited to the scaling up of activity in city centre Investment Zones with a view to encouraging spillover benefits beyond. The UK Government requires each area that has been allocated an Investment Zone to name one of the five sectors that they aim to develop into a cluster. However, Fothergill (2022) points out how hotspots where firms cluster together in rural areas rarely centre on a single industry, which may detract from the generation of positive spillover effects for rural areas. As such, rural places which are further away from the core Investment Zone are potentially less likely to experience any benefits (Fothergill, 2022).

More explicit consideration of rural issues by interviewees related to practical and opportunistic concerns relating to the availability of land for development at satellite Investment Zone sites. In this respect, it was noted how the use of existing spatial plans could help to integrate activities in urban and rural areas together, and which would also involve improving transport connections associated with the sectors prioritised via Investment Zones and rural residents / workers. This highlights a need for Investment Zone implementation to be considered from a place-based and cross-boundary perspective, and to focus on the networks and connections of relevance that can link those in rural (and urban) areas with new opportunities created via Investment Zones.

Some interviewees went as far as cautioning that the development of future Investment Zones in rural locations would be problematic due to i) difficulties in securing the advantages associated with sectoral clustering in such areas in relation to industries such as agriculture and tourism; ii) challenges of marketing such sites to potential developers / investors given issues of access to markets; and iii) the environmental implications and challenges associated with developing such zones in areas which may have specific designations, such as being a Site of Special Scientific Interest (SSSI). Hence any roll-out of Investment Zones to more rural areas would need to carefully consider the possibilities for clustering (and benefits arising); the degree to which Investment Zones in more peripheral areas are likely to succeed - at least without the support of significant investment in infrastructure connectivity - and how to balance development and environmental considerations.

Finally, several other interviewees identified how developing Investment Zones in rural areas could help to provide a financial engine for future devolution deals for different (rural) local authority areas given the ability to retain business rates and to borrow against them to facilitate new development. Furthermore, those involved with Enterprise Zones suggested Investment Zones for rural areas did not have to be spatially contiguous. Rather, it could be possible to treat - for example - a number of rural market towns (six-seven) as an Investment Zone in their own right. In this way, bundles of 10-20-acre development sites in each market town could be designated to catalyse investment and with such sites benefiting from the planning and tax benefits associated with the Investment Zone designation. This points towards the possibilities of developing multi-site Investment Zones in rural locations to build 'critical mass'. Nevertheless, the need for a compelling clustering / sectoral growth prospect with associated access to markets will be a basic requirement for any such approach to be successful in the English countryside.

## 9. Conclusions

This report highlights the perceived and real lack of benefits - and constraints - associated with the design of both Enterprise Zones and Investment Zones for rural England.

With reference to Enterprise Zones, these were not generally perceived as a specific policy tool tailored for rural areas. Rather, 'the rural' was often seen as a resource of land available for development and a backdrop upon which enterprise could take place. Respondents highlighted the key challenges associated with market failure in certain rural areas, with an implication that more successful Enterprise Zones have tended to be in more 'developed' accessible locations and in closer proximity to major urban centres with strong possibilities for 'scaling up' activity quickly.

It was recognised how there were more challenges in delivering Enterprise Zones in remote rural locations with either obsolete / derelict infrastructure or in rural locations with no infrastructure at all (such as roads, utilities and / or digital connectivity). Such challenges often made development extremely difficult given the costs and timescales involved and addressing viability gaps in respect of income generation from business rate retention to offset costs of developing such sites in the first instance.

Planning was also deemed to be a key factor in the success of Enterprise Zones in rural locations, and especially in areas with long-standing discourses around rural protectionism which could slow up the development process. Planning consents for development - along with the overall strength of the local property market, the nature of previous development on Enterprise Zone sites and access to markets from the Enterprise Zone - were identified as being of importance to any development taking place. Moreover, whilst LDOs (as a specific planning tool) and the drawing up of flexible boundaries for Enterprise Zones in rural locations can be important in providing certainty for developers and for expediting development, their success is variable and shaped by having a clear focus and purpose that developers can enact upon, as well as land that is in local authority ownership in order to 'join up' policy and partners.

The issue that drew greatest attention in relation to the governance of Enterprise Zones in rural locations related to business rate relief and retention given the frequent absence of private sector investment for preparing and developing infrastructure on Enterprise Zone sites. However, business rate relief - according to respondents - was poorly understood and problematic in rural areas given that businesses are only able to receive such relief for the first five years of an Enterprise Zone designation which may not be enough time given the challenges of attracting businesses into such locations. In addition, borrowing against future business rate retention is a 'ticking clock' for rural areas with an absence of private sector activity or where site preparation is extensive / subject to more restrictive planning regulations, given that addressing such issues may reduce the amount of time to pay back monies that have been borrowed. This can be mitigated via 'shared pot' arrangements in rural areas with multi-site Enterprise Zones and which can be used to cross-subsidise the costs of development. However, this is not always possible, and especially where demands for remediation / the provision of basic utilities (for example) is significant.

Consequently, a rural-specific, place-based alternative to Enterprise Zones, may be needed, learning from past initiatives such as Rural Action or Rural Regeneration Zones, or the regional rural growth deals of the last decade. In the absence of this, a modified approach to designing Enterprise Zones to generate greater rural 'reach' is required. This should offer greater freedoms on site development and expansion, the ability to support rural micro-clusters via networked approaches over broader spatial scales, changes to planning regulations and adjustments to fiscal measures. Such modifications are also in line with proposals set out by the new government in the UK, to accelerate the delivery of high-quality infrastructure conducive to economic growth, revise planning arrangements, and devolve further freedoms and flexibilities to local areas.

Finally, as currently designed and targeted, it is evident that Investment Zones will have limited application in rural areas or scope to release the considerable potential of rural economies across the UK. However, this can be avoided with some important modifications to make them work better for rural environments and rural enterprise (see 'recommendations' below).

## 10. Key recommendations

The following infographic outlines our recommendations, followed by a more detailed overview of each suggestion. In particular, the recommendations are underpinned by an acknowledgement that the issues associated with developing rural enterprise can be different - especially in more remote rural locations - given that facilitating market-led approaches and managing the risks of investment is more challenging.

### RURAL ENTERPRISE ZONES TO RURAL INVESTMENT ZONES?: 'WHAT WORKS' FOR RURAL ENTERPRISE

#### 10 RECOMMENDATIONS FOR ACTION

Widen the selection of sectors in future Investment Zones through negotiations between national government and rural local authorities	Extend the period of business rate relief / retention (and other tax measures) in rural locations
Provide further support for infrastructure development to kick-start zones	Secure key 'anchor' businesses to attract others onto rural Enterprise Zone sites / Investment Zone sites and to help generate place-based clustering
Give greater consideration to the challenges of planning de-regulation in certain rural contexts and provide time-related extensions of benefits	Scale up the configuration of zones in rural locations for rural areas to benefit from future designations
Use appropriate rural-urban classifications to acknowledge the (rural) place-based context within which designations are operating	Create and sustain arrangements for pooling of income from retained business rates to cross-subsidise rural enterprise development
Establish flexible arrangements to support enterprise growth for rural SMEs and rural micro-enterprises	Introduce active travel hubs in order to enhance connectivity and access

## Detailed recommendations for action

### **1. Widen the selection of sectors in future Investment Zones through negotiations between national government and rural local authorities**

Selection of sectors in future Investment Zones should be widened by negotiations between national government and rural local authorities. Rural as well as city areas do and can attract inward investment and support industrial diversity and growth. Such negotiated targeting would enable rural areas and enterprises to engage with, contribute to and benefit from Investment Zones.

In addition, given that rural areas often do not have a critical mass of businesses operating in particular sectors, there is a need to develop locally-informed place-based approaches. These need to be conducive to micro-cluster development and may involve the clustering of businesses from different - yet related - sectors that are reflective of local specialisms. Such activity can be taken forward via networks developed over broader spatial scales - for example through linking up activities taking place in different rural market towns - to harness the economic capacities of different rural locations.

### **2. Extend the period of business rate relief / retention (and other tax measures) in rural locations**

Both Enterprise Zone and Investment Zone approaches in the UK are fundamentally based on market-led approaches to transforming local areas. However, given challenges of market failure in some rural areas, there is a need to extend the period that rural businesses can benefit from business rate relief associated with Enterprise Zone / Investment Zone sites. In addition, there is also a requirement to extend the period upon which business rates can be retained in rural Enterprise Zone / Investment Zone sites to take into account the initial challenges of developing such sites.

### **3. Provide further support for infrastructure development to kick-start zones**

There should be an offer of further financial support via Investment Zone / Enterprise Zone-equivalent approaches for infrastructure development in rural locations that face more challenging issues (such as site remediation / utility development) to kick-start the development process. This is because property developers are less likely to make such an outlay given that the risk of return on this type of investment is much higher. Local authorities could also gift land (where relevant and in their ownership) as part of a funding package to move activity forward and seek to link the development of such zones to other strategic developments in order to create a more viable project conducive to investment by the private sector.

### **4. Secure key 'anchor' businesses to attract others onto rural Enterprise / Investment Zone sites and to help generate place-based clustering**

Rural England has many excellent examples of individual firms in automotive, aeronautical, precision engineering, pharma, defence and scientific research and manufacturing. Some have grown to form the core of renowned advanced business and science parks. Building future Enterprise or Investment Zone interventions around such

'anchor' companies that are looking to expand and connect further to allied and support businesses can help to kick-start the development process; to bring other firms in; and to help generate place-based clustering. This is important as in some instances these companies have been 'persuaded' that their expansion is 'unsuitable' for rural locations and hence been encouraged to relocate to urban settings. This has a knock-on effect of skilled labour and revenue flowing out of rural areas.

#### **5. Give greater consideration to the challenges of planning de-regulation in certain rural contexts and provide associated time-related extensions of benefits**

A greater consideration of the challenges of planning de-regulation in some rural contexts (for example, in areas subject to specific environmental considerations) is required. In turn, there is a need to extend the benefits associated with Enterprise Zone / Investment Zone designations in order to reflect the time required to work through the necessary planning permissions and to adjust plans for development where necessary.

#### **6. 'Scale up' the configuration of zones in rural locations for rural areas to benefit from future designations**

In the context of any extension of Investment Zone approaches in the UK, consideration should be given to the challenges of scaling up enterprise activity in rural areas focused on particular clusters. Several options could help to roll-out Investment Zones in rural locations, including:

- A focus on developing rural micro-clusters and joining up such clusters to achieve economies of scale across a wider range of rural localities to secure an appropriate volume of development.
- Developing an Investment Zone across bundles of development sites in rural market towns as part of a place-led approach for scaling up activity and to hedge risk.
- Encouraging different Investment Zones to work together in order to support sector development in rural areas / sites lying outside the main urban core via 'hub and spoke' models. This is particularly important given that many rural local authority areas in the UK do not currently have the capacity to harness the benefits of Investment Zone approaches given their limited resources.

#### **7. Use appropriate rural-urban classifications to acknowledge the (rural) place-based context within which designations are operating**

There is a need to develop an approach which uses the ONS Rural-Urban classification to acknowledge the place-based context within which designations such as Enterprise Zones and Investment Zones are operating, and to reflect upon what this might mean for the specific development needs of rural businesses in such areas.

#### **8. Create and sustain arrangements for pooling of income generated from retained business rates to cross-subsidise rural enterprise development**

With the disbanding of sub-regional Local Enterprise Partnership arrangements in England from April 2024, it is essential that follow-on arrangements (for example,

responsibilities for Enterprise Zones being transferred to local / combined authorities) maintain the ability for the pooling of retained business rates across different sites in order to support rural locations where development may be slower or more costly due to issues such as (poor) infrastructure or accessibility challenges.

### **9. Establish flexible arrangements to support enterprise growth for rural SMEs and rural micro-enterprises**

Given that there is a preponderance of small and medium-sized enterprises and micro-enterprises in rural areas, it is also important to develop business premises via Enterprise Zone / Investment Zone approaches that reflect the development needs of such businesses, such as the use of 'rolling breaks' for room hire and 'easy in' / 'easy out' rental agreements.

### **10. Introduce active travel hubs in order to enhance connectivity and access**

Finally, there is a need to develop 'active travel hubs' in specific Enterprise Zone / Investment Zone sites in rural locations to improve connectivity and access to such sites - in terms of workforce recruitment and generating sustainable forms of mobility.



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