

Accelerator Zones: how to turbocharge economic opportunity across the UK

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ABOUT THIS REPORT

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INTRODUCTION

Recently, the two of us discussed the UK's repeated failure to redress geographic inequality despite numerous attempts by various governments. Our conversation could be summed up thus – why aren't more places outside London like Cambridge? A leader in advanced technology and life sciences, Cambridge has the largest centre of medical research and health science in Europe. It is a city driven by innovation and the benefits of knowledge spillovers, with its university drawing in big science, technology and data firms. Cambridge's patent applications per head are the highest in the UK, more than three times as many as the second closest city, and this is translating directly into economic growth.¹ Over the last few years, according to the Centre for Economics and Business Research (CEBR), Cambridge has consistently seen economic growth at a rate faster than its UK competitors.²

Now Cambridge has some unique strengths – not every city has a world-renowned university at its heart – but there are many places in the UK with high-quality universities and highly educated, dynamic people, yet they still struggle with attracting investment and generating the sort of high-quality start-ups that Cambridge has excelled in creating in recent years.

What is our aim?

The UK can improve our ability to monetise our world class research universities and create network effects in the surrounding areas by using the tools that government has at its disposal – to help foster more university-centric hubs which facilitate business investment. With the right support from government we believe this can help accelerate the work that is already taking place, and deliver investment, new businesses, and jobs across the country. A boost for Britain post-Brexit and post-COVID-19.

Our work would build on Government policies in recent years. It would build on the enterprise (and university enterprise) zone model, the Northern Powerhouse and the City

Deals, and be complementary to Freeports which are in development. We would designate certain areas of the country to be “Accelerator Zones”. These zones would be in areas which are outside of London but which have a university within them.

These zones will have three new policy aspects that focus on the three key things that are needed for success:

1. More freedom on people and planning

- Visa rules. Working with the new Office for Talent (OfT), **Accelerator Zones would allow highly qualified people to come and work in these designated areas of the country. We would do this by designating all skilled immigration coming into Accelerator Zones as under the newly launched “Global Talent” route, and their numbers would not be capped** – as long as a significant number of additional jobs/apprenticeships are created in the UK, relative to the number of visas requested.
- Planning. **We would simplify planning laws to allow the building of necessary real estate to facilitate the development of new businesses.**

2. Tax incentives

- In order to encourage a significant amount of private capital into these zones, **equity investments located in Accelerator Zones will have to pay 0% Capital Gains Tax (CGT) if the investments are held for no less than seven years** (though the investments in real estate should not benefit from this tax incentive, lest the investments flow into the property sector rather than new businesses).

3. Innovation networks

- In our research, it became clear that a key reason for the success of Cambridge was the cross-fertilisation of ideas and people that helped create and develop new links between academics, entrepreneurs, and local political leaders. We need to ensure that we engender that within Accelerator Zones.
- **Central Government should fund a policy fellowship programme for each Accelerator Zone**, which will operationalise and lubricate effective networking both within each Accelerator Zone, and between each zone and with the Cambridge Centre for Science and Policy. These policy fellowship programmes will bring together academics from the relevant university, local businesspeople, and key figures from central and local government.

MORE FREEDOM FOR PEOPLE AND PLANNING

People

Access to high-quality talent is one of the key determinants of choosing where to locate a new business. The new OfT was set up to make it easier for leading global scientists, researchers and innovators to come to the UK. The OfT is based in No. 10 Downing Street, with delivery teams across government departments. It will ensure the UK’s talent offer is stronger than ever for students, those building their careers, and those who are already world leaders in their fields, and will make it easier for those with the most talent, potential, energy and creativity to come to the UK from around the world.

If we want to develop and accelerate economic growth and dynamism in different regions of the country, we must give businesses the freedom to hire highly skilled people with ease. Our proposed **Accelerator Zones would allow highly qualified people to come and work in these designated areas of the country.** We would do this by **designating all skilled immigration coming into Accelerator Zones as under the newly launched “Global Talent” route, and their numbers would not be capped.**

We must make sure that this also creates more jobs locally, so all Accelerator Zone businesses who wish to take advantage of these rules should **clearly demonstrate their plans to work with local schools, colleges, and the hub university to develop local people and local skills.** There must be a clear plan to at least match the number of visas with additional jobs or apprenticeships in the local labour market. To help SMEs navigate the entire process, the local authority would sponsor “Global Talent” visas on their behalf, if all requirements for working with local people were met. We need to use international investment and international talent to work together, to help accelerate the growth and development of different regions of the UK.

Planning

In order for these long-term investments in new businesses to work, investors must have as much freedom as possible to build and renovate new premises and commercial property. The Accelerator Zone planning proposals would match those of Enterprise Zones and simplify planning, for example, through Local Development Orders that grant automatic planning permission for certain types of development (such as new industrial buildings or changing how existing buildings are used) within specified areas.

These freedoms will provide a significant boost for investors and entrepreneurs who choose to invest in Accelerator Zones.

TAX INCENTIVES

Incentives matter. When investing money, tax incentives matter a lot. Giving investors direct financial incentives to invest their money in particular parts of the country will increase the amount of investment going into these parts of the country. The tax incentive we have chosen is for **investors to pay zero capital gains tax on their investments in Accelerator Zones after seven years.**

Much recent academic literature has centred on whether such investment into zones like these increases investment overall into the UK, or whether it simply displaces investment from one part of the UK to another part. This tax benefit is worth doing. Our argument is that the zero capital gains tax for longer-term investments is a significant benefit that is sufficiently large to:

- Attract international investment that otherwise would not have come to the UK; and
- Help build long-term investment in the Accelerator Zone regions rather than encourage “hot” money looking for a quick return on capital.

In addition, **this tax incentive of zero capital gains should not apply in the case of real estate investments** – we want to ensure the additional, new investment flows into new innovative businesses, not greater opportunities for property developers.

INNOVATION NETWORKS

Recent academic literature, much of it summarised in a brilliant July 2019 essay by Michael Kitson from the Judge Business School at Cambridge University,³ suggests that the diffusion of innovation, rather than just the innovation itself, is the largest long-term determinant of economic growth. In each Accelerator Zone, a university will be at its heart.

However, high-quality academic research in itself does not cause large scale improvements in economic growth. It needs to be connected to entrepreneurs who have the vision and business acumen to turn those ideas into actual innovation – namely, the use of a new idea or method in an economic context. Yet when innovation occurs in an area of the economy, the **point of an Accelerator Zone is for that innovation to be quickly diffused through and adopted by as many other areas as possible**. To quote from Michael Kitson's essay:

“There are many different aspects of the diffusion of innovation but a common requirement is the effective movement and exchange of ideas and knowledge. This requires building connections to sources of ideas and expertise which requires investment – either in individuals who can develop and facilitate networks – or to build intermediary institutions.”⁴

How to diffuse innovative ideas and practises? To some degree, this is the holy grail of modern industrial policy, and it would be foolish to suggest there was a foolproof path to success. However, our experience and research working with Cambridge business leaders and academics, suggests that helping to facilitate networks of academics, local government leaders, and businesspeople has significant benefits in helping people talk, exchange ideas, and learn from each other. We need to promote this not just within each Accelerator Zone, but also between different Accelerator Zones across the UK, with the Cambridge Centre for Science and Policy acting as a lead facilitator for this dialogue. **We propose a new Centre for Science and Policy to be instituted in every new Accelerator Zone, to help facilitate and drive innovation.**

The reason why each Accelerator Zone will broadly choose for itself which areas of the economy to focus on, centred around the university, is that each zone will have different economic hinterlands and existing strengths on which to build. There will not be one-size fits-all.

PROCESS – HOW TO BECOME AN ACCELERATOR ZONE

Stage 1 – Designation

There should be a bidding process during which local areas and regions can apply to become designated as an Accelerator Zone. Accelerator Zones would be chosen in a similar way to Freeports.⁵ We would allow local areas, and MPs, to come forward with their proposals to be a new Accelerator Zone – but the bids must include a coalition of universities, businesses and local authorities. We expect crossovers between local

authorities, and counties – as the units need to be chosen for economic rather than administrative coherence. Bids would need to demonstrate an existing base of world class research and the seeds of an existing specialism. There should be no set size for an Accelerator Zone – the areas should be big enough to be meaningful but not so big as to lose focus on the areas which need this extra investment and support.

Stage 2 – Economic report

The Cambridgeshire and Peterborough Independent Economic Commission produced a report in 2018 which evidences the fast rate of economic and employment growth in the region, and highlights the importance of planning now to ensure that strong growth will be sustainable and more inclusive.⁶ This report was chaired by Dame Kate Barker and has been cited by many local stakeholders as being critical to the next phase of Cambridge's success. The report brings together academia, business and local government, including nationally respected figures like David Willetts, Diane Coyle and Kate Barker, to do the following things:

- Develop an authoritative evidence base on the economic performance and potential of Cambridgeshire and Peterborough.
- Provide impartial advice on the performance and growth of the Cambridgeshire and Peterborough economy.
- Foster a common understanding of the future development of Cambridgeshire and Peterborough's economy, it's key strengths and speciality focus, and the long - term drivers for change across local partners, Whitehall, and Ministers.

To produce such a report for each Accelerator Zone will cost ~£1m (funded by HM Treasury), and the relevant economic commission for each Accelerator Zone should have a mixture of local key figures and nationally respected leaders (in the vein of David Willetts and Kate Barker).

It will ensure that each Accelerator Zone starts off on the right track, with the right roadmap as to which sector or area of business to focus on when trying to win investment into the zone.

Stage 3 – Evaluation on yearly basis

Assuming the first Accelerator Zones are up and running by mid-2022, Accelerator Zones should be evaluated on a yearly basis in terms of jobs created, GDP growth, and investments made from private sources.

What is the difference between Accelerator Zones and City Deals?

City Deals are fundamentally different to Accelerator Zones. They are directly linked to changes and developments in local governance and devolution of more powers. For Accelerator Zones, we are spending a very small amount of taxpayer funds, we do not involve ourselves in changes to local government, and the approach is to let the free market and local areas find the best routes to success for any Accelerator Zone.

What is the difference between Accelerator Zones and Enterprise Zones?

Enterprise Zones tax advantages are different to those in Accelerator Zones. Enterprise Zones⁷ offer 100% business rate discount of up to £275,000 per business; 100% enhanced capital allowances in plant and machinery in certain places; and 100% retention of business rate growth for 25 years for LEPs.

In addition, Enterprise Zones do not have any aspect of wider freedom on visas, and they do not try and operationalise networks between key academics, political leaders, or businesspeople – which evidence suggests is key to innovation. We have, however, built in the Enterprise Zone concessions for planning.

Compared to Enterprise Zones, Accelerator Zones:

- Are cheaper for the UK taxpayer;
- Should not affect capital gains receipts for HM Treasury over the short/medium term; and
- Are designed to attract long-term investment into areas that have a high potential for economic growth – the investors will only benefit from no capital gains tax if their long-term investments are successful (ergo if economic growth is realised).

What is the impact we expect this to have?

Over a period of 4-7 years we would hope to see:

- A rapid increase in the number of high-quality jobs created in the Accelerator Zones.
- A rise in private investment in the designated areas.
- Major business anchors moving to Accelerator Zones.
- Identifiable specialities developing across regions, akin to how Cambridge is known for life sciences.
- The number of new businesses created in Accelerator Zones to increase.

ENDNOTES

¹ <https://www.consultancy.uk/news/19242/cambridge-leads-uks-top-10-cities-for-new-patent-applications>

² <https://www.cambridgenetwork.co.uk/news/cambridge's-economy-continues-lead-way>

³ https://www.ifm.eng.cam.ac.uk/uploads/Research/CSTI/UKRI_Place/Kitson_-_Innovation_Policy_and_Place_vFinal.pdf

⁴ https://www.ifm.eng.cam.ac.uk/uploads/Research/CSTI/UKRI_Place/Kitson_-_Innovation_Policy_and_Place_vFinal.pdf

⁵ <https://www.gov.uk/government/publications/freeports-bidding-prospectus>

⁶ <https://www.cpier.org.uk/final-report/>

⁷ <https://commonslibrary.parliament.uk/research-briefings/sn05942/>