

**Date:** 27 June 2001  
**Time:** 2.00- 5.30  
**Venue:** Committee Room 1, National Assembly Building  
**Title :** FISCAL VARIATIONS

## **Introduction**

1. The Committee will recall that the Partnership Agreement includes a commitment "to rigorously pursue the scope for fiscal variations and other special measures which can exploit the full benefits of regional State Aid status given to West Wales and the Valleys".
2. Over the past six months my officials and I have undertaken a number of activities to make progress with this commitment. These include visits to the Competition Directorate of the European Commission and the tax and regional development authorities of the Republic of Ireland, and informal discussions with Treasury.
3. The Chancellor's Budget statement announced some new policy initiatives, which demonstrate Government willingness to use fiscal measures to achieve regional policy objectives. These included:
  - abolition of stamp duty for land transactions with a value below £250,000 in areas of deprivation;
  - consideration of Corporation Tax incentives for companies investing in Urban Regeneration Companies;
  - consultation on a proposed Community Investment Tax Credit; and
  - 150% tax credits for developing contaminated land.

## **Consultants' report**

1. My officials commissioned a report by PriceWaterhouseCoopers to look at the potential for fiscal variations, in order to assess which incentives could best remedy the specific structural problems holding back Welsh economic performance.
2. The report contains recommendations on specific tax measures to be taken forward with Treasury.
3. It also contains recommendations on grant aid and other assistance to support additional investment and training in Wales, which are within the National Assembly's powers. Specific recommendations in these areas include:
  - changing the way in which value for money is appraised for small RSA grants;
  - changing the way RSA is used to support knowledge based projects with small

- capital investments;
- changing the rules for the SMART Wales programmes that support research and development to make them easier for small firms to access;
- rationalising SME support schemes and providing a menu-based approach;
- setting up a company investment training fund; and
- using the WDA's property powers more actively.

I have asked the Consultants to give a presentation on their report to the Committee.

## **Action in hand**

7. These recommendations are being pursued. Those relating to RSA and SMART Wales will be the subject of papers to the Committee later in the year. The Task and Finish Group that I formed earlier in the year to consider enterprise support will consider the recommendations on the rationalisation of SME support. I have asked the WDA for its views on the recommendations relating to its property powers. The recommendations relating to training incentives are the responsibility of my colleague, the Minister for Lifelong Learning, and I have asked for her views on the PWC proposals.
8. On tax measures, the report recommended that these be generally pursued within a context of the creation of economic opportunity areas, which might be economic black spots or areas in which clusters might be stimulated. There was one exception; that the Treasury's general R&D tax incentive should be pursued in respect of the whole of the Objective 1 area. This is clearly possible under EU State Aid rules. We will respond to Treasury consultation again urging a positive response in order to close the Welsh R&D expenditure deficit.
9. The specific tax measures recommended for economic opportunity areas were:
  - enhancement of the Treasury's general R&D tax incentive (as above);
  - 100% capital allowances on buildings;
  - Business Rates relief (a general scheme is being considered for primary legislation);
  - Stamp Duty exemption (this has been agreed and areas within which it will be available are being considered);
  - VAT relief on buildings;
  - start-up tax credit; and
  - payroll tax incentives, either to lower labour costs or as an incentive for training.
7. Those proposals not already being taken forward in some way will form the basis of discussions with Treasury over the coming months.

## **Financial Implications**

8. Some of these recommendations may have financial implications for Treasury, others for the National Assembly. The financial implications of each specific recommendation will be considered in detail within the context of the forthcoming budget round.

## **Compliance**

9. The recommendations for Assembly action will rely on different legislation. In principle, there should be sufficient legislative cover within the Welsh Development Agency Act, the Employment and Training Act, the Industrial Development Act and the Science and Technology Act to permit any of the activities to be carried out. Details will be worked out in respect of each individual recommendation.