

**Date:** 12 December 2001

**Time:** 14.00 - 17.30

**Location:** Committee Room 1, National Assembly Building, Cardiff Bay

## **ENTERPRISE SUPPORT GRANT TASK & FINISH GROUP REPORT AND ACTION**

### **Issue**

1 In June 2001, the Economic Development Committee finalised its Business Support Review, recommending, inter alia, that the schemes of business support should be rationalised. In May 2001, the then Economic Development Minister announced the formation of a Task & Finish Group to examine the case for creating a new Enterprise Support Grant Scheme. Shortly afterwards the PricewaterhouseCoopers report recommended the adoption of a menu-based approach to schemes of financial assistance to businesses. All of this action has taken place against the background of the development of the Entrepreneurship Action Plan, with a view to ensuring that Welsh entrepreneurs have the best business support environment that we can provide.

2 The Task & Finish Group has reported and this paper encloses the Group's report, and sets out what action the Assembly Government is taking to implement the Group's recommendations. The Committee is invited to note the Report and the proposed new arrangements that have flowed from it.

### **Summary of main recommendations**

3 Four main types of scheme are proposed, to cover:

- Start-ups - to continue to be offered by local authorities;
- Investment Aid - this is divided into five areas :
  - Grants above £50,000 – Regional Selective Assistance (RSA) as at present to be administered by National Assembly;
  - Grants between £5,000 and £50,000 - streamlined version of RSA for SMEs to be run by National Assembly, to be made available for the first time in Wales to SMEs outside the assisted areas (at lower grant rates);
  - Grants below £5,000 - to continue to be offered by local authorities;
  - Loans - as at present to be administered by Finance Wales;
  - Sectoral grants (eg Tourism sector) - to be reviewed by relevant bodies;

- R&D Aid - new scheme based on existing SMART/SPUR/RIN to be developed by WDA;
- Training Aid - ELWa assistance to be linked to investment aid.

## Discussion

4 Business support is provided in two different forms:

- advice and guidance, including support for business and human resource planning; and
- financial assistance, which may be by way of grant, loan or equity investment.

5 As part of the Assembly Government's initial response to the Committee's Business Support Review, the WDA were asked to rationalise the first category, including the creation of a customer Gateway. The Task & Finish Group's work was therefore directed at the latter area, while noting the need for a form of delivery to businesses which enables firms to make well informed choices between the different forms of assistance.

6 The development of the menu system of financial support to firms was an important recommendation of the PriceWaterhouseCoopers (PWC) report. It provided a workable framework within which the Group was able to identify gaps in provision and links between programmes. Although there has been much discussion of the plethora of schemes of assistance available to firms, the Group found that, except for those being run by local authorities, there was not much overlap within the field of grant schemes; indeed, there were gaps which the new schemes seek to fill. In particular, there was concern that there were currently no investment grant schemes operating outside the Assisted Areas, in areas like Powys.

7 As well as gaps, the Group found areas of overlap. These proposals seek to ensure that there is a clear sphere of action for each scheme. Local authorities will be administering two of the schemes and WLGA are keen to encourage local authorities to adopt a minimum standard approach. Discussions are ongoing between WLGA, WDA and Investment & Corporate Management Division as they work up the detail of their respective schemes to ensure that their rules and the ranges of grants they offer remain compatible.

8 There are also potential overlaps with the loans offered by Finance Wales and the Group identified a need for guidelines for delivery organisations and businesses as to when support should be provided by grant and when by loan. These guidelines will be developed by Economic Advice Division as part of the implementation of the recommendations.

9 The menu approach has enabled the organisations charged with administering the different items on the menu to adopt an innovative approach to linking the different elements or business solutions. The guidelines mentioned above are not intended to be a straightjacket – delivery organisations, when discussing their plans with businesses, will need to be able to

offer solutions that are appropriate to the circumstances of the firm. These solutions will include assistance for workforce development that is linked to the provision of assistance for new investment. Workforce development is seen as an important aspect of firms' business planning when new investment is being contemplated, in order to make the most productive use of the investment. The menu approach is thus an attempt to provide an integrated approach to providing financial support to businesses, rather than a set of separate programmes.

## **Timing**

10 With the exception of R&D aid, the menu of solutions is expected to be in place by the beginning of next financial year. On R&D, the SMART Wales programmes and the staff running them are being transferred to the WDA, with effect from 1 April 2002. Changes to those schemes will in any case require State Aids clearance with DG Comp. It would not have been possible to have reviewed and redesigned the schemes at the same time as preparing for the transfer. The present plan is for the WDA to review the schemes and redesign them along the lines suggested in the PWC report, as well as to incorporate the WDA's present innovation support schemes into a new overall package, once they take over responsibility for them in April 2002. The whole package would then be cleared through DG Comp, with a view to a start in April 2003.

## **Compliance**

11 The Report sets out the legislation under which each scheme can be run, and the State Aids implications. Assembly functions under all these Acts have been delegated in Plenary to me as First Minister and I have delegated them as appropriate to the Economic Development, Finance, Local Government and Communities and Education and Lifelong Learning portfolios. Individual consent from each Minister may be required for each aspect of the proposals prior to full implementation.

## **Financial implications**

12 The cost of ELWa's provision of Training Aid will be found from within existing budgets, as will the costs of running the existing local authority schemes. There are budgetary implications for investment aid. Additional provision for the new scheme has been provided in the Enterprise Development and Support BEL (Economic Development MEG) is as follows:

(£000)

2002-03 3,000

2003-04 4,000

In practice, the investment aid scheme will be operated alongside RSA and will be demanded. As with RSA, all approved grants will be met.

## **Enterprise Support Task and Finish Group**

### **Group Report and Recommendations**

#### **INTRODUCTION**

A Task and Finish Group was convened by the Economic Development Minister with the terms of reference annexed at Document One.

This report represents the conclusions of the Group's consideration of the matters referred to it.

The Group has considered a number of background reports, including the economic study of a Tier 3 Scheme by EDAW, the report on Fiscal Variations by PricewaterhouseCoopers (PWC), proposals worked up by the Welsh Local Government Association (WLGA) and the Welsh Development Agency (WDA), reports of the Future Skills Wales project, and ongoing developments of SMART Wales and Regional Selective Assistance (RSA), by the National Assembly.

It has also considered the European State Aids rules, in particular the Block Exemptions relating to SMEs, Training, de minimis Aid and Local Authority activities, and the Framework for Research and Development.

The Group has also considered the problems confronting SMEs, and the market failures that handicap their development. It has also considered the schemes presently existing and whether there are gaps or areas of overlap in forms of assistance.

#### **MAIN RECOMMENDATIONS**

1. SME support should be provided, as far as possible, through a menu system available to firms throughout Wales on a consistent basis.
2. The WLGA should be invited to develop a scheme offering **Start-up Aid**, available to minimum standards across Wales and to consider whether local authorities should restrict their grant schemes to providing grants below £5000 and to refocusing their resources on Start-up Aid.
3. For **Investment Aid**, the availability of RSA should be extended throughout Wales, with different ceilings for SMEs in Assisted and non-Assisted areas and administered by the

National Assembly (ICM Division).

4. Guidance for delivery organisations should be developed by the National Assembly on the circumstances in which investment aid should be given by grant or by a loan through Finance Wales.
5. Those bodies offering specialist forms of investment aid should review their own schemes in the light of the new scheme.
6. On **R&D Aid**, a new scheme should be established building on the existing SMART/SPUR/RIN schemes, with a view to launching it in April 2002 or as soon as European Commission (EC) approval can be obtained.
7. On **Training Aid**, ELWa should develop skills appraisal methods to be used in conjunction with applications for investment aid, so that competence testing and the resultant training becomes part of the investment process.
8. The precise arrangements for delivering and for marketing the schemes, should be considered by the WDA, in consultation with its partners, as part of its response to the review of business support.

## **BACKGROUND AND RATIONALE**

### **Market failures**

Evidence of market failure can be used as an economic rationale for public sector intervention in an economy, provided that there is sufficient evidence to suggest that intervention will improve the situation (misguided intervention may do the opposite). As such, it should be noted that whilst it is true that many market failures exist, many are not relevant to SMEs and others to differing degrees. It is also important to ensure that the public sector does not attempt to address those where the outcomes would not justify the costs and recognise that lifestyle companies do exist and may not want to grow. There are, of course, other social considerations that may drive a decision to intervene, such as equity.

The EDAW report suggests that the following causes/results of market failure are worth considering:

- Information deficiencies (asymmetric and/or general);
- Misinterpretation of risk;
- Scale and institutional barriers (to entry and/or operation);
- Short termism; and
- Externalities (positive/negative spillovers).

Whilst the first four reasons are somewhat transparent, the terminology in the last point perhaps needs explaining a little. An externality is another word for a spillover; it may be positive (e.g. training) or negative (e.g. pollution). An externality is a good way of explaining how the welfare of society is not necessarily maximised by the independent actions of private

agents (i.e. the market). These arguments are valid in terms of the welfare of society, rather than of individual firms.

In the context of training, for example, it seems reasonable to suggest that the benefits that accrue to society exceed those that accrue to the private agent (in this context, the firm). If left to the market, there may be an under-provision of training (short termism can also cause this). In the case of pollution, the argument is reversed and stated in terms of costs. The costs of polluting that accrue to the firm are less than those that accrue to society. The market may generate too much pollution without intervention. It is perhaps significant that the Future Skills Wales research indicates that a significant proportion of employers in Wales suffers from skills gaps and skills shortages.

Clearly, the identification of market failure with respect to Welsh SMEs helps to provide a robust argument for state intervention. The EDAW report cites various characteristics of Welsh SMEs that prevent their development. In terms of the market failures identified above, these are:

#### Information deficiencies

- SMEs have a lack of knowledge of (and the services offered by) external financiers.
- Lack of information linking SMEs with potential investors.
- Limited awareness of the benefits of advisory, technology, training and export services.

#### Risk aversion

- Reluctance to share ownership.
- Small customer base increases risk to investors.

#### Scale and institutional barriers

- Costs of complying with official regulations and paperwork.
- Poor access to investment capital.
- Relatively high exposure to cashflow and bad debt problems.
- Owner-managers do not have time to plan the future.

#### Externalities

- Insufficient workforce training and development hampers company growth generally.
- Short termism results in a lack of training and inhibits the long term future of the firm.

#### **Problems**

The Welsh economy particularly suffers from structural deficiencies; these can arise following a period of structural change, such as a shift from secondary to tertiary sector dependency. The PwC report cites the following results:

- Lack of Business Enterprise R&D;
- Low SME formation;
- Over-dependence on low value added sectors;
- Pockets of stubborn structural unemployment; and
- Low economic activity rates.

A number of independent business organisations conduct regular surveys of UK SMEs in an attempt to determine the factors threatening their survival and constraining growth. Amongst these are the quarterly survey conducted by Natwest and the Small Business Research Trust (SBRT - Open University Business School) and a survey by Lloyds TSB. The Natwest SBRT survey is used by Bank of England in their quarterly report on SMEs). In October 2000, the Federation of Small Businesses (FSB) published a report titled 'Barriers to Survival and Growth in UK Small Firms'. This report, although a little dated now, is useful because it contains a regional breakdown of the importance of each problem/barrier.

One of the main barriers to growth at present appears to be **low turnover or a lack of business**. The latest Natwest survey (June 2001) shows that 27.5% of respondents feel that this is an issue (the highest percentage for any of the factors listed). The SBRT comment that 'Even though the economy is currently buoyant, competition in many small firms sectors remains intense. This is typically a result of the sheer numbers of small firms competing in low-entry barrier sectors' (May 2001).

Linked to the problem of low turnover or a lack of business, is access to wider domestic and overseas markets. In the FSB survey, the percentage of SMEs in Wales who reported that poor access to domestic markets and overseas markets was a growth constraining issue was higher than the UK average.

Another problem currently being faced by SMEs (and larger firms as well) is the **lack of suitably skilled employees**. Future Skills Wales research has clearly identified this as a problem. As would be expected, this problem appears to be cyclical in nature and occurs at times of high employment when the labour market is relatively tight. The Federation of Small Businesses survey suggests that SMEs in Wales do not differ greatly from UK SMEs in terms of the proportion having difficulty in recruiting suitably skilled staff. However, the problem of being unable to recruit suitably skilled staff appears to be compounded by the standard of training courses in Wales. Only in Northern Ireland is a higher proportion of SMEs dissatisfied about the relevance of the available training courses.

The burden of complying with government **legislation** tends to be proportionally higher for

SMEs than for larger organisations. An example of this is the additional administrative work that is incurred when the first employee is taken on. For many SME owner/managers, complying with legislation takes up a significant proportion of their time. Whilst some larger companies employ someone to deal solely with legislation, this is not an option that is available to many SMEs. The latest Lloyds Report (April 2001) found that just over one-in-three respondents felt that regulation and government 'Red Tape' had undoubtedly acted as a growth barrier to their business. The European Union is reported to be the most active initiator of new legislation affecting small businesses since 1997, followed by the UK Government. The FSB report suggests that SMEs in Wales do not differ greatly from the UK average in terms of the impact of the various forms of legislation.

According to the Natwest/SBRT survey, the proportion of UK SMEs that report that **access to finance** being an issue is currently relatively low. Only 1.3% of SMEs suggest that access to finance is a growth constraining problem, significantly lower than the proportion in the early and mid nineties (most likely due to the lower interest rates). One area in which attitudes in Wales are different to those for the UK is the availability of venture capital. In Wales, 35% of respondents to the FSB survey reported that they were dissatisfied with the availability of venture capital, compared to a figure of 28% for the UK as a whole. The only other finance area in which SMEs in Wales differ significantly from those in the UK is the availability of EU funding. In Wales, 54% respondents claim to be dissatisfied with the availability of EU funding, compared to 39% for the UK as a whole. This may be due to the award of Objective One funding raising expectations amongst businesses in Wales.

There are internal problems (internal to the company) which represent barriers to survival and growth in UK SMEs. Both the Natwest Survey and the FSB report that a **lack of critical internal skills** represented a barrier to growth. In particular, the FSB highlights a lack of management or marketing skills amongst SMEs in Wales as being an issue. The proportion of Welsh SMEs reporting that they did not feel they had sufficient market information is higher than any other UK region.

There appears to be significant dissatisfaction across the UK at the standard of **government supported business services**. Dissatisfaction in Wales appears to be higher than in most other UK regions. In particular, the FSB survey shows concerns about the usefulness of business advice, the quality of business advisors, the co-ordination of business services, grant funding schemes and loan funding schemes.

SMEs in Wales believe that the standard of some **locally provided services** is affecting their ability to survive or grow. In particular, SMEs in Wales are more dissatisfied about the IT/communications infrastructure. The proportion of SMEs that consider locally provided small business advice to be inadequate is also higher than the UK average.

Other areas which have been of concern in the past but which appear to be of less importance

at present include, the availability of suitable premises, interest rates, inflation and cashflow issues.

Further research is expected in this area.

The various surveys highlight a number of problems faced by SMEs in Wales and the UK. While there are some barriers to SME growth and survival that the National Assembly can do little to alleviate or remove, there are others that do fall within the Assembly's remit. Welsh respondents to the FSB survey noted consistently strong levels of dissatisfaction with regard to all aspects of government funded support services. The National Assembly's Review of Business Services is addressing the delivery of business support; this report examines the main grant schemes available to SMEs.

## **Solutions**

The main framework the Group has used in developing its proposals has been the menu set out in the PWC report. PWC recommended that the existing plethora of schemes be rationalised and replaced by a simple menu system from which firms could select, according to their needs at different stages of their development. The menu the Group recommends covers:

- Start-up Aid;
- Investment Aid;
- R&D Aid; and
- Training Aid.

The different forms of Aid covered by the menu imply that different forms of expertise will be needed to administer them effectively and efficiently. This implies that the items on the menu should be administered by different economic development organisations. However, the objective of a menu system is to ensure that all options are equally available to firms, so that they may make genuine informed choices. This will not easily be achieved if firms have to approach different organisations in order to access aid.

As part of the follow-up to the Economic Development Committee's Report on Business Support, the WDA has been charged with reviewing the arrangements for the delivery of Business Support, in particular of advice and guidance and the integration of services between Local Authorities, the WDA, ELWa and Enterprise Agencies. The Group has not, therefore, sought to determine precisely how the disparate elements of the menu should be delivered. Nonetheless, the Group is strongly of the view that the organisations eventually charged with delivering advice and guidance to businesses should be able to advise firms impartially between the different elements of the menu. Furthermore, the Group is also strongly of the opinion that the administration of the different elements of the menu should conform to similar minimum standards, such as the maximum length of time in which decisions on individual

firms' projects are reached. The Group recommends a normal turnaround of 20 working days, following receipt of full information, except when detailed technical appraisals are necessary.

The descriptions of the different forms of Aid which follow assume that the delivery requirements set out above will be met as a result of the WDA's review.

## **START-UP AID**

It is mainly local authorities that presently provide Start-up Aid. In addition, a scheme has been run in North Wales by the former TEC.

Firms starting up are found by the market to be particularly risky. This is partly because the proprietors have little track record and partly because their state of knowledge is lacking. It is on this basis that start-up aid is usually provided. In addition, start-up aid is a prime method of bringing new firms within the ambit of the public sector support framework. The EDAW report noted that firms thought that the most valuable aspect of small grants was the advice and guidance that was provided along with the grant. This is arguably even more important in relation to start-ups and there is an important role for management training among new businesses.

The amounts typically provided for new firms are quite small; the TEC scheme provided grants up to £1,000 (by way of voucher) in North Wales only, where financial need could be demonstrated. The local authorities' schemes typically provide grants of between £500 and £5,000, although one or two have higher ceilings. One or two authorities provide start-up loans.

There seems to be little market demand for larger grants for start-ups. However, the provision has so far been patchy, since not all TECs or authorities have provided this form of aid. There may, therefore, be an argument for providing a simple scheme available throughout Wales under the same conditions. Any scheme would need to avoid duplicating existing provision.

Most businesses provide local services, and these are generally excluded from assistance. In this case, excluding those types of business from access to the scheme removes a large proportion of the potential beneficiaries. Since an important benefit of these grants is attracting new firms within the ambit of the improved advice and guidance services, thus contributing to the improvement of entrepreneurial expertise, there seems no reason to exclude these firms. However, the reason local services do not usually qualify for assistance is the displacement effect.

In the case of a scheme providing the size of grant envisaged, the degree of competitive advantage this grant would provide to a new entrant over an existing firm appears to be insignificant. Thus, in most cases, displacement can probably be ignored. If local authorities administered the scheme, their detailed knowledge of local markets would enable them to

identify displacement if it appeared relevant in any particular case.

**We recommend that the WLGA be invited to consider how best to develop a scheme offering Start-up Aid, available to minimum standards across Wales and linked to the WDA's New Business Starts programme.**

## Compliance

Local Authorities are able to provide such assistance under Section 2 of the Local Government Act 2000 and under the Local Authority State Aids Block Exemption. Such aid would not be de minimis and therefore would impose no burden of record keeping on recipient firms.

## **INVESTMENT AID**

Investment Aid may be provided by grant or loan. There are two ways of calculating the ceiling for grant assistance in respect of a specific investment. The first is to take a percentage of the capital expenditure involved (Net Grant Equivalent - NGE). The second applies where there is insufficient capital expenditure to reach the necessary NGE level; it is now possible to consider two years salary cost of the new jobs (including employers' NIC) instead. The grant ceiling is a gross percentage of this figure. This flexibility has made it easier to grant aid knowledge-based sectors, qualifying schemes where there is low capital expenditure but high salary costs.

A number of market failures affecting SMEs result in them finding it difficult to secure finance for new investment projects. There is a plethora of schemes in operation providing grants to support investments. However, they are not comprehensive. They fall into three categories:

- General national schemes - RSA, which is only available in Assisted Areas;
- Special national schemes – for example Wales Tourist Board and Arts Council for Wales grants; and
- Local schemes - a wide variety of both general and special schemes is run by most local authorities, usually between £5,000 and £25,000 (although there are some outliers).

Setting aside the specialist schemes, there appears to be a gap in the provision of general investment grant aid for SMEs between those run by local authorities and RSA. Other than to Finance Wales, it is not clear from the list of existing schemes where firms may turn for assistance of between about £5,000 and £50,000. Although they may qualify for RSA, the scheme is alleged to be biased against SMEs, particularly indigenous firms, because of the need to demonstrate additionality. It may well be the case that the number of SMEs qualifying for RSA is disproportionately small in relation to the size of the SME base in Wales.

Approximately half of all RSA offers are for grants below £75,000, well below the 98% that SMEs make up of the number of businesses. There may be a number of reasons for this apparent deficiency, including the schemes of local authorities, which typically provide very

much smaller amounts of assistance than RSA, and which may be handling a very large proportion of the investment aid needs of the smallest firms.

The Group was very aware of the potential role for training in helping firms make the best of their investments. (Proposals for refocusing ELWa's training programmes are set out later in this report.) While the development of a training plan could not be made a condition of receiving investment aid, the Group was strongly of the view that the organisations guiding firms through the investment aid process should emphasise the importance of training and guide firms towards the appropriate source of assistance.

**The administration of small RSA grants has recently been streamlined. This forms a suitable model for extending the availability of Investment Aid throughout Wales, with different ceilings for grant in Assisted and non-Assisted Areas. An outline of the recommended scheme is annexed at Document Two.**

**The Group recommends that those bodies who offer specialist aid should review their own schemes in light of the new scheme.**

**The proposed new scheme has a minimum grant level of £5,000. The Group recommends that the WLGA considers whether there would be advantage in their members restricting their grant schemes to providing grants below that level, and to refocusing their resources on Start-up Aid and small investment Aid.**

The new scheme could potentially be administered by the WDA, the National Assembly or Local Authorities. However, **the Group recommends that it be administered by the National Assembly (ICM Division).**

In addition to grants, investment aid may be provided by way of loan. It is National Assembly policy to encourage the use of loans wherever possible, which has led to the creation of Finance Wales. Finance Wales operates a number of schemes including a Small Loans Fund (£5,000 - £50,000) and two equity funds (£25,000 and £500,000). An application for Objective 1 (loans and equity) support is expected to be approved by the EC in September. An Objective 2 application has also been made, but will not be approved until the Objective 1 scheme is cleared.

The existence of schemes providing loan and grant assistance produces a new problem for organisations delivering businesses advice and guidance; when should aid be provided by a Finance Wales (subsidised) loan and when by a grant from the new scheme? The Group has considered this issue at length. Given a free choice between different types of public assistance, firms will invariably prefer a grant that does not need to be repaid to a loan that does. Front line organisations will need a simple and transparent way of deciding what aid to give firms approaching them.

Small businesses usually claim that the reason that they have difficulty in pursuing a desirable project is a result of short-term lack of funds as opposed to the long-term viability of a project (hence the desire to undertake a project in the first place). In most cases, therefore, a loan would provide the required initial injection of investment capital for the project to proceed. In cases where the private rate of return is insufficient to cover loan repayments, but the social rate of return is sufficient to justify intervention, a grant may be offered instead. It is thought that the criteria used to identify social benefits might include (this list is not exhaustive):

- Generation of orders from other Assisted areas/local companies;
- Degree of R&D involved in the project;
- Environmental considerations;
- New management techniques being introduced by the project; and
- Training (if the project requires current/future employees to acquire new skills that would have potential benefits outside of the company).

**Detailed guidance for business support organisations on how the decision on whether to assist by grant or loan should be made should be developed as part of the implementation of these proposals.**

### Compliance

The WDA is able to provide such assistance under Section 1(7) of the WDA Act 1975. The National Assembly is able to provide such assistance under Sections 7 and 8 of the Industrial Development Act 1982. In either case, such aid would be provided under the State Aids Block Exemption for SMEs. Local Authorities are able to provide such assistance under Section 2 of the Local Government Act 2000 and under the Local Authority State Aids Block Exemption or the SME Block Exemption. No potential delivery method would be de minimis and therefore would impose no burden of record keeping on recipient firms.

### **R&D AID**

SMART is a bi-annual competition open to small firms. On offer are grants of 75% of project costs up to a maximum grant of £45,000 to assist in carrying out technical/commercial feasibility studies into innovative technology projects that possess good commercial potential.

SPUR provides financial help with the development of new products and processes that involve a significant technological advance. It is open to SMEs. The grant is normally 30% of project costs, up to a maximum grant of €200,000. In addition, for a small number of exceptional projects which have a strategic significance for the industry sector and high R&D costs, there is a possibility of receiving a grant of up to £450,000 under a separate scheme – SPURplus.

The Region Innovation Grant (RIN) is designed to encourage the development and introduction of new or improved products and processes in small firms in Wales. 50% of eligible costs up to a maximum grant of £25,000 are covered. Projects must be innovative for the applicant and involved a degree of technical risk. Projects can range from feasibility and laboratory studies to the development of technical specifications to design and manufacture of prototypes.

SMART has recently been evaluated and has been shown to be a successful scheme. In terms of the current scheme, however, it is too restrictive both in relation to the size of firms supported and the types of activity aided.

**A working group has been established to develop a new scheme, offering a flexible menu to firms, which would probably include the following items:**

- **Micro-aid (up to £25,000)**
- **Aid for near-market developments (up to 35%, 40% or 45% of costs depending on assisted area status, subject to a maximum of €1,000,000).**
- **Aid for feasibility research (up to 75% of costs, subject to a maximum of £50,000).**

The intention would be to launch the new scheme in April 2002, or as soon as EC approval can be obtained.

### Compliance

The National Assembly is able to provide such assistance under Section 8 of the Industrial Development Act 1982 (RIN) and Section 5 of the Science and Technology Act 1965 (SMART/SPUR) and under the EC Framework for State Aid for R&D. At present, some of these programmes are run under the de minimis rules. However, they could all be run under the R&D Framework.

### **TRAINING AID**

Throughout the UK there is a serious deficiency of training for skills, partly because of short termism, and partly because firms do not take account of the positive benefits to society of a highly skilled workforce. In Wales, the position is worse than in most other parts of the UK, which implies that there is a greater need for effective intervention in Wales.

Intervention in the training market has been the exclusive business of the TECs, and now ELWa. TEC programmes have concentrated on providing people with employability skills such as Modern Apprenticeships and Work-Based Learning for Adults. Approximately £14m out of the training budget of £82m was aimed at business training. Companies are reporting that when TECs have tried to provide assistance to firms for their training efforts, these have not

met company needs. As a result, there appears to be a clear gap in the provision of public sector training aid for firms. The Group has explored what adjustments might be needed to training programmes to enable them to fit firms' needs better.

The lack of appropriate public sector assistance does not mean that firms carry out no training. Recent analysis of Labour Force Survey data indicates that just over 20% of the Welsh workforce had participated in training over the previous three months. A significant amount of the training implied by the LFS statistics will have been provided by firms without any assistance. In this context, minimising deadweight is a particular problem in terms of providing training aid.

The skills available to a business and how those skills are used in business operations are crucial to business performance. In relation to any project for investment by the public sector, the availability of skills in the business should be relevant in providing the guidance the firm will need; not only on existing skills, but how the skills are to be developed in achieving the objectives of the project.

The following skills are considered to be crucial:

- Leadership
- The management team
- Business processes
- Communications protocol
- Delegation and decision making
- Staff/Workforce Development

These capabilities are vital to the performance of any business, regardless of size and they characterise it in terms of the confidence that is needed to justify any investment from the public sector. While investment aid cannot be made conditional on the development by firms of a skills plan, the Group considered that additional assistance for training could be offered to firms applying for investment aid.

**It is therefore recommended that ELWa should design, for the Enterprise Grant Scheme, the skill tests that should be applied both in terms of the company's current status and its intentions for the future. ELWa would also wish to inform the appraisal process through existing methods that have been developed using Business Excellence criteria for developing business competence so that competence testing and the resultant training becomes part of the investment process and part of the company ethos.**

## Compliance

ELWa is able to provide such assistance under the Learning and Skills Act 2000. Such aid

would be provided under the State Aids Block Exemption for Training and would therefore impose no burden of record keeping on recipient firms.

## **TIMETABLE FOR IMPLEMENTATION**

With the exception of the R&D scheme, none of the proposed new schemes will require EC State Aids approval. All may, therefore, be commenced in April 2002.

## **Enterprise Support Task and Finish Group**

### **Annexe 1 – Terms of Reference**

#### **MEMBERSHIP**

##### Internal

Emyr Roberts - Economic Policy Division (Chair)  
Allan Moss - Economic Policy Division  
James Harvey - Economic Policy Division  
Eleanor Marks - Investment and Corporate Management Division  
Peter Sims - Investment and Corporate Management Division  
Mike Phelps - Economic Advice Division  
Neil Paull - Economic Advice Division  
Stuart Rees - Training, Skills & Careers Policy Division  
Brian Minney - Lifelong Learning Division

##### External

David Swallow - Welsh Development Agency  
Geraint Davies - Welsh Development Agency  
Mike Shaw - Welsh Local Government Association  
David Ludlow - Welsh Local Government Association  
Anthony Drew - Education and Learning Wales  
Roger Jones - Institute of Directors

#### **TERMS OF REFERENCE**

To consider, in the light of the EDAW report "Tier 3 Support" and the Price Waterhouse Coopers report on fiscal variations and grant aid, the type of assistance to be provided to new business start ups and to small and medium enterprises in Wales.

The Group should consider what mix of assistance should be available between aid for initial investment and softer aid so as to enhance the management skills of entrepreneurs starting new businesses.

The Group should also consider an all Wales scheme, and the scope for additional levels of assistance in the assisted areas.

Whether there should be any emphasis or restrictions on the industrial sectors to which this assistance should be offered.

The Group should produce estimates of costs and benefits of the assistance recommended, including estimates of the contribution to be made by rationalising existing schemes and identified need for additional financial sources.

The Group should recommend how the assistance should be delivered and by which organisation.

The Group should aim to complete its consideration by the end of June 2001 in order to make clear recommendations to the Assembly executive.

## **Enterprise Support Task and Finish Group**

### **Annexe Two – An SME Investment Aid Scheme Based On RSA**

#### **SUMMARY**

The proposed scheme is designed to provide support for firms making investments. It will operate in a similar manner to the streamlined procedures for RSA.

It will be available throughout Wales for grants between £5,000 and £50,000. RSA will be restricted to grants above £50,000 and Local Authorities will be invited to focus their grant assistance on grants below £5,000.

It will have the same NGE ceilings as are available in the different Assisted Areas. In non-Assisted Areas, it will have a percentage ceiling of 15% of capital expenditure for Small Firms (fewer than 50 employees and other conditions) and of 7.5% for Medium Sized Firms (fewer than 200 employees). These are the maximum ceilings permitted under State Aid rules.

Cost per job limits will vary depending on Assisted Area status.

Firms will be given the opportunity to take advantage of training support offered by ELWa in connection with their investment.

There will be guidelines establishing when investment support should be provided by this scheme and when by way of a loan through Finance Wales.

## **DETAILED RULES**

### **Availability**

The scheme will be available to SMEs throughout Wales with different grant percentage ceilings depending on Assisted Area status. Grant will only be payable when the firm makes a capital investment, in either tangible or intangible assets. The grant will provide support up to the appropriate percentage ceiling of either eligible capital expenditure (buildings, plant, machinery, office equipment, intellectual property etc) or two years salaries of jobs created where there is an associated investment.

### **Limits**

The level of grant will be between £5,000 and £50,000, (subject to further discussion between ICM Division and WLGA as their respective schemes are worked up in detail).

### **Cost per job limits**

It will have the following cost per job limits:

non-Assisted Areas - £ 5,000

derogation (c) areas - £10,000

derogation (a) areas - £15,000

### **EC Percentage Ceilings**

Outside Assisted Areas (ie in Tier 3 Areas), gross ceilings are 15% for Small Firms and 7.5% for Medium Sized Enterprises.

In Assisted Areas, net ceilings for investment grants are as follows:

Derogation 87(3)(a) areas - 47% i.e. SME top-up is 12% (gross 15% less tax @ 20%), plus current ceiling 35%.

Derogation 87(3)(c) areas In Powys - 28% i.e. SME top-up is 8% (gross 10% less tax @ 20%), plus current ceiling 20%.

Derogation 87(3)(c) areas elsewhere - 23% i.e. SME top-up is 8% (gross 10% less tax @ 20%), plus current ceiling 15%.

In Assisted Areas, gross ceilings for job grants are as follows:

Derogation 87(3)(a) areas - 50% (15% plus current ceiling 35%);

Derogation 87(3)(c) areas In Powys - 30% (10% plus current ceiling 20%);

Derogation 87(3)(c) areas elsewhere - 25% (10% plus current ceiling 15%).

## **Exclusions**

Local retail; local services such as garages, hairdressers, solicitors, etc; high displacement sectors (e.g. double glazing); EC restricted sectors (coal, steel, shipbuilding, transport operators and some synthetic yarn); and sectors covered by agriculture and tourism grants.

## **Eligibility Criteria**

- Eligible capital expenditure
- New (or safeguarded) jobs
- Viable business and project
- Efficient project adding value to the local economy (not displacing jobs)
- Additionality - the firm must need the grant for the project to proceed

## **Documentation**

- Combined application form and proforma business plan (which is expected to include a training plan)
- Accounts, projections and CVs
- Proof of funding where available
- Accountant certificate for final claims over a certain level

## **Procedures**

- Initial discussion and/or an outline proposal from the business
- Issue application form
- Question viability, additionality and grant level only if improbable
- Confirm all alternative finance has been sought, including loans from Finance Wales.
- Decision within 20 working days of receipt of full documentation

### **Grant offers - Phasing and Monitoring**

- Normally one or two instalments
- Payment within 20 days of receipt of claim
- Possible advance payment for start-ups
- Offer given in advance of private sector funding
- Accountants certificate not required for interim payment.