

**Date:** 8 May 2002  
**Time:** 14:00 to 17:30  
**Venue:** Committee Room 1, National Assembly, Cardiff Bay  
**Title :** FISCAL VARIATIONS AND OPERATING AIDS – PROGRESS REPORT

**Issue**

1. This paper fulfils the undertaking given by the First Minister at the Economic Development Committee of 10 January to provide a further progress report to the Committee following the Budget on 17 April. An updated version of the action plan provided to the Committee in November 2001 is annexed.

**Background**

2. The paper for the meeting on 10 January set out the Operating Aids or Fiscal Variations that had been agreed or implemented, those on which further work was continuing and those which were not being pursued. These were:

Measures agreed and already implemented:

- Enhancement of the Rural Rate Relief Scheme;
- Stamp Duty exemptions up to £150,000 implemented in many areas of Wales;
- Assembly Government programmes of financial support to business to be reorganised from April 2002;
- Finance Wales Interest Rate Relief rebate to run alongside Objective 1 loan fund;
- ELWa to provide assistance for training in firms from April 2002.

Schemes already agreed and under development:

- Community Investment Tax Credit agreed for this tax year;
- SMART Wales programmes to be enhanced from April 2003.

Measures not yet agreed, but which the Assembly Government or the UK Government were actively pursuing:

- Scheme for reduced Business Rates for SMEs in Wales – currently under consultation;
- Enhancement of Stamp Duty exemption to cover all business premises in the designated deprived areas;
- Urban Regeneration Companies;

- Regional enhancement of R&D Tax Credit;
- Regionally based Tax Credit for training in firms.

Measures not being pursued at present were:

- WDA rent relief;
- NI reductions for additional employees;
- Tax incentive to stimulate broadband infrastructure.

## **Progress**

### Community Investment Tax Credit

3. This scheme is being included in the Finance Bill 2002. It is still subject to State Aids procedures and will be brought into operation following clearance from DG Comp. Details of how it will operate are still subject to consultation with the Community Development Financial Institution industry. The implementation of this scheme in Wales is being considered by the Task & Finish Group set up by the First Minister to advise on whether the Partnership Government undertaking to establish a Community Investment Authority could be implemented by creating a Community Development Financial Institution.

### SMART Wales and other innovation support

4. These programmes have now been transferred to the Welsh Development Agency. They will be reviewed during 2002-03 with a view to new programmes being commenced in April 2003. The review will be carried out in the light of the PriceWaterhouseCoopers report and of developments in relation to the Research & Development Tax Credit (see below).

### Reduced Business Rates for SMEs in Wales

5. Freedom and Responsibility in Local Government sets out proposals for reform of business rates. The consultation period relating to this document ends on 17 May 2002.

### Stamp Duty Exemptions

6. The Budget contained an undertaking to extend this tax relief to all business premises in the designated areas, subject to State Aids clearance. DG Comp has announced that it will hold an investigation into the entire scheme.

### Urban Regeneration Companies

7. Following a commitment in last year's Budget the Treasury have undertaken consultation specifically relating to this proposal. Provision of tax incentives in relation to Urban Regeneration Companies is still being considered by the Treasury who will continue to monitor the URCs and consider whether any tax incentive is needed.

### Regional Enhancement of R&D Tax Credit

8. The Assembly Government has been discussing with Treasury the prospects for an enhanced R&D Tax Credit for companies operating in our Objective 1 region. We have expressed our view that one size fits all scheme introduced with good intentions to help close the productivity gap between the UK and the US could exacerbate the performance differential between the south east of England and the rest of the UK. Approximately 40% of all business R&D takes place in the south east so a standard scheme of credits would confer significant benefits to those already heavily engaged in R&D and the region that hosted them.

9. On the other hand Treasury have received very strong representations from business for a simple scheme, with low compliance costs. I can understand this concern and would not wish to promote a scheme with high transaction costs for business or Government.

10. In response to our views, Treasury have promised to market the scheme heavily in Wales. They have also agreed to measure the regional effect of the Tax Credit as part of the evaluation of the scheme. Economists here and in Whitehall are liaising to ensure that the basis for such an evaluation is laid from the outset.

11 Treasury officials have also offered a paper on the relative roles of tax and expenditure programmes in promoting R&D. This should provide helpful guidance in assessing the best way in which the two strands of support could be best developed in Wales. It fits well with the recommendation in the PricewaterhouseCoopers report that tax incentives should not be looked at in isolation, but as part of an overall strategy of support.

12. In advance of the promised paper, I have been giving thought as to how best to move ahead with the notion of enhancing R&D Tax Credits within the context of the WDA's review of SMART Wales and our broader scrutiny of other innovation support programmes. We have floated the idea with Treasury that Wales could send a strong signal about our commitment to innovation by enhancing in some way the R&D Tax Credit, provided this activity took place in Wales. Any grant or loan scheme of this kind would need to be a low bureaucracy, low compliance, approach offering a great deal of certainty to firms doing R&D, or planning to do R&D, in Wales. It would be generic and nicely complement the more hands on, forensic, measures such as SMART and SPUR and efforts to strengthen the supply side through raising the game of our partners in the higher education sector.

13. Enhancing the Tax Credit in this way may not be straightforward, but the Assembly

Government believes that it is worth looking into the possibility as part of its review of R&D and innovation programmes.

14. The recent Competitiveness Conference, featuring Michael Porter, will help the Assembly Government and its key agencies (WDA and ELWa) to map where current activity to promote innovation fits the bill and where it does not. One of the main action points in A Winning Wales is to further develop our approach to business in this critical area. I will meeting the key players shortly to get this process underway.

#### Workforce development/training

15. We have pressed the case with Treasury for additional tax incentives for in-work training, especially for SMEs. Treasury is considering this and we expect it to be covered in a further report by the Performance and Innovation Unit on workforce development, to be published this summer. We will, as in England, proceed this autumn with piloting work to assess the effectiveness and value for money of providing free learning. Our proposal is to provide this up to NVQ Level 3 whereas those in England will be limited to Level 2. We are working closely with DfES and hope to agree a common evaluation framework.

#### **Conclusion**

16. The Committee is invited to note progress and the following undertakings to provide further information on the matters still outstanding:

- A further report will be made on the implementation of the Community Investment Tax Credit in the context of the Social Economy Task & Finish Group's report.
- The responses to the consultation on Freedom & Responsibility in Local Government will be the subject of a paper to the Local Government and Housing Committee on 12 June.
- I shall report to the Committee on the enhancement of Stamp Duty exemptions when the UK Government has decided on the way forward following DG Comp's investigation.
- A report on Urban Regeneration Companies will be provided in the context of proposals for a URC in Newport.
- Proposals flowing from the WDA's review of Research & Development support will be brought to the Committee during the next session.
- The results of the piloting work on training will be reported when evaluated.

**Andrew Davies**  
**Economic Development Minister**  
**May 2002**

**Annex 1**

## FISCAL VARIATIONS – ACTION PLAN

### National Assembly Programmes

(Page numbers refer to the PricewaterhouseCoopers report)

<b>Recommendation</b>	<b>Actions</b>	<b>Result or Target</b>
1 RSA: fast track process for grants up to £250,000 (p35).	Reported to Committee November 2001	Introduced for grants up to £25,000.
2 RSA: soften additionality criterion for indigenous SMEs and knowledge-based firms (grants up to £250K)(p36-37).	Reported to Committee November 2001	Adopted in suitable cases.
3 RSA: introduce Job Grant as basis for calculating NGE limits in suitable cases (p38).	Reported to Committee November 2001	Introduced July 2001.
4 SMART WALES	A Working Group involving Assembly Government and WDA to consider making changes.	Changes to be worked up during 2002-03, subject to European Commission approval. Will report separately when review completed.
Increase value and number of awards (p38).		
Remove competition element (p39).		
Shorten appraisal timescale (p39).		
Increase publicity (p39).		
5 RSA: raise cost per job limits for high value projects (high average salaries of value added per employee)(p37) .	Reported to Committee November 2001	Adopted in suitable cases.

### **Recommendation**

### **Actions**

### **Result or Target**

6 New SME scheme: replace plethora of small existing schemes, including those run by local authorities (p40-41) and introduce de minimus menu system of Investment aid; start-up aid; R&D assistance;	Enterprise Support Task & Finish Group report December 2001 (update report annexed).	New scheme and liaison arrangements launched April 2002.
payroll incentives; and link all other de minimus aid to menu.		
7 Training Grant: establish company investment training fund focusing on bespoke training for knowledge-based companies (p42-43).	Enterprise Support Task & Finish Group report December 2001 (March 2002 update report annexed).	New scheme and liaison arrangements launched April 2002.
8 WDA property powers: employ more actively and extend to include rent-free periods (p44).	Reported to Cttee January 2002.	Operating Aid – unlikely to make progress.
9 Overall strategy.	Covered in A Winning Wales.	Published January 2002.
10 Interest Rate Relief Scheme.	Reported to Committee January 2002	Introduced December 2001.
11 Support for lone parents starting businesses.	Reported to Committee November 2001	Being considered by WDA as part of Entrepreneurship Action Plan

<b>Recommendation</b>	<b>Actions</b>	<b>Result or Target</b>
<b>Tax Incentives</b>		
12 National Insurance credit.	Reported to Committee January 2002	Not being pursued.
13 Capital allowance.		Not being pursued.
14 Business Start-up support through Community Investment Tax Credit.	Reported to Committee January 2002 Task & Finish Group to report.	Will report separately. Will report separately after evaluation.
15 Training.	Non-tax approach being piloted in academic year 2002-03.	Not being pursued.
16 Broadband incentives.		Will report separately in

17 URCs and Environmental taxes.	Reported to Committee January 2002	context of Newport URC.
18 Stamp Duty exemptions	Treasury monitoring URCs.	Will report separately.
19 R&D tax credit.	State Aids procedure	Will report separately.
	WDA reviewing R&D Support in 2002-03.	
20 Business Rates	Scope of Rural Rate Relief Scheme extended.	24 October 2001
	Consulting on "Freedom and Responsibility in Local Government"	Consultation period ends 17 May. Paper on responses to LG&H Committee 12 June. Further consideration thereafter.

## Annex 2

### **Update paper on Assembly Investment Grant (extract from Minister's report to Committee meeting of 20 March 2002)**

Investment and Corporate Management (ICM) Division is developing the grant for implementation from 1 April 2002. The scheme will be operated under the Regional Aid and SME guidelines and will be for grants between £5,000 and £50,000. Documentation, guidelines, management information systems and publicity arrangements are all being finalised for the official launch on 27 March 2002.

Presentations have already been made to a number of organisations including the WLGA and the members of Business Connect about the scheme. A series of workshops is also planned for April/May. As well as a press launch, the website will be updated and brochures are being sent to the various business support agencies. Intermediaries such as accountants and banks will also be sent details of the new grant scheme.

The scheme will be delivered by the ICM regional offices at Colwyn Bay and Swansea, as well as Cardiff.

### **ELWa**

ELWa has a "Training Needs Analysis" and a recently developed skills diagnostic tool and companies will be made aware of what ELWa can offer so that capitol investment and people

development can proceed together.

## **Finance Wales**

As with Regional Selective Assistance the Investment Grant will be the funding to make the difference once private funding sources have been explored. There will be clear arrangements for liaison between ICM Division and Finance Wales.

## **Gateways**

Information about the scheme will be widely available. Potential applicants will be able to obtain information from the Business Connect Gateway network as well as from local authorities, WDA, Finance Wales & other partners.

## **WLGA**

The Association has agreed to take forward the recommendations to develop a scheme offering small investment aid (£5,000 or less) to minimum standards across Wales.