

Invitation to provide evidence to National Assembly Finance Committee- St Athan/Cardiff Airport  
Enterprise Zone

**Q1- What is the scale of Welsh Government resource being targeted at Enterprise Zones (EZ)?**

It is important to stress that the issue concerning resource is not just the scale and absolute amount of resource but the most efficient allocation of that resource. The bedrock of micro economics is how to best satisfy societies infinite material wants with resources that are limited in comparison, and which have alternative uses. To meet this objective to the maximum extent is to both prioritise and align existing resources and interventions. So there are two sources of resource; increase the total amount and; make better use of what exists.

Whilst EZ Boards are not privy to internal Welsh Government's Budgets, boards will be aware of revenue and capital projects that exist or are proposed. This gives an indication of resources, financial and otherwise, that are available.

The EZ Board is not a budget holder, and is solely an advisory board advising of its plans and proposals for the Ministers consideration. If approved by the Minister, delivery will be co-ordinated through the Welsh Government. This creates a comprehensive view of the development of the Enterprise Zones.

One particular resource is the EZ Business Rate Scheme funded by £20M to 2015/16. This is only available within an EZ and it is aimed at SMEs, (It would be unlikely to make a difference to the Decision Making of a larger Enterprise) and an eligible business could receive 100% funding of Business Rates capped at £55,000 per annum. This is a significant amount in terms of the finances of an SME (to comply with EU Rules, the support is up to €200,000 over a rolling three year period). The Welsh Government asked for input from the EZ Boards in fine tuning the Scheme's criteria to produce correct targeting and maximum impact.

**Q2- What influence is Enterprise Zone boards having on that Welsh Government Resource?**

This is an evolving picture and process. The EZ Boards influence Welsh Government resource via the detail in the Board's Strategic Plans which cover infrastructure, marketing, location of ECA, site boundaries, business rate schemes, skills, transport, communications and so on. As already referred to, the EZ Board is not a budget holder, but there is a clear process of plans- submission- decision- delivery. All this is within the context of coordinated Welsh Government activity to ensure that there is a comprehensive view of development in a particular EZ and between EZs. It is important, given the pressure on resource, that different EZs work together where appropriate. This helps the correct allocation of scarce resource including the avoidance of unproductive duplication. For example, St Athan/Cardiff Airport EZ could judge that a particular scheme is more appropriate to Ebbw Vale, than to itself.

### **Q3- What are the strategic objectives of each of the Enterprise Zone boards?**

These drive the aforementioned 'high level strategic plans'. In essence the objective is to support and develop the size and efficiency of the Welsh Economy. This means the development of Enterprises within the EZs, which create sustainable jobs- i.e. jobs that can be retained whatever challenges competitive markets throw at them. The chain of causation must be from efficient and competitive processes and products- to – jobs and not jobs 'per se'. To increase Welsh income per head an objective here should be to attract activities that pay more than the existing average. The St Athan Enterprise Zone has an overall focus on the Aerospace Sector in all its facets, be it manufacturing, service and operations. However, this does not mean that other opportunities will be ignored. Developments will cover products and processes and as such there will be synergies between Aerospace and other sectors. For instance, material technologies are part and parcel of many facets of transport, construction and so on.

The Strategic Objective will always be guided by the fact that 'advanced', 'competitive', 'sustainable' activities include: a) the manufacture and use of 'clever' 'tomorrow's', products and b) the manufacture of yesterday's and today's products in a very 'clever' way- Thus remaining one leap ahead of the opposition with process and product developments. The Strategic Objectives are also enshrined in the EZ's modus operandi from plans – to – delivery mentioned earlier.

### **Q4- What are the specific incentives that are in place to encourage businesses to invest and locate in each Enterprise Zone in Wales?**

At present, the specific financial incentives are modest. The Business Rate Scheme is the main financial lever at St Athan as previously described.

St Athan is not located within an assisted area in Wales, so will not qualify for ECAs under present Treasury arrangements. Most 'incentives' where the St Athan EZ is concerned are non-financial levers. This tends to replicate the role of the Whitehall 'industry' departments over the last 25 years, where facilitating in the absence of financial resource has been their main *raison d'être*.

At present, the EZ Board is mainly engaged in facilitating the delivery of Economic Development. This development is stimulated and delivered by Welsh Government and some non Welsh Government Departments.

Enterprise Zones set out what is available, offer support, and encourage firms to locate within the Zone in order to avail of the benefits.

In addition to the specific and pan-Wales levers that encourage firms to locate and invest in Wales, there is also the experience, knowledge and professional network of the EZ Boards and sector panels, which can be accessed where and when. Furthermore, a critical mass of activities within the zones will provide a great external benefit to existing and new enterprises via an agglomeration effect.

**Q5- What are the specific outputs and outcomes that each EZ expects to achieve? (such as number of jobs created, businesses supported, number of businesses benefiting from business rates reductions, number of businesses using the Enhanced Capital Allowances)**

Expectations are laid out in the board's strategic plans. These tend to be aspirational, but aspirations based on what should be feasible, for the St Athan Cardiff Enterprise Zone to realise. Clearly, this is a dynamic process with acceleration in the number and scale of outcomes as the zone develops and consolidates.

In trying to estimate and forecast specific outcomes to be delivered, not as a single 'stock' but as a 'flow' over time, it is as well to remember the tactics and strategies drilled into the mind of every Australian test cricketer; do not think of a target, but build your innings one run at a time. In other words, take it one step at a time.

The St Athan/Cardiff EZ does not have a specific target for job creation or for the numbers of firms to be supported. These numbers are the measure of sector performance rather than EZ Performance, within the Welsh Government. So what the EZs achieve is a contribution to a wider total which is made up of various strands. This view is also reinforced by the Australian procedure- the EZs should explore all opportunities and judge which are suitable and thereby steadily accumulate not runs but, jobs. However, this is not to say that the EZ must operate in the dark.

A Masterplan for the St Athan site is under development and once complete can provide an indication of the potential of how many square feet of business space and jobs per sq ft 'multiplier' the Zone could provide.

As pointed out, the ECAs do not apply to St Athan as it is not in an assisted area, however three of the five eligible Enterprise Zones can offer this allowance. See the answer to question seven regarding the way in which the scheme could benefit St Athan/Cardiff Airport Enterprise Zone.

As St Athan/ Cardiff Airport EZ is located outside of the assisted areas the locations 'assets' correctly leveraged should be enough to create a successful EZ. In addition, firms will not move to an assisted area anymore just for the aid alone. Industry learnt the folly of this in the 1960's and early 1970's. Instead the location and site must make commercial sense, but the 'aid' in whatever form might be a 'dealmaker'. In short, it can be the icing on the cake.

**Q6- What are the achievements of each Enterprise Zone to date?**

It is to state the obvious, that the EZs are at the very beginning of their task. A flavour of what can be achieved can be seen in the EZ Strategic Plan. However, in detail, in St Athan and Cardiff Airport we have the first achievements. These have been bedrock developments which demanded much effort, time and skill. Firstly, terms have been agreed for the 'Super-hanger' and armed forces relocation. Secondly, the positive discussions regarding proposals for a viable 'Gateway' development at the Cardiff Airport site are being taken forward. Thirdly, the Welsh Government ownership of Cardiff Airport adds value to the Marketing of the whole EZ. Fourthly, from its inception, the Zone has seen a number of aerospace related investments and as a follow on, a 'pipeline' of enquiries has been created. This exemplifies the nature of the EZ approach to date. The next stage is to inject a degree of 'lift off'.

**Q7- What is the latest position in relation to the use of Enhanced Capital Allowances and what potential is there for extending their use to more Enterprise Zone in Wales?**

As St Athan is outside the assisted areas, ECAs are not available. Furthermore, there is no potential for extending the ECAs to more Enterprise Zones.

However, St Athan/Cardiff could benefit indirectly if the ECAs attract new investment to adjacent Enterprise Zones. This could result in a need for a spin off, supply chain, support, which could be more efficiently located in St Athan than in the host EZ. This stresses the importance of EZ coordination, and the EZ's working together where appropriate.

**Q8- What is the expected impact on areas neighbouring or outside Enterprise Zones?**

Clearly questions 8, 9 and 11 are closely related as they cover spatial and spill-over's (externalities) of one sort or another.

To reiterate, the St Athan/EZ has limited financial incentives available other than the Business Rate Scheme. Therefore, the potential displacement effects will be minimal. It is considered unlikely that a firm would shut up shop to move to St Athan with all the attendant dislocation costs for circa £50,000. Thus 'the impact effect' can be expected to be positive overall.

If the EZ achieves its desired aims and outputs, then it should –

- 1) Help the local economy to grow and thereby creating additional jobs. The EZ will be an economic 'hotspot' to ignite the wider local and regional economy.
- 2) An EZ if successful in its ambitions to become a major cluster with significant externalities should help growth in an even wider area of Wales. The entire South Wales industrial area from Gwendraeth to Chepstow is small and has access to St Athan. However, that access still must be improved forthwith.
- 3) Enhance the attractiveness of the EZ, and therefore Wales, for investors. The EZs should be a halo effect for Wales in general.
- 4) Attracting firms with high productivity, best practice, etc can strengthen the competitiveness of Wales as a whole. There is little doubt that the major Japanese investment in the UK, and particularly in Wales, acted as a MBA Course for the wider economy. The Auto Sector is a case in point. The EZs can perform the same function.
- 5) Firms in St Athan have said that a major reason for their location decision was the existence of excellent infrastructure around the zone. This referred to products, process and skills. It is possible that we over emphasise our 'skill shortage' to the detriment of the Welsh Image. There is a de facto argument that the overall skill shortage is not nearly as bad as some say.

**Q9- How can the impact of Enterprise Zones on the local economy be maximised? (such as through the development of supply chains that use local businesses)**

The EZs act as an enabler to the economic development strategies of EZ aligned sectors. The sectors approach target interventions on a Wales wide basis. The Enterprise Zones provide a narrower locational focus for targeting initiatives and thereby create 'hotspots' from which others can benefit from.

The focussed approach of an EZ helps to expand a pre-existing cluster to generate spill over effects in an area already geared to supply the needs of the cluster. This creates a vibrant virtuous circle.

Allied to this, the EZs are keen to maximise the Welsh Governments supply chain initiatives to develop local supply chains and the creation of anchorage to keep firms within Wales.

Training schemes aligned with expanding and new Enterprises can supply existing firms in the zone, be they manufacturing or service sector. The 'host' firms might want to mentor such suppliers.

The Business Rate Scheme support for SME expansion and new entrants can provide the impetus for SME clusters. This can be of major economic and commercial impact because of the huge increase in labour productivity over the last 25 years in employment terms, a medium size firm is now a very significant operation.

**Q10- Are the processes in place to ensure that Enterprise Zones are monitored and evaluated effectively?**

It is the view of this board that the processes are in place to monitor and evaluate the EZs effectively. Clearly, the effectiveness depends on how they are used, by whom, and for what reason.

The answer to question one illustrates the process for Ministerial and official monitoring in terms on objectives and delivery. This is further fleshed out in subsequent answers.

All of the above has been written within the context of establishing the EZs on a firm and sustainable basis. Much effort, time and employment has been devoted to this end. The foundations of the Enterprise Zone had to include the establishment of a competitive offering of financial and non-financial support. Measuring the effectiveness of these incentives in future will be paramount, and will test the efficiency of the system in place. The thrust of questions 8, 9 and 11 and the answers show why merely monitoring forecasts of GVA per head, jobs created or preserved, Enterprises formed, etc is not a reliable way to link EZs activities and outcomes as an evaluation of effectiveness. Much of the 'success' of an EZ will come from impacts made outside the zone. However, to say that such developments have a measurable cause- to- effect is heroic. A wide range of factors will be in play of which the EZ is one. Clearly, a more sensitive approach has to be put in place.

**Q11- What approach is used to ensure that Enterprise Zones in Wales create additional economic activity?**

The overarching approach is a free market one but with specific interventions to overcome market breakdowns which prevent the free market achieving optimality.

In short, the EZ Board's recommendations are considered in the context of sector strategies, and the recommendations are presented in the context of Government Policy. Capabilities taken forward and developed via the EZs, will in turn enhance the sectoral and Welsh 'product'.

The St Athan/Cardiff Airport Enterprise Zone Board takes a very pro active role in its recommendations, and their desirability. Without exception the Board is guided by promoting the Welsh Economy in general, maximising sustainable spill over's and, identifying constraints on the EZs effectiveness wherever perceived.

The EZ is not a parcel of land, but a major economic lever waiting to be vigorously pulled.

**Prof Garel Rhys CBE and the Board of Enterprise Zone.**