

**National Assembly for Wales**  
Finance Committee

## Enterprise Zones

December 2013



Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales

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Finance Committee

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## Finance Committee

The Committee was established on 22 June 2011. The Finance Committee's role is to carry out the functions set out in Standing Order 19. This includes consideration of the use of resources by the Assembly Commission or Welsh Ministers, and in particular reporting during the annual budget round. The Committee may also consider any other matter relating to expenditure from the Welsh Consolidated Fund.

### Current Committee membership



**Jocelyn Davies (Chair)**  
Plaid Cymru  
South Wales East



**Peter Black**  
Welsh Liberal Democrats  
South Wales West



**Christine Chapman**  
Welsh Labour  
Cynon Valley



**Paul Davies**  
Welsh Conservatives  
Preseli Pembrokeshire



**Mike Hedges**  
Welsh Labour  
Swansea East



**Ann Jones**  
Welsh Labour  
Vale of Clwyd



**Julie Morgan**  
Welsh Labour  
Cardiff North



**Simon Thomas**  
Plaid Cymru  
Mid and West Wales

During the course of this inquiry, Ieuan Wyn Jones was a member of the Committee.



**Ieuan Wyn Jones**  
Plaid Cymru

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## Chair's foreword / Summary

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When we began this inquiry, it was partly because Enterprise Zones were something of a mystery. It seemed they had been slow to start, and was difficult to assess whether they were working.

The Committee has spoken to many of the people who know them best, the chairs, and the businesses they serve, and there remains a number of unknowns. We have learned that all seven Enterprise Zones have strategic objectives – but not what they are. We know that they have bid for investment – but not exactly what they have bid for, and we know they will be expected to deliver results – but not how that success will be measured.

Having said that, we have learned a lot in our inquiry. We have visited businesses where Enterprise Zones are making a difference, and been impressed by the passion and vision of Board Chairs. We were amazed to learn that there is great competition to gain a place on the Board, despite the fact that Boards have no budget and members are not paid. These are positive indicators.

However, our principle finding is that it is too soon to reach any real conclusions.

The publication of performance indicators later this year will be a key step forward. The Minister for Economy, Science and Transport has indicated that, within the bounds of commercial confidentiality, she will also publish the strategic objectives of Enterprise Zones. This additional data is key to providing evidence that Enterprise Zones are working, and delivering value for money for Welsh taxpayers.

I would like to thank everyone who gave evidence, and in particular to the businesses and Welsh Government officials who made our visits to the Havens and Anglesey Zones such a success.

## Recommendations

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The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

**Recommendation 1.** We are assured that strategic plans exist, but as they are unpublished it is impossible to scrutinise them. While there may be sound commercial reasons to keep some of the details private, we recommend the Minister considers making public as much information as possible, including all non commercially sensitive information. (Page 11)

**Recommendation 2.** If Enterprise Zones are to hold their own budgets in future, we recommend that robust accountability arrangements are put in place to ensure value for money. (Page 11)

**Recommendation 3.** We recommend the Minister ensure Enterprise Zones consider how best they can ensure that all businesses are informed about Business Rate Relief. (Page 15)

**Recommendation 4.** Given the UK Government has accepted the principle that the Welsh government could fund enhanced capital allowances in additional areas of its existing Enterprise Zones, we recommend that the Minister gives due consideration to whether and where this might be beneficial. (Page 18)

**Recommendation 5.** We look forward to the publication of the Minister's performance indicators and recommend the Minister outlines a timetable for the publication of these performance indicators (Page 22)



# 1. Overview

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1. At its meeting on 24 April 2013, the Committee agreed to conduct a short inquiry to consider the current use of Enterprise Zones in Wales.

## Terms of Reference

2. The Committee's terms of reference were:
- To establish the scale of Welsh Government resource that is targeted at Enterprise Zones and to understand how this is informed by the Enterprise Zone boards.
  - To establish the specific outputs and outcomes that are expected to be achieved by the Enterprise Zones (such as the impact on the economy, number of jobs created and businesses supported).
  - To consider the achievements to date of the Enterprise Zones in Wales – particularly in relation to the financial support and incentives they offer to business.
3. The Committee's report is based upon these three areas.

## Enterprise Zones in Wales

4. There are seven Enterprise Zones<sup>1</sup> in Wales:

Anglesey	focusing on the Energy sector
Cardiff	focusing on the Financial and Professional Services sector
Deeside	focusing on the Advanced Manufacturing sector
Ebbw Vale	focusing on the Advanced Manufacturing sector
Haven Waterway	focusing on the Energy and Environment sector
St Athan	focusing on the Aerospace sector

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<sup>1</sup> Further information is available on the Welsh Government's dedicated [enterprise zone website](http://enterprisezones.wales.gov.uk) (<http://enterprisezones.wales.gov.uk>)

Snowdonia	focusing on the Energy and Environment and ICT sectors
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5. The Welsh Government’s Enterprise Zones website describes them as:

“geographical areas that support business infrastructure and compelling incentives.”<sup>2</sup>

6. The following support and incentives are available:

- Infrastructure support - £125 million identified in the Wales Infrastructure Investment Plan for Enterprise Zones over five years;
- Business Rates support – qualifying businesses can receive discretionary relief of up to £55,000 per year. The Welsh Government has allocated £10 million for the scheme to match the £10 million it received from the UK Government consequential.
- Enhanced Capital Allowances (ECAs) - enable businesses to claim a 100 per cent first year allowance for the capital cost of investment in plant and equipment made before **31 March 2017**. ECAs are available in Deeside, Ebbw Vale and Haven Waterway.
- Next generation broadband - Enterprise Zones are confirmed as some of the first areas to benefit from the roll-out of next generation broadband.
- Simplified and more efficient planning process – planning authorities are now able to use new Local Development Orders to make planning simpler within the Enterprise Zones.
- Business support, and training and skills provision – support provided by the Welsh Government can also involve assisting businesses to make links with academia.

7. The Minister for Economy, Science and Transport (‘the Minister’), has appointed a predominantly private sector-led board to advise her

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<sup>2</sup> Welsh Government: [enterprise zone website](#)

on the needs and opportunities for each Zone. The Minister stated in plenary on 23 April 2013 that the boards operate at no cost to the Welsh Government<sup>3</sup>.

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<sup>3</sup> [National Assembly for Wales, RoP, Plenary, 23 April 2013](#)

## 2. Planning and Resources

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### Strategic objectives

8. While each of the Enterprise Zone Boards have provided the Minister with the strategic objectives they have identified for their zones, these have not been published.
9. As a consequence, it is difficult to be 100% clear about what influence these strategic objectives have on the Welsh Government's resources and the investment decisions of local businesses.
10. On 3 July 2012 the Minister stated that she had asked the boards to develop a strategic plan for each Zone, setting out the vision for their area, key priorities, infrastructure requirements and property considerations. The Minister also stated that the boards will advise on delivery actions to inform her budget planning.<sup>4</sup> The Minister confirmed in a Written Statement dated 28 November 2012<sup>5</sup> that she had received the boards' strategic plans.
11. As part of our inquiry we wrote to the Chairs of each of the local boards.
12. The response from the Ebbw Vale Enterprise Zone states that "the terms and conditions of the board members are such that there is no direct visibility of the Welsh Government budgets. However the board will be aware of significant revenue and capital projects that are planned that provide an indication of the financial resource available."<sup>6</sup>
13. Similarly, the paper from Haven Waterway noted that Chairs of Enterprise Zone Boards "do not see internal Welsh Government budgets."<sup>7</sup>
14. In the Committee meeting on 12 June 2013, the two Chairs giving evidence confirmed that their strategic plans had not been costed, with Professor Nick Bourne stating:

"[...] we do not hold a budget. Certainly, in my case, I was not expecting a response saying, 'This is what the costs are'. I have

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<sup>4</sup> [National Assembly for Wales, RoP, Plenary, 3 July 2012](#)

<sup>5</sup> [Written Statement, Update on Enterprise Zones in Wales, 28 November 2012](#)

<sup>6</sup> [Written Evidence: Ebbw Vale Enterprise Zone](#)

<sup>7</sup> [Written Evidence: Haven Waterway Enterprise Zone](#)

had discussions with the Minister and with officials acting on behalf of the Minister as to what money is available and the business rates scheme in a general sense, but we have not been given a specific figure; for example, ‘This is what we are going to spend in your zone on X, Y or Z’.”<sup>8</sup>

15. In evidence to the Committee, the Minister said that while the Zones do not have budgets at the moment, they might in the future:

“In the future, when we look at some of the governance issues, I might consider how important it is that they have pots of money to utilise.”<sup>9</sup>

16. Neither of the businesses which the Committee heard evidence from on 12 June 2013 was aware of the strategic plan for their respective enterprise zone.

17. When asked in Committee whether more information would be made public, the Minister indicated that was her intention:

“I would like to consider publicising more information when it is available, in terms of where their strategies are going. You will appreciate that there might be issues that I will not be able to go into, as they might be commercially sensitive in nature. However, it is important that I revise what is available in the public domain, and I will discuss that with the chairs next week. We will then decide what we can put out in the autumn with regard to their plans.”<sup>10</sup>

**Recommendation 1: We are assured that strategic plans exist, but as they are unpublished it is impossible to scrutinise them. While there may be sound commercial reasons to keep some of the details private, we recommend the Minister considers making public as much information as possible, including all non commercially sensitive information.**

**Recommendation 2: If Enterprise Zones are to hold their own budgets in future, we recommend that robust accountability arrangements are put in place to ensure value for money.**

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<sup>8</sup> [Finance Committee, RoP, 12 June 2013, paragraph 270](#)

<sup>9</sup> [Finance Committee, RoP, 26 June 2013, paragraph 19](#)

<sup>10</sup> [Finance Committee, RoP, 26 June 2013, paragraph 12](#)

## Benefits of the Enterprise Zone approach

18. The current Enterprise Zones are not the first in Wales, following an earlier round during the 1980s.

19. The UK Government's *Final Evaluation of Enterprise Zones*<sup>11</sup> was published in 1995 and drew on the experiences of twenty two zones in the UK between 1981/82 and 1992/93. All three zones in Wales were considered as part of the evaluation. Some of the main overall findings were:

- There were over 5,000 companies on the 22 zones by 1990, employing nearly 126,000 people. After allowing for deadweight and displacement<sup>12</sup> and including short-term multiplier effects<sup>13</sup> approximately 58,000 (46 per cent) of the 126,000 jobs were thought to be additional.
- Most zone-based firms were relatively small, 11 per cent were there when the zones began, 28 per cent were new start-ups, 23 per cent branches or subsidiaries and 38 per cent were transfers onto the zone from within the local areas.
- Property markets were established on previously unattractive sites and commercially viable rental levels were achieved as a consequence of the enterprise zone policy. On-zone rents were 10 to 20 per cent higher than for equivalent premises off-zone and land values were about 40 per cent higher on-zones than off-zones.

20. Learning the lessons from the previous round has been a recurrent theme in this inquiry. Mike Hedges AM has written a short article on this subject, which can be seen at Annex A.

21. The Committee was concerned to note that the evaluations of the previous round of Enterprise Zones suggested that at the end of the

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<sup>11</sup> HMSO: Final Evaluation of Enterprise Zones ISBN 0 11 753127-8

<sup>12</sup> Where firms would otherwise have been on the Zone site without Enterprise Zone designation their existing employment is referred to in the evaluation as '**deadweight**' because they were receiving Zone incentives without it changing their basic location and or influencing other decisions. **Displacement** will occur when firms move onto the Zone from elsewhere in the local area ('boundary hopping' by transfers), as well as firms moving into the local area that are diverted onto the Zone site rather than elsewhere in the local area. There can also be market displacement where Zone firms take markets from competitors located elsewhere in the local area.

<sup>13</sup> Such as the effect of the additional employment incomes associated with the extra jobs in the area.

Zones' existence 28 per cent of businesses on the Zones were new starts, while 38 per cent had transferred in from within the local area.

### **3. Incentives offered by each Enterprise Zone**

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22. A range of incentives and sources of support are offered to businesses on Enterprise Zones. The Committee considered how attractive and effective these are at encouraging businesses to invest and locate in Enterprise Zone in Wales.

#### **Business Rates Relief**

23. Under the Welsh Government's current Business Rates Relief scheme, only businesses that apply and qualify for support receive discretionary Business Rate relief of up to £55,000 per year until 2015-16. The Welsh Government has allocated £10 million for the scheme to match the £10 million it received from the UK Government consequential. The Minister's paper notes that expenditure by the scheme "totalled nearly £800,000 in the last financial year." The latest application round closed on 8 July 2013.<sup>14</sup>

24. In comparison, the 1980s Enterprise Zones offered all industrial and commercial properties (including retail) on the zones a complete exemption from local authority rates (but not water charges).

25. The UK Government's Final Evaluation of Enterprise Zones, published in 1995, found that, for companies deciding to move to Enterprise Zones, the most important attraction was the rates relief benefit.

26. Some, but not all, of the Enterprise Zone Board papers include information on the number of businesses that have benefitted from the Business Rates Scheme. The paper from the Ebbw Vale Enterprise Zone states that 6 companies on the Enterprise Zone were approved for support from the Business Rates scheme to a value of £193,000. The paper describes this as "a slightly disappointing outcome" and mentions that "actions are underway to increase the level of engagement with indigenous businesses in the area."

27. The paper from the Haven Waterway Enterprise Zone states that 17 businesses on the zone have benefitted from the scheme.

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<sup>14</sup> [Written Evidence: Minister for Economy, Science and Transport](#)



28. The Minister admitted that lessons had been learned from the first round of bids, which had a short lead-in time and resulted in patch take-up in some areas. She said:

“The business rate relief was very popular—we had 60-odd applications, and about 40 received funding. It was a mixed approach across the enterprise zones... We have learned the lessons from that and done a lot of training, and we have a bigger window of opportunity for how we will deal with the business rates this time around. We have had a much more vigorous look at the marketing campaign. To date, we have had some 6,000 hits on our website on these issues. I think that we are getting to grips with some of the issues now and learning the lessons. The turnaround was too quick last time, perhaps, and there was not enough advertising of the different business rates and support issues.”<sup>15</sup>

### *Our view*

**We were struck by the differences between different Enterprise Zones in securing business rate relief. It is clear to us that where Boards worked with local authorities to systematically target companies that might benefit, there was a greater take up of this incentive. Businesses we visited were clear that this rate relief then freed up their money allowing them allowed them to make investment.**

**Recommendation 3: We recommend the Minister ensure Enterprise Zones consider how best they can ensure that all businesses are informed about Business Rate Relief.**

### **Capital allowances**

29. Capital allowances allow businesses to deduct the costs of certain capital assets, such as plant or machinery, from their taxable income. They take the place of commercial depreciation, which is not allowed for tax.

30. Any qualifying expenditure on plant or machinery, not covered by a claim to the annual investment allowance ('AIA') or a first-year

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<sup>15</sup> [Finance Committee, RoP, 26 June 2013, paragraph 50](#)

allowances ('FYA'), qualifies for writing-down allowances at either 18 per cent or 8 per cent a year (the rates that apply from April 2012), depending on the nature of the asset.

31. Introduced in the *Finance Act 2010*<sup>16</sup>, Enhanced Capital Allowances ('ECAs') provide 100 per cent FYAs for companies investing in plant or machinery for use primarily in designated assisted areas within Enterprise Zones. This measure will have effect for expenditure incurred in the five year period from 1 April 2012 to 31 March 2017 inclusive and the area in which the plant or machinery is to be used must be an assisted area at the time when the expenditure is incurred. In addition, the plant or machinery must not be held for use in an area outside of the designated assisted area for a period of five years.

32. Within Wales, ECAs are available at certain designated sites within the Deeside, Ebbw Vale and Haven Waterways Enterprise Zones. Evidence provided by each of the Zones suggests that to date no business has made use of the ECAs.

33. The Silk Commission in part one of its report, *Empowerment and Responsibility: Financial Powers to Strengthen Wales* (November 2012)<sup>17</sup> put forward the possibility of the Welsh Government 'buying' additional Enhanced Capital Allowances from the Treasury. The report states:

"As Wales has the lowest GVA per head of all UK regions, we believe that there is a case for the UK and Welsh Governments to consider whether proportionately more EZs in Wales might benefit from enhanced capital allowances. As there is already a structure for differential capital allowances within the United Kingdom through the use of EZs then this could be extended, especially if evidence shows the policy to be effective.

"Of course, there would be a cost associated with extending the use of enhanced capital allowances within defined EZs in Wales and the Welsh Government would have to bear that cost and assess the cost and benefits of such a policy.

"Recommendation

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<sup>16</sup> [Finance Act 2010](#)

<sup>17</sup> [Silk Commission: Empowerment and Responsibility: Financial Powers to Strengthen Wales \(November 2012\)](#)

“R.13. We recommend that the enhanced capital allowances should be able to be offered within more enterprise zones in Wales, subject to state aid rules and provided the Welsh Government pays the incremental cost.”<sup>18</sup>

34. The UK Government published its detailed response on 21 November 2013. It states:

“The Government accepts the Commission’s recommendation that the Welsh Government can fund enhanced capital allowances in additional areas of its existing Enterprise Zones that conform to the established criteria, subject to state aid rules and legislation governing the scheme.”<sup>19</sup>

35. Lucas Boissevain<sup>20</sup> told the Committee that:

“I am a strong believer that the accelerated capital allowance scheme that was rolled out in 1981-82, and came down from 75% to 50% to 25%, was one of the primary drivers for pulling us out of the tail end of the 1970s. It is easily understood and available in equal measure to all, or it was at the time, and finance directors and commercial directors of businesses could understand it. You understood the window of opportunity that it represented and it accelerated investment at a difficult time.”<sup>21</sup>

36. Mr Boissevain also suggested that Enhanced Capital Allowances presented a great advantage to those businesses that could access them but they “should be applied uniformly, not just across Wales, but the UK.”<sup>22</sup>

### *Our view*

**At this early stage there have been very few successful applications for Enhanced Capital Allowances. Yet it is clear that they are potentially one of the most powerful tools available to Enterprise Zones.**

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<sup>18</sup> [Silk Commission: Empowerment and Responsibility: Financial Powers to Strengthen Wales \(November 2012\)](#)

<sup>19</sup> [UK Government, Empowerment & Responsibility, 21 November 2013, page 13](#)

<sup>20</sup> Finance Director of Mustang Marine which is located on the Haven Waterway Zone

<sup>21</sup> [Finance Committee, RoP, 12 June 2013, paragraph 17](#)

<sup>22</sup> [Finance Committee, RoP, 12 June 2013, paragraph 19](#)

**Recommendation 4: Given the UK Government has accepted the principle that the Welsh government could fund enhanced capital allowances in additional areas of its existing Enterprise Zones, we recommend that the Minister gives due consideration to whether and where this might be beneficial.**

## **Finance Wales**

37. During our visit to The Havens Enterprise Zone, Members were able to hear a presentation from Finance Wales aimed at businesses within the zone. The Committee was surprised that Finance Wales had put no special measures in place to support businesses in Enterprise Zones from the start.

38. Subsequently, on 21 October 2013, Finance Wales announced that businesses in each of the Welsh Enterprise Zones would be able to benefit from a 2% reduction in rates charged on loans from the Wales JERMIE Fund, Wales SME Investment Fund and the Wales Micro-business Loans Fund.<sup>23</sup>

## ***Our View***

**As a result of what we learned about the way Finance Wales operates during our inquiry on Enterprise Zones the Committee agreed to conduct a short inquiry in to the organisation. This inquiry is about to begin and will report in 2014.**

## **Welsh Government resources (and private sector investment)**

39. The Welsh Government has previously identified £125 million<sup>24</sup> in the Wales Infrastructure Investment Plan for Enterprise Zones over five years.

40. The *Wales Infrastructure Investment Plan: Annual Report 2013*<sup>25</sup>, which was published on 11 June 2013, suggests an additional £46 million has been allocated by the Welsh Government to “support developing our Enterprise Zones and wider business support/economic growth activity.”

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<sup>23</sup> Media statement from Finance Wales: [Interest rate savings for SMEs in Welsh Enterprise Zones](#) (21 October 2013)

<sup>24</sup> [Wales Infrastructure Investment Plan: Annual Report 2013](#)

<sup>25</sup> [Wales Infrastructure Investment Plan: Annual Report 2013](#)

41. The report states:

“Packages of additional investment from capital reserves announced since May 2012 (totalling almost £462m) have directly increased funding to deliver infrastructure priorities by £136m in 2012-13, £159m in 2013-14 and £167m in 2014-15.

“This investment has been designed primarily to promote growth and jobs, and to support the delivery of efficient and high quality public services, over the medium and long term. In the short term we estimate that the investment will create around 8,000 jobs during construction phases of the various projects.

“When viewed in terms of our 7 core WIIP priorities, these additional capital allocations have considerably boosted investment by:

- £88.7m to support improving transport network in Wales, plus £29m to protect infrastructure networks from flood and coastal erosion
- £10m to support improving telecommunications networks
- £15m to support the development of the energy industry in Wales
- £46m to support developing our Enterprise Zones and wider business support / economic growth activity
- £99.7m to support further investment in housing
- £98m to support improving the quality of the educational estate, particularly schools
- £75.3m to support delivering more efficient and economical public services.”<sup>26</sup>

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<sup>26</sup> [Wales Infrastructure Investment Plan: Annual Report 2013](#)

*Our view*

**Given that we do not know the exact scale of resources requested by the Enterprise Zone Boards to deliver their strategic objectives, it is impossible to gauge whether the scale of Welsh Government resource is sufficient.**

## 4. Outputs and Outcomes

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### Monitoring, evaluation and value for money

42. The paper from Ebbw Vale Enterprise Zone states that the Enterprise Zone “does not have specific job creation or number of businesses supported targets, these are a measure of the Advanced Manufacturing and Materials Sector itself and not the Enterprise Zone performance. As set out in the strategic plan the EZ’s are long term in nature with benefits realisation occurring during and after the intervention has ended.”<sup>27</sup>

43. The Minister’s paper states:

“The desired long term impact of Enterprise Zones is to stimulate growth in the local economy and the creation and safeguarding of jobs; to act as a catalyst for growth elsewhere in Wales; to improve the attractiveness of the Enterprise Zones and Wales more generally for investors; and to strengthen the competitiveness of the Welsh economy.”<sup>28</sup>

44. Evidence provided by the Chairs of the Enterprise Zone Boards refers to that fact that the Welsh Government expects to publish indicators by the end of this year and that the Minister is seeking the views of the Enterprise Zone boards on what those indicators should be. The Minister confirmed this in her evidence session:

“We have been struggling with some of the issues around looking at key performance indicators... It is a question of whether you do a straightforward ‘jobs created’ thing, which we do not think is relevant. We think that that approach has already run into problems across our border.

“So, there are a number of options. Do we just count the new jobs, or jobs, in which case you must make sure that you have the proper baseline figures? There is then my forecast and how I will do other wider measurements of that. Can I say that it is purely as a result of enterprise zone interventions that I have had these jobs, or is it, as the Chair alluded to, that some companies will come to an area anyway without any of this? So,

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<sup>27</sup> [Written Evidence: Ebbw Vale Enterprise Zone](#)

<sup>28</sup> [Written Evidence: Minister for Economy, Science and Transport](#)

we are currently developing a set of performance indicators that will mean that we could intelligently look at enterprise zones. I think that that is the only way that we can deal with that.”<sup>29</sup>

### *Our view*

**We appreciate the difficulty involved in defining success for Enterprise Zones, to ensure that all outcomes are properly captured. However, it is vital that there is a robust way of monitoring whether Enterprise Zones have delivered their objectives.**

**Recommendation 5: We look forward to the publication of the Minister’s performance indicators and recommend the Minister outlines a timetable for the publication of these performance indicators**

### **Creation of additional economic activity**

45. The Committee asked the Minister how she would ensure that the new Enterprise Zones created new growth, rather than relocating businesses from outside in.

46. The Minister said:

“I think that we have learned some of the lessons from the previous engagement. You cannot have business rate relief if the company is being displaced. We learned that lesson straight away. Enhanced capital allowances are only for new investments; you cannot have it if you are already in there. It is quite important that those two safeguards are already there. With some of the issues, a mixed picture is already emerging, and tax relief is the most attractive element of the package of benefits. You also have the high cost of job estimates to take into account. It is an exceptionally difficult and complex area, but we are very aware of the displacement issues. With the schemes that have come in, we have tried to ensure that we do not encourage that.”<sup>30</sup>

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<sup>29</sup> [Finance Committee, RoP, 26 June 2013, paragraph 56](#)

<sup>30</sup> [Finance Committee, RoP, 26 June 2013, paragraph 43](#)



*Our view*

**We are encouraged to hear that the Minister has considered the previous experience of Enterprise Zones and is keen to avoid those pitfalls.**

## 5. Achievements to date

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47. At this early stage, the large scale achievements of the Enterprise Zones project are difficult to quantify. Without a formal mechanism to measure performance, it is difficult to say definitively whether they are succeeding. Equally, with different Zones pursuing different strategies, from different starting positions, what counts as success for one, may be abject failure for another.

48. However, there clearly are successes on the ground. The Committee's visits to the Havens and Anglesey Enterprise Zones proved that there are individual companies benefiting from their location within Enterprise Zones, and we were pleased to see the success and enthusiasm of SMEs who had benefited.

### *Our view*

**At this stage, it is impossible to fully measure the achievements to date, but we are aware that individual businesses are already benefiting. Enterprise Zones are not a quick fix, and we will be keen to monitor their success or failure in the longer term.**

## Annex A

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Mike Hedges AM wrote an article for the Institute of Welsh Affairs on the [lesson learned from the previous incarnation of Enterprise Zones in Wales](#) (12 July 2013).

### **Mike Hedges asks whether we can learn lessons from past failures of a recycled economic development policy – (12 July, 2013)**

In the early 1980s a number of Enterprise Zones were created throughout Britain including in Wales the lower Swansea valley, Delyn and Milford Haven. Based upon the principle that all policy ideas are recycled every 20 to 30 years – after those involved first time around have changed jobs or retired – then Enterprise Zones have returned once more and are now official government policy again.

Their purpose was to stimulate private sector economic activity, thus creating employment in less well-off areas. This was to have been achieved using tax incentives, including:

- 100 per cent tax allowances for capital expenditure on industrial and commercial buildings.
- Exemption from paying business rates for 10 years from the date of the building being occupied.

Developers and investors also benefitted from simplified town planning, where planning permission was not required for new developments provided they complied with the published planning regime for the zone. Some other minor benefits were also available, including exemption from training board levies and expedited custom facilities.

Initially, retail was excluded from Enterprise Zones but in many, including Swansea, it became a significant player. In Swansea the term Enterprise Zone is often used as an alternative for out of town shopping area. Wikipedia describes the Swansea Enterprise Zone thus, “The regeneration has attracted many light industries, offices and in particular retail outlets to Swansea.”

In early 2011 a report from the think tank Centre for Cities, and the not-for-profit organisation The Work Foundation both said the concept of enterprise zones and parks was out-dated. The Work Foundation report said, “Most of the areas that had such zones are still struggling today — places like Middlesbrough, Speke, Hartlepool and Swansea.” Most of the jobs created had simply been displaced from other areas. It continued:

“Evidence from previous Enterprise Zones suggest that up to 80 per cent of the jobs they create are taken from other places; that Enterprise Zones do very little to promote lasting economic prosperity. Most Enterprise Zones create a short-term boom, followed by a long-term reversal back into depression; and Enterprise Zones are hugely expensive. Evidence from the 1980s suggests that Enterprise Zones cost at least £23,000 per new job they create.”

According to a 1987 evaluation by the Department of the Environment, only 13,000 of the 63,300 jobs created in Enterprise Zones were new jobs, with the remainder displaced from within the area. The relatively small size of the Enterprise Zones meant that, in many cases they displaced jobs from within the same town or city. A 1999 study, UK Enterprise Zones and the Attraction of Inward Investment by Jonathan Potter and Barry Moore (here), suggested that around 25 per cent of new jobs were displaced from within the same town or city. This type of local displacement destabilises local economies by artificially enticing businesses into less competitive areas. The result is that other industrial parks outside the zone are left with empty units.

Enterprise Zones were also created in the USA, especially California where it has been the state’s major economic development intervention. However, a report published by the Public Policy Institute of California in 2009 concluded that it had failed to achieve its key goal of increasing jobs. The report

“...contrasts employment growth in Enterprise Zones with comparison areas and concludes that the program, on average, has no effect on job or business creation. The report recommends a re-examination of the program, which offers tax credits and incentives to businesses in 42 designated zones

throughout the state. The program's cost in the next fiscal year is estimated at nearly half a billion dollars.”

The second interim report on Enterprise Zones by the Department of the Environment in 1995 identified that:

“...in general a significant proportion of the rates relief available to tenants of properties on Enterprise Zones have been absorbed into the rental payments of new tenants, through higher rental values on Enterprise Zones relative to the control group off zone... assuming capital allowances are shared between investors, developers and landowners (rather than being passed on to tenants) the majority of the benefits from capital allowances appear to have gone to the investors.... Enterprise Zones do not appear to have been successful in encouraging hives of companies with close integration in the pursuit of mutual business development.”

The Swansea Enterprise zone speeded up the regeneration of the lower Swansea Valley which was a very good thing. At the same time, however, it created a large out of town retail centre that had a detrimental effect on the city centre.

The generally negative account of the impact of Enterprise Zones in the 1980s took them off the agenda for the next 25 years. Now they have returned the challenge must be to learn the lessons from the first wave and to not make the same mistakes with the new Enterprise Zones.

## Witnesses

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The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at

<http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=1243>

*12 June 2013*

Professor Nick Bourne	Chair of the Haven Waterway Enterprise Zone
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Gareth Jenkins	Chair of the Ebbw Vale Enterprise Zone
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Mike Corne	Partner and Commercial Director, eCube Solutions
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Lucas Boissevain	Finance Director, Mustang Marine
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*26 June 2013*

Edwina Hart AM	Minister for Economy, Science and Transport
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Tracey Burke	Director of Strategy, Welsh Government
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Rob Hunter	Director of Finance and Performance, Welsh Government
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## List of written evidence

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The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at <http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?Ild=6587&Opt=0>

### *Organisation*

Anglesey Enterprise Zone

Cardiff Central Enterprise Zone

Deeside Enterprise Zone

Ebbw Vale Enterprise Zone

Haven Waterway Enterprise Zone

St Athan/Cardiff Airport Enterprise Zone

Snowdonia Enterprise Zone

eCube Solutions

Mustang Marine

Minister for Economy, Science and Transport