

# Economic Development & Transport Committee

**EDT(2) 01-06 (p.1)**

**Date: 11 January 2006**

**Time: 9.00 to 12.30**

**Venue: National Assembly for Wales, Cardiff Bay**

**Title: Economic Development & Transport Minister's Report**

## **Economic Overview**

**1. Labour Market Statistics:** Employment in the three month's to October in Wales increased by 7,000 over the previous year and by 12,000 over the previous quarter and is now 120,000 higher than at the start of the Assembly. The employment rate amongst the working age in August to October was 72.0%, up 0.4% on the previous quarter and virtually the same as the previous year (0.1% lower). This compares with a UK employment rate of 74.7%, unchanged on the previous year and down 0.1 % on the previous quarter. The unemployment rate in Wales stands at 4.6%, unchanged on the previous year and below the UK average of 4.9%. The claimant count level in Wales in November was up 800 (or 1.9%) on October. The UK as a whole saw a month-on-month increase of 1.2%.

**2. Business Start-Ups:** Latest research from Barclays shows a continuing confidence in the small business sector with the number of start-ups in Wales on the rise. During the 3<sup>rd</sup> Quarter of 2005 some 4,800 businesses started up across Wales and representing a rise of 7% on the previous quarter. Anglesey tops the Welsh table and lies 2<sup>nd</sup> in the UK table with an impressive 87% increase - major increases were also registered in Blaenau Gwent (69%) and Ceredigion (42%).

**3. RBS Purchasing Managers Index:** Figures from the Royal Bank of Scotland show employment in the private sector in Wales is continuing to expand for the 6<sup>th</sup> successive month in November. The data also shows the growth of private sector business activity in Wales eased with new orders increasing in November but at a lower pace than in the past few years.. The manufacturing sector was the main source of growth in new orders with service providers reporting a marginal decline in new business.

**4. Exports:** Welsh exports are continuing to maintain their momentum. The value of exports for Wales for the four quarters up to and including quarter 3 2005 rose by £727 million (9.3%) compared to the previous 4 quarters. This is greater than the 7.3% rise experienced across the UK as a whole. The percentage increase in Wales over this period was the 4<sup>th</sup> highest amongst the 12 UK regions. The increase for Wales was made up of an increase of £639 million in exports to non-EU countries (up 24.8%) combined with an increase of £87 million in exports to EU countries (up 1.7%).

## Supporting Business

**5. New Director of Policy and Strategy:** James Price, a former Chief Economist with the WDA is to take up the post of Director of Policy and Strategy within new EDT. James is currently employed by the development agency One North East as head of business, enterprise and skills. I am delighted someone of James' calibre has been attracted back to Wales to head up a crucial part of new EDT, again we are showing the merger is in fact leading to a brain gain rather than a brain drain for Wales.

**6. Former Sony Site, Bridgend:** Sony has announced the sale of its Bridgend site to Formacion, a company with a proven track record in the effective redevelopment of industrial sites. The site will be subdivided into units ranging in size from 50,000 sq. ft to 300,000 sq. ft. The sale and redevelopment of this site will create a number of new employment opportunities in the area. This alongside the announcement of significant investment by Sony at their Pencoed site demonstrates not only continued confidence in our economy but also the effectiveness of a Team Wales approach in dealing with closures like that at Sony Bridgend.

**7. The Point:** Plans for the major office development scheme at the former Hotpoint Plant at Llandudno Junction in North Wales are attracting strong interest from developers UK wide. The site has been reclaimed and landscaped by the WDA who are now offering for sale a 1.74-hectare section of the 4-hectare site. The WDA have said a number of private developers have already expressed an interest. With its strategic location alongside the junction of the A55 and A470, the Point is potentially one of the sites that holds the key to the future economic development of the North Wales region.

**8. Metrix Consortium:** Which includes QinetiQ, Raytheon Systems, Land Securities and EDS, has emerged as a strong contender for winning at least a major share of a multi-billion-pound, long term defence training contract. RAF St Athan has been identified as a key location by the consortium and if selected hundreds of new jobs could be created. Lead by the Assembly Government, Team Wales has worked extremely hard to bring new aviation jobs to Wales and is committed to bringing new commercial and MoD contracts to St Athan and adjoining WDA owned aviation park.

### **9. Latest Structural finds Figures (December 2005)**

**N +2:** I am pleased to announce that once again WEFO has reached the important and challenging N+2 targets for all the Structural Fund programmes. Further enabling us to transform the economy of Wales through the funding of thousands of innovative and sustainable projects.

**Overall:** £1.46 billion grant has been committed to Structural Fund programmes, supporting 2,655 projects. This represents some £3.5 billion of total project investment, including £2.0 billion of match funding. 37% of match funding has been provided by the private sector. Recent studies have indicated that by the end of the Programme period some 40,000 net additional jobs will have been created

**Objective 1:** £1.24 billion of grant has been committed, supporting 1,622 projects, representing over

£2.98 billion of total project investment.

**10. Mid Term Evaluation Updates:** The final versions of the Mid Term Evaluation Updates were forwarded to the Commission on 23 December. The reports have been placed on the WEFO website.

**11. Post 2006 Structural Funds Programmes:** The EU budget agreement, agreed following intensive negotiations by the Council of Ministers in mid December, is good news for Wales, particularly West Wales and the Valleys which will qualify for the full Convergence Programme. The funding for West Wales and the Valleys is likely to be at a similar level to the current programme, which is approximately £1.3 billion over 7 years.

12. The First Minister and Cabinet colleagues are considering the outcome of the EU budget settlement, and assessing its likely impact, not only on Structural Funds but also on CAP and rural development. The Welsh Assembly Government will continue the work already in hand with our partners in the private sector, local government, Higher and Further Education and the voluntary sector on the shape of future Structural Funds Programmes. Preparation of our plans is well under way, with a view to submitting these to the Commission, in time for the January 2007 start date.

**13. Regional Aid Guidelines:** The European Commission has now published its new Regional Aid Guidelines that determine the Assisted Areas Map. West Wales and the Valleys has qualified as an Article 87(3)a area which means that it will remain possible to support the investment plans of companies located there. The Guidelines also establish the criteria through which Member States may now propose areas for designation as Article 87(3)c areas. It is anticipated that there will shortly be a UK wide consultation process aimed at determining the extent of these additional areas and officials are directly engaged with their UK Government counterparts in shaping the way forward. A more detailed account of the implications for Wales of these developments will be produced once further detail emerges of the course that this UK process will follow.

## **Encouraging Entrepreneurship**

**14. Communications Direct Ltd (CDL):** The Cardiff and Swansea based a mobile phone venture has announced impressive revenue growth. The company is one of the fastest growing mobile telecommunications companies in Europe and has achieved revenues running at more than £ 3million per month. Since it was established in 2003 the company has continued to invest heavily in systems, staff and additional office space and created a solid business platform that now employs almost 250 staff. Earlier this year it benefited from an RSA offer to open its Swansea Office.

**15. Tinopolis:** The Llanelli-based company is to become the first television production company in the UK to switch to high-definition equipment. High-definition television is seen as the next big development in television technology and it is good to see a Welsh company leading the field. Tinopolis has also announced it has been given the green light to take over Television Corporation, one of the country's biggest TV producers. Once complete Tinopolis will become one of the UK's largest

independent television producers.

## **Improving Transport**

**16. Welsh Route Development Fund:** On 13 December, I launched the Welsh Route Development Fund and announced the new Cardiff to Brussels air service. I have set aside £4 million for the Fund over the next 4 years. My aim is to work with the market in bringing forward commercially viable services – ideally to North America and hubs in the Middle East, thereby improving our accessibility and competitiveness. I am delighted this approach is already paying dividends with Air Wales starting a double-daily service from Cardiff to Brussels in March, thanks to the support of the Fund. This service will restore our direct connection with the very heart of Europe, sending an important signal about our place in Europe.

**17. Neath Port Talbot Peripheral Distributor Road:** On 15 December, I formally opened stage 1C and marked the start of works on stage 1B on the Neath Port Talbot Peripheral Distributor Road (PDR). This is a strategic road improvement to assist industrial and commercial development in the Docks area, providing a major infrastructure improvement to the Baglan Energy Park and other development areas on the M4 Corridor. It will relieve congestion on the over capacity elevated section of the M4 in the area. It is identified in the Local Transport Plan as being essential for the economic development of the area. I am committed to funding this scheme at a total cost of almost £120 million, including Objective 1 funding of some £11 million, and, I am very pleased with the significant progress being made.

**18. Greater Western Franchise:** The Department of Transport (DfT) has announced that FirstGroup plc (First) has been awarded the Greater Western franchise and will operate the new, bigger franchise from April 1<sup>st</sup> 2006.

**19. UK Government's Transport Review:** On 19<sup>th</sup> December I met Sir Rod Eddington, the former Chief Executive of British Airways, who has recently been appointed to advise the Treasury and Department for Transport on the long-term impact of transport infrastructure decisions on the UK economy. Sir Rod's visit to Wales is one of a series of visits he and his team are making to Wales, Scotland, Northern Ireland & the English regions as part of their study. Sir Rod was impressed by our ability in Wales to work together as a team to pursue major strategic challenges of this kind.

## **Establishing Wales in the World / Tourism**

**20. Visit of the Czech Ambassador:** On 14 December, I hosted a dinner with the visiting Czech Ambassador, Jan Winkler. It is important that Wales establishes a good relationship with an increasingly dynamic part of the new enlarged Europe. This follows my signing of a Memorandum of Understanding with the Czech government in December 2002. Part of the Ambassador's visit is trade-related: Wales Trade International will be taking a trade mission to Prague in March.

**21. Burry Port Harbour:** Work has begun on transforming the town's 3 docks into a key centre for

marine recreation with the help of £700,000 of funding through the Assembly Government's 'Catching the Wave' initiative. An additional 190 berths will be installed in the Outer Harbour and East Dock bringing the total number of berths up to 490. In addition the mooring capacity at West Dock will be boosted from the current 40 to 180. The Watersports industry already makes a significant contribution to tourism and wider economic development. The transformation of Burry Port is illustrating how our Watersports Strategy is helping to transform the fortunes of our coastal communities.

**22. Wetlands Newport:** Funding from the Assembly Government, the Wales Tourist Board and Newport City Council has led to £3 million being awarded to a new visitors centre at the Wetlands in Newport. The new visitors centre and education facility is an example of an excellent community project that will help develop the wetlands into a major tourist attraction bringing benefits for the whole city.

**23. Interreg IIIa 100<sup>th</sup> Project:** On 14 December I was pleased to announce that the Celtic Copper Heritage project had received £396,433 to transform historical copper mines in Ireland and Amlwch, and bring visitors to the area. The project is the 100th INTERREG IIIa project, and an excellent example of the integrated approach the programme is making to economic, social and environmental development. The project will undertake conservation of the industrial heritage, develop new educational and research facilities, raise the profile of both areas as visitor destinations, and enhance and protect local rivers.

## Setting A Fresh Direction

**24. Energy Wales Summit 2005:** On 14<sup>th</sup> December I chaired with the First Minister, the Energy Wales Summit in Cardiff. The Summit, the third of its kind, brought together a variety of key stakeholders, users and producers from across the energy sector for a roundtable discussion on the direction of Welsh energy policy, particularly in the context of the Welsh Energy Route Map.

**25. Wave Dragon Project:** Proposals have been announced to construct the UK's first wave power generator off the Milford Haven coastline. An application for an initial £5 million grant under the Objective 1 programme is being considered by WEFO. Its first stage will involve placing a single demonstrator Wave Dragon unit in the sea, powering up to 6,000 homes. The second stage envisages 11 units being installed. The project is anticipated to create up to 1,000 jobs during construction and around 20 permanent positions.

**26. Roath Basin:** The design for a landmark new bridge at the proposed redevelopment of Roath Basin in Cardiff Bay has been chosen. Following an evaluation of four competing designs a concept devised by award-winning architectural practice Studio Bednarski has been selected. It will carry pedestrians and cyclists from the Norwegian Church side of Roath Basin to the 36-acre redevelopment site. The WDA is currently interviewing several prospective developers.

**27. 'Living in Wales 2006' survey:** I have agreed with the Minister for Social Justice and Regeneration to transfer £32,500 from Economic Development and Transport to Social Justice & Regeneration. This will pay for a series of questions about computer and Internet use in the home in the

2006 'Living in Wales' survey. The same questions were placed in this year's survey and the results will be available in 2006.

**28. Energy Saving Wales:** Aims to raise the awareness of energy efficiency and to promote the work of organisations engaged in providing energy efficiency advice and information to all sectors across Wales. As part of the communication campaign the "Energy Saving Wales" Portal will provide links to organisations that provide advice and information on energy efficiency and small-scale renewable energy to all sectors of society in Wales. A developmental pilot portal was launched recently at the Energy Summit on 14 December 2005. A focus group made up of key organisations has been set up to provide feedback on the website and to ensure it reflects current activities.

## **Jobs and Investment News**

### **Job Gains / Safeguarded**

**29. General Electric, Caerphilly:** British Airways has awarded a £1.5bn engine maintenance contract to General Electric's Caerphilly facility. The contract will see the airline's engines serviced at the GE engine maintenance facility in Nantgarw with over 800 overhauls or repairs expected over that time. This is a huge boost for the aviation MRO sector in Wales, secures existing jobs, and could lead to the generation of new opportunities.

**30. Wrexham Civil Service Posts:** About 550 posts are to be relocated to Wrexham from the South East of England as part of the implementation of the Lyons Review. This is excellent news for Wrexham and for Wales coming on top of earlier announcements relating to the relocation of jobs to South Wales by the ONS and the Prison Service among others.

**31. Cotswold Outdoor:** Retailer of outdoor clothing and equipment has announced it will open its 18<sup>th</sup> store in the UK in South Wales at Talbot Green Retail Park in Llantrisant. The store which will open next month will be the company's 2<sup>nd</sup> largest in the UK and will create up to 40 jobs.

**32. SubHub:** Hertfordshire based company that specialises in developing subscription websites for publishers and experts. The company had considered the USA as a home for its international headquarters but has chosen Wales. SubHub will move into the @Wales incubator in Mount Square, Cardiff. The relocation is backed by funds from RSA and the company's development over the next 3 years will also be aided by the High Growth Programme service launched by the WDA and funded by the Assembly Government.

### **Job Losses**

**33. Floform:** Welshpool based company has announced its plans to make 60 redundancies from its 150 strong workforce. A 30 day consultation period has started and the firm is working with the trade union Amicus. The company's products include electrodes for spark plugs and precision parts for fuel

injectors. I understand these job cuts are the result of the loss of a large US order, with the company's biggest customer the Delphi Corporation, itself part of the General Motors Group, having filed for bankruptcy in October.

## **Annex A**

### **EDTC Action Outstanding EDT(2) 15-05, 16 November, 2005**

#### **Economic Development and Transport Minister agreed to circulate to the Committee a detailed breakdown of the decrease in public sector employment (Item 2)**

- No breakdown is available for the sub-UK public sector employment estimates released by the Office for National Statistics on 28 October, as part of its Public Sector Employment Trends publication.

### **EDT(2) 16-05, 8 November**

#### **The Economic Development & Transport Minister agreed to circulate an update to the Committee on WISP (Welsh Investment Strategic Partnership), including an update on the Property Strategy for Wales (Item 3)**

- Property Strategy for Employment in Wales approved by the Minister for Economic Development and Transport on 30 September 2004. Identifies shortage of high quality, modern business premises as obstacle to growth of Welsh business and ability of Wales to attract new business investment.
- Welsh Investment Strategic Partnership (WISP) developed to be a key mechanism for supporting delivery of the Property Strategy. Primary objective is to address this shortage of supply on those sites and projects where Private Sector is unwilling, or unable, to undertake project unaided.
- Following open and competitive procurement process, WDA selected preferred private sector partner, Babcock & Brown Ltd. Under proposed strategic agreement, WDA will commit to procure minimum of 35,000 sq m of new business premises from their strategic partner over ten year period from the date of the agreement. Buildings to be developed will primarily be "Grade A" office buildings, size range 20,000 – 50,000 sq ft.
- All projects will be delivered to highest standards of design. Design Commission for Wales actively involved through WISP procurement process.

First three projects planned under WISP programme are:

- 43,000 sq ft building fronting Fabian Way, in SA1, Swansea. Building will be at the gateway to the SA1 development and to the city itself.
- 33,000 sq ft Technium Building at Nantgarw, north of Cardiff, and:

- 48,000 sq ft building at George Street in Newport. This will fulfil Newport Unlimited's vision of creating a building to set a standard for new George Street commercial district.
- No future sites have yet been committed for WISP delivery, one of key benefits of WISP is that there is no state aid and therefore can be used in all parts of Wales. Leases of further projects will be subject to appropriate approval process within new EDT.
- To deliver Property Strategy, a detailed Property Programme developed, identifying key priorities in development of buildings and investment in land and infrastructure needed to ensure that appropriate supply of modern business premises are available. Programme identifies speculative build needs, known bespoke projects and land development priorities. These will be delivered by both public and the private sector. Map showing sites in Wales Spatial Plan context attached at annex B.
- Property Strategy Programme annually reviewed as integral part of the Business Planning process.
- Within new Economic Development & Transport Department, post April 2006, land reclamation and development, property management, ICT and economic regeneration activities will be brought together to better integrate work to improve Wales' economic infrastructure. In addition, the new policy and strategy team being created will look to develop policy solutions for activities across portfolio, including land and property delivery.

**The Economic Development and Transport Minister agreed to provide a note on the possible use of 'unused assets' funding (referred to by the Chancellor of the Exchequer in his recent statement) for social enterprise projects in Wales (Item 3)**

- Unclaimed assets are sums – often very small – that people have lost track of, or which remain unclaimed despite the efforts of the banks to reunite them with their owners. Estimates of the total of unclaimed assets across the UK vary between £500 million and £1.5 billion - or around £30 million to £90 million on a per capita basis for Wales.
- The full Pre-Budget Report confirms that the UK Government will continue its recent work with the banking industry to design a scheme which preserves the legal rights of the customer, but allows such assets to be reinvested in the community after a set period of time. The Government has agreed with the banks that the definition of 'unclaimed' will apply to all accounts where there has been no customer activity for 15 years.
- The Chancellor also confirmed that the Government wishes to ensure that the funds released by this scheme will be reinvested in the community, with a focus on youth services and on initiatives to address financial education and inclusion. This is clearly very relevant to many of the Assembly Government's key objectives, and in particular to the education and social justice portfolios.
- Officials from the Voluntary Sector Unit have discussed this issue with officials at HM Treasury. Treasury officials have confirmed the following:

(i) there will be further consultation during the first half of 2006 about this and other details of the proposed new scheme. This will include all key stakeholders – including the Assembly Government, organisations representing the interests of young people in Wales, and the business and voluntary sectors in Wales.



(ii) the Scarman Trust's recently formed 'Commission on Unclaimed Assets' has attracted much Press attention due to its lobbying on this issue. However the Commission is independent of Government and is just one of the stakeholders that will be consulted. The Scarman Trust in Wales has already approached Communities directorate officials for a meeting early in the New Year.

(iii) there may or may not be a need for legislation – the banks may be willing to commit to a voluntary scheme.

(iv) no firm decision has been made on who will distribute the funds released under the scheme. However officials understand that at this stage, Treasury ministers preference is for a private or not for profit sector distributing body, rather than a Government department. It is unclear at this stage about how this would fit with the devolved administrations. No decision has been made on the details of how the money would be shared out between Wales and other parts of across the UK.

(v) some financial institutions, particularly the smaller building societies, have been concerned that the scheme should guarantee that funds are retained within the 'donor' community, i.e. are not simply absorbed into a large national fund; the Government has accepted that the final scheme will need to take account of this.

(vi) the intended focus of the scheme will be on deprived communities, on youth, and on financial education and inclusion.

- As it remains unclear how the funds will be distributed, i.e. whether the monies accruing to Wales will be distributed directly through 'consequential', or via an intermediary body, it is difficult to assess how much scope the Assembly Government will have to direct the funds, either to social enterprise or to other types of project.
- However officials from Communities Directorate will be maintaining close contact with Treasury and other Whitehall officials to ensure that there is appropriate consultation on this issue in Wales, and that Welsh interests are fully taken into account in the development of the final scheme. They will also be working closely with colleagues in Youth and Pupil Participation Division.
- The Minister for Social Justice & Regeneration may wish to make an oral statement on this issue in her report to the SJ&R Committee meeting on 12 January.
- Further advice will follow once VSU officials have obtained more information from HM Treasury regarding the consultation process, and after the proposed meeting with the 'Commission on Unclaimed Assets'.

#### **The Economic Development and Transport Minister agreed to provide an update to the Committee on the position of School Transport Bill (Item 4)**

- The School Transport bill did not receive Royal Assent before Parliament was dissolved for the general election in May this year. It has not been taken forward since the Government was re-elected.

