

DRAFT MINUTES

Date: 13 October 1999

Time: 9.00-12.30

Venue: Committee Room 2, National Assembly for Wales Building

Attendance: Members (Constituency)

Val Feld (Chair)	Swansea East
Rhodri Morgan (Assembly Secretary)	Cardiff West
Alun Cairns	South West Wales
Ron Davies	Caerphilly
Michael German	South East Wales
Brian Gibbons (substituting for Ann Jones)	Aberavon
Elin Jones (substituting for Brian Hancock)	Ceredigion
Helen Mary Jones	Llanelli
Phil Williams	South East Wales

Officials (Department)

Michael Cochlin	Director of Economic Development Group
Derek Jones	Senior Director, Economic Affairs
David Richards	Principal Finance Officer
Mike Chown	Finance Group

Allan Moss

Industrial and Training Policy Division

Secretariat

Helen Usher

Clerk

Joanne Glenn

Deputy Clerk

Item 1: Chair's opening remarks

1.1 The Chair:

Reminded the Committee they were welcome to speak in English or Welsh

- Introduced and welcomed Martyn Jones MP, the Chair of the Welsh Affairs Select Committee, who had been invited to discuss with the Committee how the Economic Development Committee and the Welsh Affairs Select Committee could collaborate generally, and also specifically on the forthcoming Welsh Affairs Committee inquiry into structural funds.

Apologies and Substitutions

1.2 Brian Hancock (who was ill) and Ann Jones (who was on constituency business) had sent their apologies. Elin Jones and Brian Gibbons respectively were attending on their behalf (under Standing Order 9.13).

Point of order

1.3 Some Members queried whether an advance briefing had been given to the press concerning the finance paper (EDC-08-99 p1). The Chair confirmed that it had been emailed to members on Monday evening and had been posted to the internet on Tuesday. Neither the Chair or the Clerk had briefed the press but committee members could have spoken to the press after the receiving the paper. There was no evidence that the paper itself had been given to the press before it had been circulated to members.

Item 2: Minutes of meeting 29 September and 4 October

2.1 The minutes of both meetings were agreed. One point was clarified - the minutes of the meeting on 4 October (paragraph 3.3) referred to the Task Force Partnership, the Task Force itself would cease to exist.

2.2 On matters arising and action outstanding:

29 September 1999

Paragraph 1.4: Private sector involvement in the European programmes was currently scheduled for 3 November. IT and ICT infrastructure issues were currently scheduled for 17 November

Item 3 – Action: The digest of responses had been sent out and the views of other committees circulated. The Assembly Secretary had circulated revised documents to members and a paper on implementation had been provided for 4 October

Item 4 – Action: A definition of mainstreaming had been received from Rona Fitzgerald and passed to officials for action

Item 5 – Action: The Panel of Economists were still considering the items raised by the Committee. Given the nature of the work it was not considered feasible for targets to be considered at today's meeting. Members had been informed at the 4 October meeting that discussion on targets would take place on 3 November

Item 6 – Action: A revised finance paper had been produced for the meeting. A revised paper on operating aids had also been produced.

Item 7 – paragraph 7.4: CBDC was due to be considered on 3 November but as that meeting already had a full agenda and as there was likely to be little new to add at that point the issue might be deferred to a later meeting

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Item 4: The Committee's comments had been passed to the Assembly Secretary and officials

Item 6: Members had not had seen the latest version of the Objective 3. The Assembly Secretary agreed to circulate the document

Action

Assembly Secretary to circulate the revised Objective 3 document to members.

Item 3: Assembly Secretary's oral report

3.1 The Assembly Secretary announced the following recent developments:

- The former Lucas plant at Ystradgynlais had been bought by Light Industries of Newport bringing with it around 250 jobs. This was a welcome example of a south Wales firm moving in to an area when a multinational company had moved out.
- He had been at the opening of an Australian company, Air International, in Blaina who had already placed a large contract with MC Sheet Metal in Rhymney. He welcomed the increase in sub-contracting to local suppliers. Previously inward investors had not sub-contracted to

local firms but this situation was changing which would help raise GDP.

- Bairdwear, a manufacturer for Marks & Spencer, was closing a number of its factories in Wales. Marks & Spencer suppliers had traditionally had a large number of Welsh factories and the M&S shift to suppliers outside the United Kingdom was having a detrimental effect on Welsh manufacturing industry.
- The Objective 2 map had been presented to the Commission by the UK government. It covered a significant part of south east Wales, north east Wales and Powys – all areas not covered by Objective 1. If the map was approved by the European Commission it would be a significant achievement for negotiators, as a total of 2,170,000 of the population of Wales would be covered by Objective 1 and 2 status. (270,000 to be given Objective 2 status and 1.9 million to be given Objective 1 status).
- A recent survey by Cardiff Chamber of Commerce had reported good prospects for the economy in Wales, and this was encouraging.

3.2 During questions to the Assembly Secretary it was asked why Talgarth and Barry had been omitted from the Objective 2 map. The Assembly Secretary explained that the maximum population possible had been included and this had meant a choice between including the most rundown areas of Cardiff and Newport or including Barry.

3.3 Members asked if the LG factory was in the proposed Objective 2 area. The Assembly Secretary replied that he would check.

3.4 Members asked if there was provision in the next financial year to cover Objective 2 expenditure. Officials replied that there would be a delay before programmes were implemented as the Commission had to respond to the Objective 2 map, negotiations would follow and there would be a consequential delay before any programmes could be launched. No expenditure was expected in the next financial year and consequently it was unlikely that any provision would be made.

Action

Assembly Secretary to check if the LG factory was inside the proposed Objective 2 area.

Item 4: Finance (including operating aids)

4.1 Introducing EDC-08-99 (p1), the Chair explained that she had asked for projected spend over the period of the programme, ERDF carry over, sources of match-funding and a projection of the breakdown between ESF and ERDF to be included in the paper. These were not included in p1, but were included in a paper (EDC-08-99(p.8)) which had been tabled at the meeting.

4.2 Members stated that they were prepared to discuss but not endorse the financial tables in the paper (EDC-08-99 p8) which had been given to members at the beginning of the meeting. The paper was very detailed and members needed time to consider the information in depth.

4.3 The following points were made in discussion:

- Paper 1 sought to explain the relationship between the level of commitment required by the

Commission and the likely expenditure pattern.

- The Regulations allowed the Commission to advance seven per cent of the total EC funding when the first commitment was made: this could be sub-divided between the first two years. After that, payments from the Commission to the UK would be on in respect of claims (made three times a year) based on actual expenditure ie in arrears.
- Looking at the table in paragraph 11, the commitment profile in year one was £187 million and as a result (after netting off the payment on account) expenditure by the end of year three needed to be at £144.3 million. However, this expenditure did not necessarily need to be on projects committed in year one.
- If only the minimum payments had been made in the early years there would be a need to catch up in the later years resulting in greater expenditure in the final years.
- The expenditure would be counted as public expenditure when it was paid by the Assembly to projects (rather than when money was received from Europe).
- The figure in Table 21 of £25 million for post 2000 programmes referred to Objective One funds except ESF.
- It was asked if there were any conditions set by the Commission which would apply before the payment on account money was received. Officials replied that the Commission would need to be satisfied with the financial tables in the programme document and that the requirements on additionality had been met.
- A correction was made to the exchange rate mentioned after the table in paragraph 7 – it should have read 1.52 euros to £1.
- The details of the £35 million referred to in paragraph 20 were questioned. This was a one-off payment made in the financial year 1998-99 to cover pressures. There was no similar provision for the current financial year. However, the Welsh Office had carried forward £188 million into the current year under the end of year flexibility arrangements, and part of this was available for spending on ERDF. The total sum carried forward also included £46 million of end-year flexibility which was ring fenced for ERDF. End year flexibility was not restricted to use in the subsequent year, it could be carried over more than one year.
- There was some surprise that the figure in the table in paragraph 11 for pre-2000 programmes for 2000-01 was as high as £50 million as this was higher than the committee had been told earlier in the year. It was explained that this was an overhang from previous programmes. Officials expected £25 million to come from new programmes but this was only an estimate. Some regions had underused Objective 1 money in the first year but this was not expected to be the case in Wales where the take up was expected to be much quicker.
- An assurance was given that if demand for funding for the EC programmes was greater than anticipated then money would be reallocated from in-year underspends elsewhere within the Assembly budget.
- The Commission expected European funds to be matched by public sector funds with private sector funds as an addition to this. The UK government took a different view that it should be a mix of public and private sector funding. Annexes A and B in EDC-08-99 p8 illustrated these two alternative scenarios which would be subject to negotiations.

Liaison with Welsh Affairs Committee

4.4 The Chair welcomed Martyn Jones MP, the Chair of the Welsh Affairs Select Committee, and invited him to set out how he saw the relationship between the Welsh Affairs Committee and the

Assembly developing.

4.5 Mr Jones welcomed the opportunity to meet the Committee and hoped that it would be the beginning of a fruitful association between the two committees. He drew members attention to the following:

- Previously, the role of the Welsh Affairs Committee was to scrutinise the Welsh Office. With the establishment of the Assembly, the role was now changing to one of liaison and pre-legislative work. The Committee was taking on a new role of scrutinising legislation, and this was an area where cooperation with the Assembly could be fruitful. The Committee would be considering both legislation that the Assembly had specifically requested and also legislation which was on an England-and-Wales basis.
- The Welsh Affairs committee had access to the Secretary of State for Wales and could invite other witnesses. There was a meeting on 21 October to discuss whether the Committee should be given greater access to other Secretaries of State, as this might be important given the new relationships.
- Martyn Jones had met the First Secretary and the Panel of Chairs the day before to discuss how cooperation could be taken forward.
- The Welsh Affairs Committee was about to start an inquiry into EC structural funds and would welcome views from the Economic Development Committee on what issues needed to be considered, and whether and how the Committee wished to be involved.
- He stressed that the aim was to ensure that the maximum benefit accrued to Wales from the EC funding.
- The WAC would be holding an evidence session on 26th October when the Secretary of State for Wales, and Treasury officials would be giving evidence.

4.6 The following points were raised:

- The relationship between the committees and between Westminster and the Assembly raised some constitutional questions. It would be valuable to know about procedures in other multi-level democracies to see how ministers from a devolved administration related to the scrutiny committees of the central government.
- The Select Committee should consider whether the mechanisms under the Barnett formula would still be appropriate given the scale of funding required for the Objective 1,2 and 3 programmes. The issue of match funding was very important.
- The Committee felt operating aids had great potential but this might require a concerted approach from both Committees as most operating aids, for example tax reductions, were in the hands of the Treasury.
- The Welsh Affairs Committee could usefully examine the administration of, and potential transfer of responsibility for, the European Social Fund.

Chair's summary

4.7 The Chair welcomed the collaboration between the Committees. She outlined the key areas of concern to the two committees as administration of the European Social Fund for Wales, match-funding and the role of the Treasury in this and operating aids. The Chair emphasised that the two

committees were complimentary. The Chair and the Clerk would liaise with the Welsh Affairs Committee on its coming inquiry and invite further contributions from Committee members. Martyn Jones commented that it would be useful to have copies of papers from today's meeting.

Action

Committee Secretariat

The Chair and the Clerk to liaise on behalf of the Committee with the Welsh Affairs Select Committee in its consideration of European funding

Papers from the meeting to be forwarded to Martyn Jones

Financial Tables (EDC-08-99(p.8))

4.8 Introducing the paper on financial tables (EDC-08-99 p8) the Chair said she regretted that the Committee hadn't been given time to consider the information properly. The Assembly Secretary apologised for the late tabling of the paper, but the information had not been available earlier. The Chair highlighted three key issues for the Committee to consider:

- The distribution of funding between the five priorities (set out in paragraph 5)
- The split between the different European Funds
- The rates of grant aid proposed (listed in paragraph 6)

4.9 The split between the five priorities was as follows:

Business	40.2%
Competitive Environment	21.1%
Communities	10.4%
Employability	22.6%
Natural resources	6.4%

4.10 During discussion the following points were made:

- Table 3.2 assumed a 50/50 split of match funding but the Committee was informed that a 40/40/20 split was still negotiable. The last column was an expectation of the amount the private sector might invest. The Commission required its money to be matched pound for pound but did not have a fixed requirement of how much should come from the private sector. This still had to be negotiated.
- The Assembly Secretary agreed to supply figures for the anticipated split between central and local government public sector funding when they were available.
- There was concern that there was little time for the distribution of finance between the five

priorities to be debated. The provision for human resource development seemed too low. This sent a poor signal concerning the emphasis which was placed on human resources.

- Officials confirmed that money could not be moved between funds, for example between ESF and ERDF, but it could be moved within measures in these funds. The Commission would hold a mid-term review (after two years) to look at underspends and overspends in the programme. A case could be made at this stage for moving funding between priorities.
- The grant rates quoted were maximum rates. The exact rates would depend on the actual projects.

Chair's summary

4.11 The Chair emphasised that it was important to have cross-party agreement on the measures contained in the paper but that unfortunately there was no time for a fuller discussion before the plenary session which would debate the final documents the following week. Committee members were unhappy with the way the financial tables had been brought before the Committee at such a late stage. The Assembly Secretary apologised for this but said that the deadline of 31 October for passing documents to the Commission had meant that the entire timetable had been pressurised and consequently the financial tables had been late. It was agreed that as it was not possible to reach a collective decision at the meeting that Committee members would consider the papers further and inform the Clerk of their comments. If a consensus could be achieved the Committee might put down an amendment to the motion for debate in plenary. The Clerk would contact committee members during the afternoon of 14 October to obtain their comments.

Action

Clerk to contact committee members to obtain their comments on paper 8, in particular their views on how financial priorities should be allocated to the five key areas.

Chair and Clerk then to consider if the Committee should table an amendment to the motion before plenary on 19 October

The Assembly Secretary to supply figures for how much finance would be supplied by central and local government (table 3.2)

Operating Aids

4.12 Introducing paper EDC-08-99 (p2) on operating aids, Allan Moss explained that its aim was to demonstrate how operating aids were distinct from other aids and to demonstrate how they could be used in the area of childcare. A working group on operating aids had been established by the Task Force and would meet on 14 October. He had contacted other objective 1 areas to discuss their progress in this area. Certain operating aids had to be agreed by the Treasury such as tax rates whereas others could be developed by a devolved authority, such as childcare assistance, project evaluation, SPUR and SMART programmes. The Committee were reminded that details of specific operating aids did not have to be included in the single programming document, but the fact that they were being considered did.

4.13 Discussion followed during which the following points were made:

- It was confirmed that discussions had been taking place with other objective 1 areas (as requested in the meeting on 29 September). A meeting with officials from the DTI would happen the following week.
- The question of national insurance reductions was raised. It was stated that this was termed 'employment aid' rather than 'operating aid'. Employment aid operates through direct wage subsidy such as the New Deal.
- The main concern about operating aids was 'dead weight'. This was expenditure which did not have an impact on companies' actions eg whereas tax incentives might encourage say R&D, those companies who already spent on R&D would benefit even though they might not be spending any more on R&D.
- The Committee recommended that the four objective 1 areas put together a common case to the Treasury. It was confirmed that this was what officials from the Assembly were proposing.
- Members questioned why take up in childcare operating aids was low (as outlined in paragraph 16). The reason was unclear and this was why officials were planning to liaise with Chwarae Teg. There were plans to develop it in the HE and FE sectors and it was hoped that by this example employers would be convinced of its benefits.

Chair's summary

4.14 The Chair emphasised the importance of operating aids and said that the Committee wished to consider the issue again once further work had been done.

Action

Committee Secretariat to put operating aids on a future agenda

Item 5: Spreading prosperity

5.1 The paper on the Regional Selective Assistance scheme was for information only. The Assisted Areas map had been passed to Brussels for consideration and changes could not be made to it until the Commission returned it. As the meeting was running behind schedule because of the debate on Objective 1 funding the Committee agreed not to debate these items.

Item 6: ETAG

6.1 The Chair drew members' attention to the papers which had been circulated in advance from organisations with a particular interest in ETAG from an economic development point of view. She commented that no speakers had been invited because relevant organisations had already made presentations to the Post-16 Committee. A paper from the Committee Secretariat focused members' attention on the issues which needed to be discussed in order that a recommendation could be made to the Post-16 Education and Training Committee.

6.2 During discussion the following points were made:

- The ETAG report was broadly welcomed as the previous arrangements were considered unacceptable because they resulted in duplication and competition.
- It was important that the link between the ETAG recommendations and the National

Development Strategy and programme documents was made.

- The National Economic Development Strategy would allow future demand for skills to be considered and the necessary delivery mechanisms put in place.
- There needed to be a balance between CETW and the local/regional structures. It was questioned whether if an authority was formed at an all-Wales level the regional level structure was also necessary.
- There was a suggestion that the national role could be played by the Assembly, and this would require one less public body.
- The proposed broad regional structure was an attempt to share out the pain equally between all the organisations which would lose responsibility under the proposed system.
- The Post-16 Education and Training Committee was particularly interested in the Economic Development Committee's views on how the work undertaken by the TECs should be carried out in the future (rather than the structure of the new arrangement).
- The opportunity should be taken to simplify the enterprise function instead of creating a new body. The WDA was considered as a candidate to take over the enterprise function from the TECs.
- It was expected to take a broad role for the development of the Welsh economy, and skills development as well as business development could be included. The question of whether the WDA would be able to carry out a skills audit at a regional level was also considered.
- Members debated at which level decisions were best made. It was questioned why regional councils and regional economic development fora were both needed when there would be common membership. Similarly at a local level there were many partnerships and consortia which needed to work together. It was noted that regional fora did not have administrative staff and so would not be able to take on the role of commissioning training and processing payments.
- Staff at the TECs should not feel that the proposal to abolish the TECs was an implied criticism of them, it was simply that new bodies like the Assembly looked for new, more efficient ways of working.
- The changes needed to be greater than simply a change of name. The achievements of TECs should be recognised and employers' voices heard at local and regional levels

5.3 The Chair drew members' attention to the points for consideration outlined in the covering paper (EDC-08-99 p5).

- The Committee emphasised the need to ensure that the strategy proposed by ETAG reflected the strategic objectives outlined in the National Economic Development Strategy.
- The Committee was satisfied that the Community Consortia proposed was compatible with the package approach to implementation proposed for Objective 1, although it was aware of the problem of people sitting on too many committees.
- Early years education was vital and there was a need to ensure early intervention.
- Targets should be extended to include NVQ level 5 and its equivalents. The Committee was concerned about the lower level of targets and agreed there should be a wide range of targets.
- Targets should identify individual sectors or subjects as deserving of special attention, for example modern apprenticeships.

- The NEDS targets for equal opportunities were not seen to be adequately reflected in the ETAG report. Some members felt strongly that there was an economic problem precisely because certain groups were excluded from the workplace, but others felt that there was an over-emphasis on equal opportunities which was detrimental to the problems facing businesses.
- It was felt that there was not sufficient emphasis placed on ICT-related skills.
- There was discussion over the enterprise element of the TECs and whether this should pass to the WDA. One argument was to effectively split the WDA so that one part handled inward investment and the other indigenous business. However this moved away from the central theme of trying to rationalise delivery. It was felt that the WDA's culture favoured inward investment and what was required was not a change of structure, but a change to this culture.
- The Committee agreed that it was content with the proposals for the dissolution of TECs provided a satisfactory home was found for the enterprise function. Members accepted the principle of change but felt that the details needed further consideration.
- The Committee disagreed with the creation of a new quango.
- The Committee was content to suggest, on current evidence, that the WDA was the obvious home for the TECs support for small businesses.
- The timetable for implementation of the proposals was a concern to members.
- Members felt that they should further scrutinise 'future skills Wales'.
- Business must be represented at all levels of the proposed structure.

Chair's summary

5.2 The Chair summed up as follows:

- The Committee supported the broad thrust of the proposals and welcomed the attempt to streamline the existing system, reducing level of duplication and competition between providers.
- The ETAG proposals would be one of the main delivery mechanisms for the National Economic Development Strategy. It was therefore crucial that the Strategy informed the basis on which future skills demand was identified and delivered. There was also a need to ensure that the plans of the local and regional organisations proposed as a result of the report are compatible with regional and local strategies being developed as part of the Objective 1,2 and 3 programmes.
- Business interests needed to be reflected in the composition of the proposed boards at all levels.
- The dissolution of the TECs was accepted, subject to suitable arrangements being made for the enterprise function.
- The reorganisation should be used to simplify rather than make more complex the delivery mechanisms for support for small businesses.
- The Committee wished to consider further proposals for the delivery of the enterprise functions.

**COMMITTEE SECRETARIAT
OCTOBER 1999**