

Economic Development Committee**Date:** 12 April 2000**Time:** 9am-12.30pm**Venue:** Committee Room 2, National Assembly for Wales Building**Attendance****Members** (Constituency)

Brian Gibbons Aberavon

(Temporary Chair)

Rhodri Morgan Cardiff West

(Assembly

Secretary)

Alun Cairns South West Wales

Ron Davies Caerphilly

Michael German South East Wales

Brian Hancock Islwyn

Ann Jones Vale of Clwyd (substituting for Val Feld)

Helen Mary Jones Llanelli

Phil Williams South East Wales

Officials (Department)

Derek Jones Senior Director, Economic Affairs

Michael Cochlin Director, Economic Development Group

Allan Moss Economic Policy Division

Roger Bonehill Office of the Counsel General

External Contributors**Enterprise Development Fund Task Group (Item 5):**

John Clarke Chair

Alastair Denton Director, Finance Programmes, Welsh Development Agency

Mike Theodoulou Chairman, Chamber Wales

Secretariat

Helen Usher Clerk

Jo Trott Deputy Clerk

Apologies and substitutions

Apologies had been received from the Chair. Ann Jones was substituting for her.

The Clerk explained that the Chair was unable to be present due to illness and asked the Assembly Secretary to give the Committee the latest news on the situation. He commented that he had been to see Val Feld at the weekend and the length of her absence was not yet certain. The Committee asked that the Clerk write to Val Feld to pass on their best wishes for a speedy recovery. **[Action: Clerk]**

Election of a temporary Chair

Brian Gibbons was elected as temporary Chair. The Clerk confirmed that Brian Gibbons had been elected as Chair for the current meeting only, and if circumstances dictated that a temporary Chair was needed at further meetings then an election would be held at each meeting, unless the Committee decided otherwise.

Item 1: Chair's opening remarks

1.1 The Chair welcomed Members, Assembly officials, external contributors and members of the public to the meeting. He explained that contributors were welcome to speak in English or Welsh.

Item 2: Minutes of meeting of 27th and 29th March

Accuracy

2.1 The minutes of the meeting of 27th March (EDC-06-00) were accepted as an accurate record of the meeting.

2.2 Plaid Cymru members requested that the first bullet point, paragraph 4.3 of EDC-07-00 (draft minutes) be altered to read 'The Committee endorsed the Plan as work in progress'. This was agreed.

2.3 The Assembly Secretary corrected a statistic he had supplied in paragraph 3.4. There were 11% not 50% of the 98 first tier suppliers to Rover/BMW in Wales. The minutes would be annotated accordingly.

[Action: Committee Secretariat]

Action Arising

2.4 Members commented that the presentation by Cardiff County Council (action point 7) on the future development of Cardiff Bay had been very useful. The Assembly Secretary informed the Committee that New Employ had made the bulk of its staff redundant. One member felt that the one area where the Cardiff presentation had been weak was on social projects eg he was unhappy that there would only be one liaison officer dealing with community regeneration.

2.5 The Clerk explained that the paper on the 'other regeneration' budget (action point 6) had been delayed by Committee Secretariat not the Assembly Secretary's officials because of the need to discuss how to handle the paper in the light of the County Council's presentation. A paper would be provided for the next meeting which would also answer action point 32.

Matters Arising

2.6 The Assembly Secretary reported that of the twelve first tier suppliers to Rover/BMW in Wales, six were first tier suppliers to Landrover and their future should not be in question as Landrover would be part of Ford. The other six, who produced for Rover Longbridge, were, however, likely to be badly affected.

2.7 The Assembly Secretary agreed to find out if any of the extra money which was going to the Midlands for retraining packages could be made available to Wales. He hoped to have some news on this when he had heard the outcome of the meeting between the Secretary of State for Wales and Stephen Byers. He welcomed the establishment of a taskforce led by the Automotive Forum (a private-sector body which had Assembly representation). Following its analysis it would be clearer what case Wales needed to make to the DTI. There was discussion over whether the money offered by Stephen Byers to the West Midlands was savings from the £152 million the DTI had allocated to the industry or additional funding. If it was additional then the Assembly should press for a consequential increase in its budget. In response to a question, the Assembly Secretary agreed to provide the Committee with the comparability factor for the DTI. The Assembly Secretary also agreed to find out if BMW was making money available (primarily to suppliers) in the West Midlands.

[Action: Assembly Secretary]

2.8 Members were unhappy that Wrexham and Flintshire had been omitted from the Assisted Areas Map and wondered if it was still possible to make alterations. The Assembly Secretary replied that everyone concerned was conscious of the problem with this area and unfortunately Wrexham and Flintshire were caught between two structural funds programmes. It was not possible to change the situation as the Commission had taken the view that travel to work areas had to be wholly included or wholly excluded. Three areas around the Point of Air had been allowed as intermediate areas. One option that had been considered was to include a

small area of Wrexham with Denbighshire but that would not have been classed as a self-contained area of 100,000 population. Similarly a proposal to include part of Wrexham in an area within England had been turned down by England. Members who were still unhappy about the situation were advised to pursue the matter out of Committee. The closing date for the consultation was 2 May 2000.

2.9 It was confirmed that the Assisted Areas Map would stand for seven years. The Assembly Secretary repeated that there was no bias against north-east Wales. The Committee regretted that it had no North Wales members, but it was agreed that the possibility of holding a Committee meeting in North Wales would be considered.

2.10 The question of whether the equality indicators had been reinstated in priority 4 (page 5 of EDC-06-00 (draft minutes)) would be followed up.

[Action: Assembly Secretary]

2.11 Members questioned whether Graham Meadows' suggestion of an annual review of the Objective 1 programme by the Assembly would be incorporated into the Single Programming Document. It was confirmed that an annual report was already incorporated into implementation proposals and the reports would be discussed with the European Commission. In addition, there was the major mid-term review after three years when it would be possible for the Assembly to discuss with the Commission any change of course that might appear desirable.

2.12 No feedback had been received on the strategic letters to the Wales Tourist Board and the WDA.

Item 3: Assembly Secretary's Report

3.1 The Assembly Secretary made the following points:

- There had been few positive announcements this month. An exception was the announcement of 140 new jobs at Nice Pak, Flintshire (a wet wipes manufacturer). Job losses had been announced by two former Rover factories, Alloy Wheels International, Cardiff and Aeroquip, Cardiff. These were due to both the Rover situation and the high pound.
- The Rhosgoch power station proposal had been discussed with Stephen Byers on 29 March and it was hoped that there would be progress on this following the reform of electricity trading arrangements.
- The findings in the Business Failures Survey report were accounted for by the further

upturn in the strength of the pound since Christmas. Exporters had become accustomed to the previous level, but the significant rise had caused additional problems due to the Welsh economy's reliance on high volume, low margin products.

- There had been a recent Huggins' report which had placed the Welsh economy on a par with that of Chile, Hungary and Israel. Officials were still considering the findings, but their initial response was that they did not think the correct weightings had been used and were doubtful how much could be learnt from a composite index. A decision had been taken fifteen – twenty years ago to pursue high volume jobs without regard of the knowledge economy and this had resulted in the current economic situation. It would take a long time to reverse that policy. Concern was expressed that publically-funded R&D facilities were not being attracted to Wales. The Assembly Secretary said that a degree of control over the location of research facilities had been passed to the Wellcome Trust as it was a pound-for-pound partner.

Item 4: Structural Funds Issues

Update

4.1 The Committee was given an update on progress on Objective 1:

- At the UK level, further discussions with the Commission would take place on Friday. It was hoped that these would be the final discussions. Common issues such as the role of action plans, accountable bodies, safeguards on conflict among partnerships and state aids would be covered. On the latter there was particular concern that SPDs should not have to be revised when a new state aid was introduced.
- At the Welsh level, the aim was to finalise the Single Programming Document text over the next two weeks. This would have to incorporate changes agreed in the context of the UK talks. There had however been a late and significant proposal from the Commission on the proposed financial allocation for priority 6 (related to infrastructure) where the Commission was pressing for a substantial reduction of around Euros 80-90 million in the allocation.
- A meeting of the shadow Monitoring Committee would be held on 3 May. This would consider guidance on the formation of partnerships and on the preparation of action plans. As the paper noted, the First Secretary had recently written to members of the shadow Monitoring Committee proposing revised guidance on partnerships. The meeting on 3 May would also be considering the possibility of a 'fast-track' launch of the programme around the end of July. The WLGA had conducted a trawl of local authorities throughout the region on progress in establishing local partnerships. The picture was mixed, but officials would be discussing the position further with the

Association.

4.2 The Chair invited questions and the following points were made:

- Although the WLGA had only recently carried out a survey of progress with local authorities, the association had issued a draft Protocol at the end of December and this had supported adoption of the 'one-third' principle. Further discussions with local authority members had taken place since then.
- There had been a lot of pressure from SMEs for information. It was a difficult situation as there was a limit to how much guidance could be issued before the programme had started. It was however hoped that when the shadow Monitoring Committee next met it would have the benefit of an agreed Single Programme Document and this would enable it to prepare clear guidance for the private and other sectors.
- The Commission had previous experience of accountable bodies. However, it wanted a better understanding of how these would operate, the role of the related partnerships and what safeguards would apply in relation to the allocation of funding. The Welsh partnership was confident that, once the system was up and running, it would run smoothly.
- The creation of Priority 6 to provide for infrastructure had been at the suggestion of the Commission. The allocation of funds within that Priority would be the responsibility of the Monitoring Committee. It would be free to decide the detail of the measures and the sums of money involved. Moving infrastructure to a different Priority was not an option at this stage, nor would it avoid the specific request for a reduced financial allocation which the Commission had put forward. Subject to the Assembly debate on the SPD, the intention was to reinforce with the Commission the partnership's view that selective investment in infrastructure was essential in order to secure the job creation and other benefits envisaged elsewhere in the SPD, notably in Priorities 1 and 2. The SPD was a balanced document and a reduction on the lines proposed would significantly undermine this.
- The first tranche of commitments, which hopefully would be possible before the end of July, reflected the view that it would take some time to complete and assess full Action Plans, which would be the mainstay of the programme. Nevertheless, it would be necessary to show that fast-track proposals would further the aims and objectives of the SPD and would not prejudice delivery of programme priorities.
- There was a fallback position on accountable bodies. If these were not endorsed by the Commission, it would still be possible for Action Plans to be prepared by partnerships and for lead bodies to be appointed. The main difference would be that more of the work

of appraisal and management of Plans would necessarily fall to WEFO, rather than being delegated to Accountable Bodies.

- It was agreed to commission a paper from the WLGA in which the current state of local partnerships would be set out together with the WLGA's guidance to local partnerships.

[Action: Assembly Secretary]

- Discussion would be opened with all Action Plan partnerships, to identify the most likely options for a fast track scheme. Substantial progress would have to be made during June if a first tranche of commitments were to be made before the end of July.
- In response to a question, it was explained that the 'Partnership' was a term used primarily to describe the group of partners who originally formed the European Task Force, set up to advise the Assembly on the draft Single Programme Document. The Task Force was no longer formally in being, but the partnership still met regularly to discuss various structural fund matters and had also participated in negotiations with the European Commission. The work of this partnership body would progressively be replaced by the role of the Monitoring Committee, but as the latter was still in shadow mode the Partnership continued to be consulted. It was for the Monitoring Committee to decide its own partnership structure. The Assembly Secretary explained that the Partnership had been established because the Commission preferred to work closely with partnerships (as was the case in areas of England with Objective 1 status). The devolved government in Wales had led to the Commission working with an additional body, namely the Assembly, which it would not usually do. The Assembly Secretary agreed to supply a list of members of the Partnership to the Committee.

[Action: Assembly Secretary]

- The Partnership was responsible for action plans at the sub-regional level. There was no set view on the activities which might be covered at the sub-regional level. This was more likely to emerge from the activities of Regional and Local partnerships.
- It was emphasised that local authorities initiated or set up local partnerships rather than led them or dominated them. 'Facilitated' was suggested as an alternative description.
- The Monitoring Committee would be responsible for agreeing a programme complement and allocating targets and indicators to track progress. It was expected that monitoring would be done at Programme level but also at the level of individual Priorities and Measures. The Economic Development Committee would be kept informed. The Assembly Secretary agreed to provide further details on the monitoring and tracking arrangements which would be put into place and how progress in preparing the Programme Complement would be reported to the Committee. **[Action: Assembly**

Secretary]

- At meetings with the Partnership on 12 and 18 April, officials would discuss the detailed guidance which would be available to local authorities and others who would be involved in drawing up action plans.
- The shadow Monitoring Committee had selected which organisations should be invited to draft action plans.

4.3 Chair's Summary

- the Committee would be kept informed of progress in the negotiations with the Commission and the particular problems that had arisen in respect of infrastructure
- There was a need for urgency so that the programme was launched at the beginning of the summer.
- A paper was required from the WLGA setting out the situation on local partnerships and the guidance it had already issued.
- More clarity was required on the Committee's relationship with the Partnership and the Monitoring Committee together with further information on the monitoring process.

Objective 3 Monitoring Committee

4.4 The Chair invited discussion on this and the following points were made:

- The gender and regional balance of the Monitoring Committee needed to be considered carefully. The Assembly Secretary explained that gender and geographical balance had been reflected in asking organisations to nominate three representatives from which the Assembly would choose one. Members felt that much depended on the nominations made, and that organisations should be encouraged to consider a wide pool of people.
- An alternative view was expressed, that the best people should be selected for the monitoring committee, regardless of their sex.
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Item 5: Proposals for a Development Fund

Alun Cairns declared a potential interest arising from his links with Lloyds TSB.

5.1 The Chair welcomed John Clarke to the meeting and invited him to introduce representatives of the Task Group and to present the paper on proposals for a development fund.

5.2 John Clarke introduced the two members of the Task Group present - Alasdair Denton, Director of Finance Programmes at the WDA, and Mike Theodolou, Chairman of Chamber Wales and a member of the European Task Force. He explained that the other members were Richard Weston, Regional Corporate Director of Nat West Bank, George Watson, Chair of the FSB and Michael Phelps, Senior Economic Adviser to the National Assembly. He thanked all the members of the Group for their contribution. He then introduced the paper, during the course of which the following points were made:

- Members' attention was drawn in particular to Annex 2 of the paper. This summarised the main thrust of the Group's recommendations.
- The key issue addressed by the Group had been the question of whether there really was a funding gap and, if so, where. A significant amount of work had been done on this issue, culminating in the Task Group's conclusion that the gap still existed and that there had probably been a widening in the UK as a whole.
- It had proved necessary to refer to a 'fund' rather than to a 'bank' because the regulations required that anything constituted as a bank had to be in a position to accept deposits from the general public.
- The fund was to be set-up as a new company, 'Finance Wales', to be a wholly owned subsidiary of the WDA but housed separately, with its own clear identity and management arrangements. It would provide an umbrella for a number of existing funds as well as some new ones. The fund would provide advice and management support as well as funds.
- Initial budgetary provision for running costs had previously been agreed by the Committee from the Pathway to Prosperity fund.

5.3 The Chair thanked Mr Clarke for his introduction and opened the discussion, during the course of which the following points were made:

- The proposals were generally welcomed.
- There were a number of reasons why existing funds would continue to be identified separately, rather than being 'pooled'. The WDA's funds had been provided under the old Objective 2 programme and could not therefore be grouped with funding from other sources. In addition, the risk factor associated with individual programmes was likely to be less than the sum of the whole. This meant that interest charges could be kept down.

- In response to concerns that the evidence for the perceived funding gap was insufficient, members' attention was drawn to the document at EDC-08-00(p.4)(Annex 4) which summarised the mapping study on which the recommendation had been based. It was explained that the mapping study itself was an enormous document and that it was not practical to circulate it to members unless they had a particular desire to see it
- It was explained that in broad terms the 'funding gap' constituted those businesses that were viable but not bankable in the sense that they could not raise all the finance they needed from the commercial sector. The aim of Finance Wales was to supplement private sector finance, not displace it. Members would be provided with a report which expanded on this. **[Action: John Clarke]**
- In response to a query on the estimated running costs of Finance Wales, it was explained that £0.5 million was a fairly soft estimate of likely costs. This would be met from the public sector purse. The funding necessary to match the £20m ERDF would be generated by the private sector only. The Fund would charge commercial but not excessive rates of interest.
- It was agreed that members would be provided with a map of how Finance Wales would work in practice. **[Action: John Clarke]**
- The Task Group had identified not only a funding but also an enterprise management gap. One of the core principles of the Fund was therefore that it was a money *and* a management fund. This had the added benefit of helping to reduce the perceived risk.
- Organisations wishing to make an application for funding to Finance Wales would not need any prior knowledge either of the organisation or of the programmes. Clear mechanisms would be put in place with regard to advice, guidance and signposting. The main 'doors' to the Fund were likely to be the Enterprise Agencies and Business Connect. A website would also be set-up. It was agreed that the culture of the organisation needed to be very welcoming and proactive.
- On the risk-profile of the Fund, the example of Merseyside was quoted. Here, losses had been a modest 10-15% over 3 years which meant that the cost per job was very low compared to other forms of intervention. It was noted that there had been no recession during this period and that losses could increase in such circumstances.
- One Member expressed concern about the potential levels of losses, particularly given the experience of the WDA in the past.
- Members of the Task Group expressed surprise at a suggestion that the FSB had not

been fully consulted on the proposals for the fund. The FSB had been a full and active member of the Group, although it had not been part of the alliance which had met post-January. Mike Theodolou agreed to speak to the FSB to ensure that it had no outstanding concerns it wished to raise. **[Action: Mike Theodolou]**

- In response to a question on whether Finance Wales would offer "small, dynamic loans"(less than £500) the Group explained that the Institute of Welsh Affairs' report on micro companies had been core to the plans put forward for the Fund.
- In terms of next steps, the partnership now needed to prepare its draft action plan for consideration by the Monitoring Committee. Assurances were given that the partnership would observe the 1/3rd: 1/3rd: 1/3rd principle. The Fund fell within the Commission's guidelines on major projects and as such, and subject to approval from the Monitoring Committee, the proposals had to be submitted to Brussels for consideration. This stage of the process was likely to take 2 to 3 months.
- The Assembly Secretary agreed to provide an update on progress with implementation at a future meeting. **[Action: Assembly Secretary]**

Item 6: Operating Aids

6.1 The Chair introduced the paper, indicating that the Committee had considered operating aids on a number of previous occasions, culminating in this paper. He invited members to consider the proposals in the paper. He then opened the floor to discussion, during the course of which the following points were made:

- Members felt that the proposals were not innovative enough, there were no big ideas, or measures which could make a real impact on the Welsh economy.
- Concern was expressed that the key issue of low connectivity had not been tackled in the context of operating aids. In response to a suggestion that all SMEs should be given a PC and training, officials assured members that connectivity was being addressed through other means – most notably in the context of Objective 1. However, members felt strongly that further consideration should be given to the issue. The Assembly Secretary agreed to give further thought to the matter and report to the Committee. **[Action: Assembly Secretary]**
- Concern was expressed that issues such as Corporation Tax had not been addressed in the paper. It was agreed that it should be made clear whether the constraints on a particular form of aid came from the Treasury or Europe. If it was the Treasury, Members felt it was important for the Assembly to fight its corner vigorously. In the case of Corporation tax, officials explained that the neither the Treasury nor Europe would

now approve proposals for regionally differentiated tax breaks. Even those formerly approved by Europe in Ireland were now being closed-down. It was agreed that the Assembly needed to find a different solution to the same problem.

- The value of 'badging' initiatives (eg Environmental Management Systems) was questioned.
- In response to concern about the rejection of support for R&D by the Treasury, the Assembly Secretary agreed to further pursue the issue. **[Action: Assembly Secretary]**
- The Chair agreed to invite Treasury officials to speak to the Committee on operating aids policy in general. **[Action: Chair]**

Chair's Summary

6.2 Summing-up, the Chair said:

- The Committee felt that the proposals in the paper for new operating aids, while reasonable, were lacking in vision and imagination. They were unlikely to make a significant impact on the Welsh economy.
- Further consideration needed to be given to measures to stimulate R&D and to increase connectivity. Tax measures should be considered further.
- It was agreed that work should continue on the proposals presented.

Item 7: Business Support and Development Review: TEC Enterprise Function

7.1 Members agreed that, in order to give due time and consideration to all the responses to the consultation, this item should be deferred until Committee on 18th May. It was agreed that the Clerk and Expert Adviser should continue to work on the matter.

Closing Remarks

8.1 The Committee thanked Brian Gibbons for chairing the meeting.

Committee Secretariat: April 2000