

Date: 20 March 2003
Time: 9:00am – 12:30pm
Venue: Committee Room 1, National Assembly for Wales, Cardiff Bay
Title : ECONOMIC DEVELOPMENT MINISTER'S REPORT

GOVERNMENT BUSINESS

Encouraging Innovation & Entrepreneurship

- 1. BRASS - the Centre for Business Relationships, Accountability, Sustainability and Society** - on 6 March I met Dr David Grant, vice-chancellor of Cardiff University, and Professor Ken Peattie, Director of BRASS to discuss the work of the centre. BRASS conducts research into the better understanding and promotion of the issues of sustainability, accountability and social responsiveness within business relationships. Some interesting opportunities for possible closer work between BRASS and the Assembly Government have been identified and these will be taken forward.
- 2. Partnership at Work Action Plan** - I launched the *'Partnership at Work'* Action Plan on 19 March. It provides a framework for promoting best practice and facilitating the development of workplace partnership approaches in the private, public and voluntary sectors by the Assembly Government and its partners. It complements the *'Wales for Innovation'* Action Plan, particularly with regard to the action area to equip people to innovate, and recognises that management leadership and employee involvement are complementary features of adaptable, high-performance workplaces.
- 3. Institute of Directors Wales** - on 19 March I addressed an IoD breakfast meeting at the Dylan Thomas Centre, Swansea and outlined the actions in "Wales for Innovation".
- 4. CellFactors'** new purpose-built R&D headquarters at Imperial Park, Newport were officially opened on 27 February. The WDA assisted the company with its relocation. CellFactors is a biotechnology company specialising in the development of human cell-based therapies. It is an exciting development for Wales and exemplifies the type of high-tech, high profile R&D work the Assembly Government strives to stimulate in Wales.

Promoting ICT

- 5. TeleRegions Network (TRN)** - I am delighted that the TRN, of which I am President, is holding its 2003 Conference in Wales this month. This year's theme is "Sustainability in European Regions: the role of ICT". The network promotes the development of ICT in European Regions. It is an initiative taken forward by West Sweden, Wales, Spain and the UK.

This year's conference will explore:

- the role of European Regions and regional groupings such as TRN in the development of an Information Society;

- how regional ICT strategies address sustainable development; and
- the links between Cymru Arlein/Online for a Better Wales and sustainable development.

6. **Broadband Wales Objective One Project** - A bid for £20m of Objective One funding was supported at its first stage by the Objective 1 Regional Infrastructure Partnership in February. The projects, which total £53m, involve 3 types of activities:

- a reverse subsidy auction to extend broadband availability in peripheral areas,
- extension to the Public Sector Network, and
- support for innovative Local and Regional Projects.

Proformas have been circulated to Local and Regional Partnerships for comment and I hope at least one of the full bids can be submitted back to the Infrastructure Partnership for its May meeting. If the Partnership is content, project(s) will then be submitted to WEFO for approval by June. All 3 full bids will be submitted to WEFO by the end of the summer.

7. **Welsh Advisory Committee on Telecommunications (WACT)** - On 18 March, I delivered the keynote address at the WACT 2003 Conference on 'The Future of Telecommunications in Wales'. The purpose of the Conference was to look at the telecommunications issues affecting Wales and those facing the new regulatory body, OFCOM. It was attended by prominent figures from the telecommunications sector, including Oftel Director General David Edmonds.

8. **SCT (UK) Ltd** - on 18 March I opened SCT's new data centre in Treforest and delivered a short speech on the Welsh Manufacturing Industry. SCT has secured substantial Objective 1 project funding for a project to overcome many of the problems experienced by Welsh SMEs in implementing ICT solutions.

9. **BT Call Centres** - I am aware that BT has made an announcement that it plans to transfer some of its directory inquiries services from the UK to India. This is part of its policy to develop large multi-function call centre facilities. It has given assurances that no permanent employees in its Cardiff, Newport or Colwyn Bay call centres will be made redundant as part of this.

10. **Broadband in Scotland**: The First Minister of the Scottish Executive made an announcement about broadband access on 10 March. He announced that BT would be upgrading 6 exchanges in Scotland to offer DSL capabilities and that Scotland would be pushing ahead with aggregation in public sector. Also, £24 million has been allocated to providing subsidy to help business in Scotland access broadband. It is good to see Scotland is finally following Wales' lead on the broadband agenda.

Supporting Business

11. **Loselys** is establishing a state of the art dairy ice cream manufacturing facility at the Llantarnam Industrial Park, Cwmbran. The investment is being supported by an RSA grant of £1.1m.

12. **Norgine** is expanding its facilities at Hengoed to keep pace with demand for its pharmaceutical products for gastroenterology ailments. The £8m investment is being supported by an RSA grant of £761,000.

13. **Finance Wales:** I recently opened the regional office of Finance Wales at Penllergaer, another exciting milestone in the ongoing development and success of Finance Wales. Having a presence in each region of Wales will ensure small businesses have direct, easy access to their whole range of products and services.

At the same time, they have recently established a new, user-friendly micro loans system enabling businesses to get while-you-wait decisions on loans of between £1,000 and £10,000. Consequently, they have set themselves new, very challenging, targets to reach many more small companies per year.

14. **Therm Tempered, Pontyclun:** I was delighted to hear that this double-glazing manufacturer is on course to achieve a record turnover this financial year. The company received RSA support towards the £3.5 million expansion project that directly assisted its current trading position. Over the next 3 years, turnover is expected to continue to increase resulting in the need for increased staffing levels.

Establishing Wales in the World

15. **Global Enterprises** - On 19 March, I attended a WalesTrade International event about this new programme. It represents a new direction for WTI, focussing efforts on larger, more experienced companies. It is aimed at those companies already experienced in a range of world markets and which display the potential to significantly expand their international trading activity, achieving truly "global player" status.

16. **Cardiff Business Club** - On Monday 10 March, I attended Cardiff Business Club where the guest speaker was Jeffrey Lewis, Economic Advisor to the World Bank. Events like this have a dual role to play: putting Welsh concerns in the minds of some of the world's most influential organisations, and giving Welsh businessmen and women a chance to hear the views of global business experts.

17. **WalesTrade International** - At the Cardiff Business Club event, I was pleased to report that WTI has broken through the £1billion barrier in respect of the amount of overseas opportunities it has identified for action since it was established. It is actively working with a number of Welsh companies in order to turn these into as many firm orders as possible.

Setting a Fresh Direction

18. **EU producer responsibility directives** - Members may wish to be aware that:

- An End of Life Vehicles Directive Consultation Paper was issued on 7 March. Regulations are expected to come into force in summer 2003.
- A Waste from Electrical and Electronic Equipment (WEEE) Directive consultation paper is to be issued on 28 March 2003. This is the first stage of a three-stage consultation process. An awareness raising seminar has

already been held in South Wales and a further seminar, targeted at electrical equipment/ component producers, is to take place on 2 April in North Wales.

Creating Strong Communities

19. **'Holyhead Forward'** - On 6 March I received a presentation from a delegation from the Isle of Anglesey County Council on the outline regeneration framework for Holyhead.
20. **Ebbw Vale Master Plan** - On 17 March, together with the Ministers for Education & Lifelong Learning and Health & Social Services, I received a presentation from Blaenau Gwent County Borough Council, the WDA and Corus.

OTHER NEWS

21. **Corus** announced on 11 March that the Dutch Supervisory Board of Corus Nederland BV had rejected the sale of its aluminium fabrication assets to the French aluminium producer Pechiney. The sale of these assets was important to the company in order to reduce debt and to pay for the investments necessary to restore Corus competitive position in world steel markets. The Corus Board unsuccessfully challenged the decision before the Amsterdam Court of Appeal and the decision has been accepted as final.

At the same time the company made public its strategy to deal with continuing losses from its carbon steel operations in the UK. Detailed plans will follow an internal review currently underway.

Corus currently employs 7,700 people in Wales, primarily in Port Talbot, Llanwern, Shotton and Trostre. It is not yet clear whether these sites will be affected by Corus' capacity reductions. I will keep the Committee informed of any developments.

22. **Business Partnership Council:** I shall be attending the Business Partnership Council meeting on 21 March. The main items on the agenda are Transport and the Economy, Housing and State of Trade of the Welsh business sector.
23. **Proposed Budget Changes in the Economic Development MEG** – the Finance Minister has laid a motion for a Supplementary Budget for future years and will also be making a statement about in-year changes for 2002-03. Annexes 1 and 2 attached to the report inform the Committee of proposed changes in the Economic Development MEG.

Job Gains/Safeguarded (50 and over) since the previous EDC

- **Loselys, Cwmbran:** 92 jobs will be created following a move to new premises at Llantarnam Industrial Park, Cwmbran.
- **Norgine, Hengoed:** 200 new jobs will be created by an expansion to keep pace with demand for its pharmaceutical products.

- **118UK, Cardiff:** 350 new jobs announced for Cardiff Call Centre delivering directory enquiries. This follows recent announcement of jobs in Swansea.

Job losses (50 and over) since the previous EDC

- Nil to report.

ACTION OUTSTANDING FROM PREVIOUS MEETINGS

EDC Minutes 13 February 2003 (para 3.6) – Allocation of funds to the voluntary sector under priority 3, measure 4

During the discussion of the quarterly Structural Funds report on 13 February, WEFO agreed to provide a note on the relationship between Community Investment Tax Relief (CITR) and the Capital Risk Fund. The latter is being developed by the Wales Council for Voluntary Action (WCVA) with a view to a grant being sought from Priority 3 Measure 4 (Support for the creation and development of businesses in the social economy) of the Objective 1 Programme.

CITR is a UK-wide scheme providing tax relief on investments made in accredited Community Development Financial Institutions (CDFIs) that provide loans to small businesses either in spatially-targeted areas – the 504 most deprived Electoral Divisions in Wales (which cover about 60 per cent of the population of Wales) – or in relation to non-geographical deprivation (for example ethnic minority groups).

Further details are in the paper 'Fiscal Variations', put to the Committee's meeting of 12 December 2002. All small businesses, including – but not exclusively – those in the social economy, will be eligible for loans under the scheme. Sectoral restrictions that limit eligibility for Finance Wales' ERDF supported loan funds will not apply to CITR funds.

The proposed Capital Risk Fund will be a grant scheme, which will make available grants of between £20,000 and £50,000 to assist voluntary and community groups who wish to develop enterprise or trading activity. It will be available only within the targeted areas for Priority 3 in the Objective 1 Programme, that is the 30 per cent of the population in the more deprived parts of the Objective 1 region.

The two schemes have therefore different aims and are targeted at different businesses/groups – the CDFIs at existing businesses and the Capital Risk Fund primarily at groups wishing to develop trading activity. There may be some overlap; some social enterprises that are in both the 60 per cent of areas covered by CITR and in the Objective 1 spatially-targeted areas, and who wish to develop their activities in an innovative way, may find that they are eligible for both. However, WEFO expects that the number of enterprises to whom this will apply will be limited.

PROPOSED TRANSFER OF RESOURCES BETWEEN BUDGETS FOR 2002-03

The Finance Minister will shortly be making a statement about in-year resources for 2002-03.

This is an opportunity to reflect:

- Additional funding from previous year's underspends, such as for the Rural Recovery Plan, the Steel Regeneration Framework, preparatory work for the Ryder Cup, and allocations for projects announced in previous budget planning rounds;
- Changes in running costs funding for the transfer of responsibility for SMART Wales to the WDA and the setting up of the Broadband Wales unit;
- Transfer of resources between individual budget lines to allow maximum utilisation of existing funding and reduce underspend across the MEG.

I am taking this opportunity to inform the Committee of the proposed transfers, which are listed in the following table. These transfers do not affect the level of services provided to businesses in support of economic development.

The Committee may wish to note that this is the first year when budgets and expenditure have been on a resource basis. This has had an impact on the apparent in-year expenditure of certain budgets. The ERDF budget, for example, appears to be significantly underspent. This is due to the large difference between opening and closing creditors, caused by the ending of the old ERDF programme on 31 March 2003. It does not reflect a slowing down of expenditure on the current programme.

PROPOSED ADJUSTMENTS TO 2002-03 BUDGETS

Economic Development MEG			
	£000s		
BEL Title	Current Provision	Proposed Change	Proposed Revised Provision
RSA – Projects & Business Improvement Support	44,551	14,959	59,510
Communications Development	168	-70	98
International Trade	4,924	0	4,924
International Relations	1,167	-335	832
Innovation Design & Technology	4,309	-100	4,209
Energy and Environment	2,450	-814	1,636
Assembly Investment Grant	1,000	3,300	4,300
Business Birth Rate Strategy	1,000	-600	400
RSA AND OTHER BUSINESS SUPPORT	59,569	16340	75,909
Public Sector Network	4,320	-242	4,078
All Wales Network of ICT Support Centres	750	-750	0
Broadband Telecommunications	6,100	3,386	9,486
Depreciation/Cost of Capital	0	300	300
ICT ADVICE INFRASTRUCTURE	11,170	2,694	13,864
Pathway to Prosperity Fund	3,333	-680	2,653
Pathway to Prosperity Fund – Match Funding	18,000	-1,463	16,537
Euro Facilitators	500	-70	430
PATHWAY TO PROSPERITY FUND	21,833	-2,213	19,620
WDA Running Costs	32,210	1,732	33,942
WDA Capital Expenditure	46,674	72,725	119,399
WDA Capital Receipts	-4,833	-25,167	-30,000
WDA Current Expenditure	155,910	-60,947	94,963
WDA Current Expenditure - Finance Wales	4,546	0	4,546
WDA Current Receipts	-76,787	67,908	-8,879
WDA NLF/PDC	599	600	1,199
WDA Depreciation/Cost of Capital	40,813	0	40,813
WDA Provisions (AME)	1,100	0	1,100
WDA Structural Funds Partnership	1,810	0	1,810
WELSH DEVELOPMENT AGENCY	202,042	56,851	258,893
Transfers to Local Government from Cardiff Bay	16,019	-3,636	12,383

Economic Development MEG			
BEL Title	£000s		
	Current Provision	Proposed Change	Proposed Revised Provision
WTB Running Costs	4,912	0	4,912
WTB Current Expenditure	14,376	1,623	15,999
WTB Current Receipts	-4,060	2,647	-1,413
WTB Capital Expenditure	5,220	-2,070	3,150
WTB Depreciation/Cost of Capital	300	0	300
WTB Rural Recovery Funds	0	2,270	2,270
WALES TOURIST BOARD	20,748	4,470	25,218
Steel Regeneration Package	0	300	300
Miscellaneous European Support Services	450	-100	350
Economic, Research and Evaluation	130	0	130
OTHER ECONOMIC DEVELOPMENT	580	200	780
European Regional Development Fund	99,221	-28,834	70,387
European Social Fund	58,000	-1,924	56,076
European Structural Funds Programme Support	542	0	542
FIFG	1,300	100	1,400
EAGGF	11,200	1,967	13,167
Local Authority Projects - Match Funding	33,588	-18,566	15,022
WEFO – EUROPEAN FUNDING	203,851	-47,257	156,594
TOTAL	535,812	27,449	563,261

PROPOSED ADJUSTMENTS TO 2003-04, 2004-05 and 2005-06 BUDGETS

The following proposed changes to BELs for the next 3 years will be included in a Supplementary Budget motion being laid by the Finance Minister on 26 March 2003. I am therefore taking the opportunity to inform the Committee of these proposals and to provide information on why the changes are being made.

The changes can be grouped as follows:

- Transfer of funding to WDA for services they have the responsibility of providing, such as:
 - ◇ Environmental management services currently funded from the Energy and Environment BEL
 - ◇ Running of All Wales Network of ICT Centres
 - ◇ Organisation of sectoral fora currently funded from the Pathway to Prosperity Fund BEL
 - ◇ Activities related to the Ryder Cup 2010 currently funded from the Culture Sport and Welsh Language MEG
- Transfers between running costs and programme following the transfer of the SMART Wales grant schemes to the WDA and the establishment of the Broadband Wales Unit
- Transfers within WDA BELs to reflect the pattern of WDA expenditure in operational terms more accurately. These changes are resource neutral and are identified separately.
- Additional funding for ASPBs for the Equal Pay settlement.
- Changes to depreciation/cost of capital budgets to reflect the lower rate of the cost of capital required by HM Treasury.

PROPOSED CHANGES

1. RSA and other business support SEG

Energy and environment BEL

	£000s		
	2003-04	2004-05	2005-06
Baseline	2,820	3,200	3,450
Proposed change	-230	-230	-230
New baseline	2,590	2,970	3,220

2. ICT Advice and Infrastructure SEG

Cymru Arlein – Online for a Better Wales BEL

	£000s		
	2003-04	2004-05	2005-06
Baseline	250	250	250
Proposed change	770	770	770
New baseline	1,020	1,020	1,020

Public sector Network BEL

	£000s		
	2003-04	2004-05	2005-06
Baseline	3,250	3,250	3,250
Proposed change	-250	-250	-250
New baseline	3,000	3,000	3,000

All Wales network of ICT support centres BEL

	£000s		
	2003-04	2004-05	2005-06
Baseline	750	750	750
Proposed change	-750	-750	-
New baseline	0	0	750

Broadband Telecommunications BEL

	£000s		
	2003-04	2004-05	2005-06
Baseline	9,200	11,000	12,000
Proposed change	-970	-970	-970
New baseline	8,230	10,030	11,030

Depreciation and Cost of Capital BEL (new budget)

	£000s		
	2003-04	2004-05	2005-06
Baseline	-	-	-
Proposed change	305	282	272
New baseline	305	282	272

3. Pathway to Prosperity SEG

Pathway to Prosperity Fund BEL

	£000s		
	2003-04	2004-05	2005-06
Baseline	974	974	974
Proposed change	-230	-220	-
New baseline	744	754	974

4. Welsh Development Agency SEG

WDA Running costs

	£000s		
	2003-04	2004-05	2005-06
Baseline	32,210	32,210	33,210
Proposed change	2,944	2,934	1,964
Re-based budget	-4,095	-4,095	-4,095
New baseline	31,059	31,049	31,079

WDA Capital Expenditure

	£000s		
	2003-04	2004-05	2005-06
Baseline	50,321	50,321	50,321
Proposed change	-	-	-
Re-based budget	33,185	33,185	33,185
New baseline	83,506	83,506	83,506

WDA Capital Receipts

	£000s		
	2003-04	2004-05	2005-06
Baseline	-5,245	-5,175	-5,175
Proposed change	-	-	-
Re-based budget	-22,755	-22,755	-22,755
New baseline	-28,000	-27,930	-27,930

WDA Current expenditure

	£000s		
	2003-04	2004-05	2005-06
Baseline	154,236	154,736	156,736
Proposed change	3,575	3,575	3,575
Re-based budget	-71,522	-71,522	-71,522
New baseline	86,289	86,789	88,789

WDA Current Receipts

	£000s		
	2003-04	2004-05	2005-06
Baseline	-70,868	-70,868	-70,868
Proposed change	-319	-319	-319
Re-based budget	65,187	65,187	65,187
New baseline	-6,000	-6,000	-6,000

WDA Depreciation/Cost of Capital

	£000s		
	2003-04	2004-05	2005-06
Baseline	39,056	39,056	39,056
Proposed change	-6,997	-6,997	-6,997
New baseline	32,059	32,059	32,059

5. Wales Tourist Board SEG

WTB Running Costs BEL

	£000s		
	2003-04	2004-05	2005-06
Baseline	4,912	4,912	4,912
Proposed change	256	256	256
New baseline	5,168	5,168	5,168

WTB Depreciation/Cost of Capital

	£000s		
	2003-04	2004-05	2005-06
Baseline	304	304	304
Proposed change	-89	-89	-89
New baseline	215	215	215