



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Menter a Dysgu
The Enterprise and Learning Committee**

**Dydd Iau, 26 Chwefror 2009
Thursday, 26 February 2009**

Cynnwys
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Economaid Rhyngwladol Presennol
Committee Inquiry on the Welsh Assembly Government's Response to the Current
International Economic Downturn

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg. Mae hon yn fersiwn ddrafft o'r cofnod. Cyhoeddir fersiwn derfynol ymhen pum diwrnod gwaith.

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included. This is a draft version of the record. The final version will be published within five working days.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Christine Chapman	Llafur Labour
Jeff Cuthbert	Llafur Labour
Andrew R.T. Davies	Ceidwadwyr Cymreig Welsh Conservatives
Nerys Evans	Plaid Cymru (yn dirprwyo ar ran Gareth Jones) The Party of Wales (substitute for Gareth Jones)
Huw Lewis	Llafur Labour
David Melding	Ceidwadwyr Cymreig Welsh Conservatives
Sandy Mewies	Llafur Labour
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

Eraill yn bresennol
Others in attendance

Nia Davies	Rheolwr Polisi Cymru, Ffederasiwn Busnesau Bach Wales Policy Manager, Federation of Small Businesses
Dr Philip Cooper	Prif Weithredwr, Venture Wales Chief Executive, Venture Wales
Non Rhys	Swyddog Polisi Cymru, Ffederasiwn Busnesau Bach Wales Policy Officer, Federation of Small Businesses

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Dan Collier	Dirprwy Glerc Deputy Clerk
Dr Kathryn Jenkins	Clerc Clerk

Dechreuodd y cyfarfod am 9.30 a.m.
The meeting began at 9.30 a.m.

Ethol Cadeirydd Dros Dro i'r Pwyllgor
Election of Temporary Committee Chair

[1] **Dr Jenkins:** Bore da. Yn absenoldeb y Cadeirydd, ac yn unol â Rheol Sefydlog Rhif 10.19, gofynnaf i'r pwyllgor ethol Cadeirydd dros dro. A oes enwebiadau? **Dr Jenkins:** Good morning. In the absence of the Chair, and in accordance with Standing Order No. 10.19, I ask the committee to elect a temporary Chair. Are there any nominations?

[2] **Sandy Mewies:** I nominate Nerys Evans.

[3] **Dr Jenkins:** A oes enwebiad arall? **Dr Jenkins:** Are there any further nominations? I see that there are not

*Penodwyd Nerys Evans yn Gadeirydd dros dro.
Nerys Evans was appointed temporary Chair.*

9.31 a.m.

Cyflwyniad ac Ymddiheuriadau Introduction and Apologies

[4] **Nerys Evans:** Bore da a chroeso i Aelodau a'r tystion. Yr wyf yn atgoffa pawb i ddiffodd eu ffonau symudol ac unrhyw ddyfeisiau electronig eraill fel BlackBerrys, am eu bod yn effeithio ar y system sain. Yr wyf hefyd yn atgoffa Aelodau a thystion i beidio â chyffwrdd â'r meicroffonau, gan eu bod yn dod ymlaen yn awtomatig. Nid ydym yn disgwyl ymarfer tân, felly os yw'r larwm tân yn seinio, dylem ddilyn cyfarwyddiadau'r tywysyddion. Fel mae'n siŵr y gwyddoch, mae hwn yn gyfarfod dwyieithog, felly mae clustffonau ar gael i glywed y cyfieithiad ar y pryd ar sianel 1 ac i chwyddleisio'r sain ar sianel 0. Bydd Cofnod dwyieithog o'r trafodion ar gael i'r cyhoedd.

Nerys Evans: Good morning and welcome to Members and witnesses. I remind everyone to switch off their mobile phones and other electronic devices, such as BlackBerrys, as they affect the audio equipment. I also remind Members and witnesses not to touch the microphones, which come on automatically. We are not expecting a fire drill, so, if the fire alarm sounds, we should follow the ushers' directions. As I am sure you all know, this meeting will be conducted bilingually, so headsets are available. The simultaneous translation is available on channel 1 and amplification of the sound on channel 0. A bilingual Record will be available to the public.

9.32 a.m.

Ymchwiliad y Pwyllgor i Ymateb Llywodraeth Cynulliad Cymru i'r Dirywiad Economaid Rhyngwladol Presennol Committee Inquiry on the Welsh Assembly Government's Response to the Current International Economic Downturn

[5] **Nerys Evans:** Symudwn ymlaen at yr eitem nesaf. Fel pwyllgor, yr ydym wedi penderfynu cynnal ymchwiliad i'r dirywiad economaidd presennol, gan roi sylw arbennig i'r cymorth sydd ar gael i fusnesau.

Nerys Evans: We will move on to the next item. As a committee, we have decided to conduct an inquiry into the current economic downturn, paying specific attention to the support that is made available to businesses.

[6] Bu inni graffu ar waith y Dirprwy Brif Weinidog a'r Gweinidog dros yr Economi a Thrafnidiaeth, Ieuan Wyn Jones, yn y cyfarfod diwethaf, a heddiw, mae gennym gyfle i graffu ar waith dau gorff sy'n cynrychioli a chynorthwyo busnesau bach a chanolig eu maint. Hoffwn roi croeso mawr i gynrychiolwyr y Ffederasiwn Busnesau Bach: Non Rhys, rheolwr polisi Cymru, a Nia Davies, swyddog polisi Cymru. Diolch yn fawr am eich presenoldeb. A allwch wneud cyflwyniad byr o ryw bump i 10 munud, cyn inni symud ymlaen at gwestiynau yr Aelodau?

We scrutinised the work of the Deputy First Minister and Minister for the Economy and Transport, Ieuan Wyn Jones, in the previous meeting, and, today, we have an opportunity to scrutinise the work of two organisations that represent and support small and medium-sized enterprises. I extend a warm welcome to the representatives of the Federation of Small Businesses: Non Rhys, the Wales policy manager, and Nia Davies, the Wales policy officer. Thank you for your attendance. Could you make a brief presentation of some five to 10 minutes, before we move on to questions from the Members?

[7] **Ms Rhys:** Cyn rhoi amlinelliad byr o'n safbwynt, hoffwn ddweud ein bod yn gwneud y sylwadau hyn gan gydnabod y cyfyngiadau sydd ar bwerau'r Llywodraeth yng Nghymru, ac yr ydym wedi cynnwys rhai sylwadau ac awgrymiadau yn y ddogfen y byddai angen eu gweithredu drwy San Steffan.

Ms Rhys: Before I give a brief outline of our position, I want to say that we make these comments while recognising the limitations on the powers of the Government of Wales, and we have included some comments and suggestions in the document that would need to be implemented via Westminster.

[8] Yr ydym wedi cynnwys ar ddechrau'r papur rai ystadegau y gobeithiwn eu bod o ddefnydd i greu darlun o'r mwyafrif o fusnesau sydd yng Nghymru, sef busnesau bach a chanolig eu maint. Mae'n bwysig sylweddoli'r amrywiaeth o fusnesau sydd yng Nghymru, o ran eu lleoliad, eu math a'u maint. Er enghraifft, mae traean o'n haelodaeth wedi eu seilio yn y cartref. Mae hynny'n bositif o ran creu economi gynaliadwy, ond dengys yr ystadegau'n glir mor fregus yw sefyllfa'r busnesau hyn os cânt anhawster yn cael gafael ar arian yn y tymor byr i gynnal y busnes drwy'r cyfnod hwn. Mae dros 50 y cant yn nodi y byddent yn colli popeth neu fod perygl iddynt gollu eu cartref o ganlyniad i fod yn fethdalwr.

We have included some statistics at the beginning of the paper that we hope are of use in painting a true picture of the majority of businesses in Wales, namely small and medium-sized enterprises. It is important to recognise the variety of businesses that exist in Wales, as regards their location, their type and their size. For example, a third of our membership is based in the home. That is a positive step towards creating a sustainable economy, but the statistics show clearly how vulnerable these businesses are should they have difficulty getting hold of money in the short term to see their businesses through this period. Over 50 per cent state that they would lose everything or would be at risk of losing their homes if they were to go bankrupt.

[9] I ni, un o'r prif bethau sy'n gallu amharu ar weithredu nifer o'r polisiâu ar lefel genedlaethol yn lleol yw cynllunio. Oherwydd hynny, mae Ffederasiwn y Busnesau Bach yng Nghymru wedi comisiynu ymchwil am y berthynas â'r system gynllunio a'i heffaith ar fusnesau bach yn arbennig. Mae'r canlyniadau hyd yn hyn yn dangos bod amrywiaeth eang yn y system ledled y wlad, ond bod cynlluniau busnesau bach yn creu buddsoddiadau gwerth rhwng £20,000 a £40,000 ar gyfartaledd, a bod chwarter o geisiadau cynllunio yn creu swyddi ychwanegol. Nid yw buddiannau megis y rheiny i'r gymuned a'r economi leol yn cael eu hystyried yn rhan o'r broses.

For us, one of the main things that can interfere with the local implementation of many national policies is planning. As a result of that, the Federation of Small Businesses in Wales has commissioned research into the relationship with the planning system and its impact on small businesses in particular. The results so far show that there was a wide variety in the system throughout the country, but that small businesses' plans generate investments of between £20,000 and £40,000 on average, and that a quarter of planning applications create additional jobs. Such benefits for the community and the local economy are not considered as part of the process.

[10] Un pwnc sydd heb ei gynnwys yn nogfen ddiweddaraf y Llywodraeth yn dilyn yr uwchgynadleddau economaidd yw trosedd yn erbyn busnes. Gyda'r heddlu yn disgwyl cynnydd mewn troseddu, mae angen gweithredu ar hyn yn awr. Ar y cyfan, yr ydym yn hapus gyda pharodrwydd y Llywodraeth i dderbyn a thrafod syniadau newydd a chreadigol, ond yr ydym yn cyflwyno rhai ystyriaethau ac awgrymiadau

One subject that is not covered in the latest Government document following the economic summits is crime against business. Given that the police expect to see an increase in such crimes, action is needed now. On the whole, we are happy with the willingness of the Government to accept and discuss new and creative ideas, but we have presented some considerations and suggestions in this paper that could improve

yn y papur hwn a allai wella ymateb y the Government's response to the economic
Llywodraeth i'r argyfwng economaidd. crisis.

[11] **Nerys Evans:** Diolch yn fawr. **Nerys Evans:** Thank you. We will now move
Symudwn ymlaen at gwestiynau'r Aelodau. on to Members' questions. First, I call on
Galwaf ar Jeff yn gyntaf. Jeff.

[12] **Jeff Cuthbert:** Thank you for your written presentation and for the oral statement
that you have just made. Your written submission made very interesting reading. I am pleased
to see that, in general, you seem to be supportive of the stance that the Welsh Assembly
Government has taken thus far of working with partners, particularly on the economic
summits. If there is anything more that you want to say about the effectiveness or otherwise
of the economic summits, please do so. My question relates specifically to your final
paragraph, paragraph 38, in which you say that,

[13] 'There is a worry that the Welsh Government is diverting European funding to plug
the gaps left by the recession...There needs to be a balance between growth for the future and
survival in the short term'.

[14] I quite agree with all of that, and it is why the Lisbon agenda for skills and
development is a crucial driver of European convergence and competitiveness funding. Will
you explain a bit more about your worry, and what diversion of European funds to plug gaps
you are alluding to? You also make reference to your support for ProAct, which is partly
European-funded, so what are your concerns in that respect?

[15] **Ms Rhys:** A main concern is that the economic summit update papers seem to be
heavily geared towards skills, given that convergence funding can be used for that purpose
because of the weighting of the Lisbon agenda. That is long-term help. It is important,
because we have to prepare business now for growth when we come out of this recession, and
we are keen for the Welsh Assembly Government to do that. As I just said in my oral
statement, we recognise the limitations on the funding of the Assembly Government as well
as on its powers. So, we recognise that it can be problematic getting that balance right with
the macro-economics and the micro-economics. We welcome the way in which the Welsh
Assembly Government has been leading the way with schemes such as ProAct, but getting
additional funding for such schemes involves persuading the UK Government to take them on
too, so that it allocates more money. Cash flow now is what businesses need to survive, so to
ensure survival and growth perhaps it is a matter of just looking again at the balance.

[16] **Jeff Cuthbert:** That is fine. Balance is crucial, but, in your written statement, you
state specifically that,

[17] 'There is a worry that the Welsh Government is diverting European funding'.

[18] What is the worry? What moneys do you feel are being diverted in a way that you are
not happy with? Are there specific instances, or are you just giving a general statement of
concern that it must not happen?

[19] **Ms Rhys:** I do not know about Nia, but I would not be happy to comment on specific
instances. However, with regard to how we address this now, much of the convergence
funding is money that the Welsh Assembly Government has available to help businesses.
Perhaps we should be cautious of using the money for short-term projects, as Objective 1 did,
and instead use it for sustainable projects. We have concerns about that. We have been trying
to push soft loans in respect of the joint European resources for micro to medium enterprises
funding, JEREMIE, for example. Obviously, that is not a soft loan, but it is a step in the right
direction if we can get the annual percentage rate of those loans down for businesses. So, that

is a more sustainable use of convergence funding.

[20] **Jeff Cuthbert:** So, you are more concerned that there should be a strategic programme for the use of structural funds rather than there being short-termism.

[21] **Ms Davies:** I understand that the Government is stuck between the devil and the deep blue sea, because it wants to plug the gap now to get us out of the recession, but how will that affect us in five or six years' time and beyond? It is the difference between wanting to spend European funding just to plug the gap now and looking at it strategically to see how it can help us in the long term.

[22] **David Melding:** I want to expand on the comments that you made in your paper about the lack of a manufacturing strategy, which you feel is needed. Perhaps it plays into some of the remarks that you have just made in response to Jeff's question about still having an eye on the longer term even though we face a difficult economic recession. We need to prepare for recovery and further development of the Welsh economy on a long-term basis.

9.40 a.m.

[23] How disappointed are you that the Government has said that it will not bring forward its manufacturing strategy, because it feels that the current crisis is taking up all its efforts? That is perhaps linked to the comment that you make in the paper about being disappointed that the summits have replaced the business partnership council. I suspect that you would like the council to look at some of the longer-term issues that remain, and which will challenge us as the UK economy and world economy start to recover. Although you welcomed the economic summits, you said that the fourth summit was perhaps not up to the standard of the previous three; do you feel that there is a declining marginal return? So, in summary, my first question is: would you expand on that area? That would help the committee in its deliberations.

[24] My second point is on business rate relief. Thinking of what we could do for small and medium-sized businesses, do you feel that a more generous scheme, along the lines of the Scottish model, would have been one of the most effective measures that we could take to help these firms through the recession? Indeed, we could keep such measures in place to encourage those firms to expand, because there has been a traditional reliance upon larger companies in certain sectors to be the engine for future growth. As your data shows, the number of people employed in small and medium-sized firms is massive.

[25] **Ms Rhys:** I will start with the manufacturing forum. The main point that I would like to make is that we welcomed the way that the manufacturing forum was working. It involved co-operation between the private and public sectors, pooling ideas in a natural, organic way. The manufacturing strategy that is referred to is a collaboration between all parties involved; business perhaps feels that, previously, consultation documents or strategies have been drafted in isolation and then put out to consultation. We felt that it was a fantastic way of working, and should set a precedent for the future. Obviously, we feel that there is now a need for revision, because of the change in the economic climate, but there are a lot of ideas in there that should be implemented now. We would welcome the continuation of the manufacturing forum.

[26] With regard to the summits, as opposed to the business partnership council, the FSB and CBI put forward a joint paper calling for the planning system to be revised, and that is something that we referred to in our written submission. In a practical way, that is something that can really hinder business diversification and growth at a local level. So, with regard to the summits, it is their structure that we are more concerned about—we need to clarify what the economic summits, the reference group, and the workstreams that are supposed to come

under the reference group, are supposed to do. As well as the issue of which committee does what, we need to clarify where the accountability lies with regard to the ideas, and then ensuring that they are implemented. We are not sure how to feed into the workstreams under the reference group. I do not know if Nia wants to take the question on rate relief.

[27] **Ms Davies:** We said in the paper that business rate relief is the third-highest item of expenditure for SMEs, so it would have a huge impact. As for the Scottish model, I do not think that you would necessarily base any changes on that; you would have to come up with a model for Wales, and we are looking to see what would be suitable for Wales, and how we may be able to create a different system. The multiplier in Wales is higher, and we were told that the reason is because the ratable value—or the rent in Wales, basically—is a lot lower. To me, that seems wrong, because there is a reason why rent in Wales is lower: the economy is not as good as that in England. Therefore, yes, I think that there is a need to look at the system in future, particularly given that their multiplier has been increased by 4.9 per cent, well above the rate of inflation. We feel that that has, basically, been done behind closed doors, and we have just been told that this is how it is going to be. We need to look at how that will have an impact on SMEs in future. As I said in the paper, the Department for the Economy and Transport can say that it wants to help SMEs, but another department might be taking decisions that will have an impact on business rates, so some decisions seem to work against each other.

[28] **David Melding:** Thank you. I think that that clarifies the position on business rate relief. However, in your paper, you say that you are disappointed that the manufacturing strategy has not been implemented. I do not think that it has even been published yet. However, in answer to my question you talked about the manufacturing forum. As far as I know, this body is still meeting. If it is not, we need to know that. I put it to you that there is a big difference between having a manufacturing forum and the Government's having a manufacturing strategy. I would like a direct answer: are you disappointed that the Welsh Assembly Government, unlike the UK Government, does not have a manufacturing strategy in place?

[29] **Ms Rhys:** Yes, because we feel that there is a strategy that could be used. It was produced with input from the private sector from the outset, so we now want it to be revised and implemented as soon as possible.

[30] **Jenny Randerson:** Thank you for your papers and presentation. I noticed that nearly 40 per cent of your members are directly or indirectly reliant on the tourist trade. I would like you to comment on whether the Government is providing sufficient support for businesses in that sector or that are reliant on the tourist trade. If you think that it is not, what more would you suggest it could do?

[31] On a very different question, I would like your opinion on the single investment fund. Is it an improvement on the previous arrangements? Is it proving easier for your members to get financial and specialist support as a result of it?

[32] **Ms Rhys:** With regard to tourism, there are so many different elements that can affect tourism, and there are so many types of business that are dependent, directly or indirectly, on tourism. There are a few main areas that I would mention in the context of the cuts in local authorities. Economic development will be an easy target for cuts, which is a worry because it will have a direct impact on the visual aspect of communities and localities—their attraction as tourist locations. With regard to help for the retail sector—which is quite rightly one of the Welsh Assembly Government's priorities as it has been badly hit and was one of the first sectors hit—and dependence on European convergence funding, because of the regulations, retail businesses cannot access grant help and so on. So that needs to be looked at. Public transport and infrastructure require investment now. Along with the CBI, we have produced a

document putting forward suggestions on bringing infrastructure projects forward, but on a small scale, so that SMEs are likely to be able to tender for the contracts. Crime is another issue. The police are projecting that crime will increase dramatically over the summer, which would not be good for tourism in Wales, which had a hard summer last year because of the weather—although the Welsh Assembly Government cannot do anything about that, of course. However, those are important aspects.

9.50 a.m.

[33] The single investment fund looks great on paper in that it will provide one access point, which is exactly what we have asked for. The only concern is with regard to ensuring that businesses have that number and know where to go and with regard to the connection with local investment funds, because a lot of businesses will still go to their local authority as the first port of call for anything. It is a natural step for them to go to a local authority. Ensuring that those connections match up is important for us, so that it all flows smoothly for a business.

[34] **Ms Davies:** In terms of the single investment fund, as Non was saying, that is what we wanted, because it has always been confusing for businesses, as there have been 100 different organisations that they could go to, to get help. So, in theory it is a good idea, but it will not all be linked in. The idea of putting an application into a single place and then being able to go to a business adviser, through Flexible Support for Business is good but, in practice, I do not know how it will work. This goes back to the point that Non made about local authorities. If local authorities are going to have their own grants, how is that going to link into the system? We have asked those questions of the Welsh Assembly Government, and we have not had clear guidance on how that will be carried on. How is help available through business advice going to be monitored? If it is going to go out to business advisers in the marketplace, how will the Welsh Assembly Government ensure that the help available is given to businesses through the businesses advisers? So, in theory, we like the idea, but we would like to know when it will come into being, because there has been a year of uncertainty. The old system of business advice came to an end about a year ago, and businesses have been in a state of limbo since then, especially small businesses. We like the idea, but when is it going to come into effect? When will people be able to recognise that FS4B and the SIF exist? People are still asking for Business Eye; there has been a bit of a vacuum since Business Eye. On the whole, we are happy with it, but we are worried about how it will work in practice.

[35] **Nerys Evans:** Do you have a supplementary question on this point, Jenny?

[36] **Jenny Randerson:** I would like to pick up on the last point, which is that people are still asking for Business Eye. Are you not concerned that if you go for a single port of call, you will increase bureaucracy, and do you therefore not welcome the fact that some local authorities appear to be initiating new economic development stimuli? They are introducing their own grants and loans, and they are reacting locally. Do you know how widespread that is now? I am aware of a couple of examples of that, but I do not know how widespread it is.

[37] **Ms Davies:** Yes and no. I come from a local authority background, from an economic regeneration department, so I have come through that system and have seen how it works. Local authorities are in an excellent position to help businesses. Businesses will go to the local authority before they go to the Assembly, perhaps. In terms of where the SIF and FS4B sit, it makes sense to have one port of call for getting Assembly help. However, as we say, the link between local authorities and the Welsh Assembly Government may not be as clear as we would like it to be. It would make sense for local firms to be helped by the local authority if and where possible, as long as there are linkages between local authorities and the Welsh Assembly Government. That is what we are concerned about. If you cannot deal with it at a

local level, you need to be able to pass it on. The referral was a let-down in the past. Under the old system with Business Eye, if, say, local authorities were providing a business advice service and then grants were going to be applied for through the Welsh Assembly Government or whatever, the referral system was long, and you had to fill in an application form for every part of the system. We are hoping that the new system will cut out a lot of the bureaucracy rather than add to it, but, as we were saying, the system sounds like it will work in theory but it might not work out in practice.

[38] **Ms Rhys:** Support for business is not just financial. However, with regard to the financial aspect, the single investment fund, many of these are European funding and have restrictions, which I referred to earlier.

[39] Local authority moneys have the potential to be used a lot more freely for smaller businesses—not in the form of grants; we would prefer the use of soft loans. Local authorities could be in a better position to provide those for small and medium-sized enterprises at a local level than the Welsh Assembly Government at a national level.

[40] **Ms Davies:** I would like to add to that. The money from local authorities does not have to be tied to anything. Local authorities say that they cannot help businesses and they are passing it straight on to the Welsh Assembly Government rather than thinking about what can be done locally. If local authority budgets are to be cut, the first place to experience that cut will be the economic regeneration departments, because they are not seen as being vital services. There is a worry that local authorities will be passing the buck where, in many cases—especially in terms of money—they are freer than the Welsh Assembly Government could be, in many instances, to do something with their businesses.

[41] **Sandy Mewies:** I have a quick question. My constituency, Delyn, is in Flintshire. I recently attended a meeting of small businesses where UK and Welsh Assembly Government policy was discussed. One of the points raised was that there is sometimes a lack of clarity with regard to where to go for information. Great efforts are being made to ensure that subcontractors can be second-tier and third-tier subcontractors and procurement is a big issue. However, because of how things are advertised, it is not always clear where they can go. We have aspirations to be able to provide a one-stop shop, but businesses are not clear about where to go for some of the things that are available. Flintshire is a border community, which might explain why there may be a lack of clarity in some areas. However, we have borders everywhere. Is that something that your members have been saying to you?

[42] **Ms Rhys:** With regard to accessing a one-stop shop for business support, we have asked for there to be one place that lists everything that is available at the moment. So, we welcome the Weathering the Storm campaign and hope that that will be a success, and we will support it as much as we can.

[43] With regard to procurement, our statistics show that the Sell2Wales has a much higher level of access and awareness than Supply2.gov.uk. That is good, but, with regard to gaining procurement contracts, we would welcome an all-Wales consistent system and the pre-qualification application for business. The contracts that are available need to be at a reasonable level with regard to the expectations of indemnity insurance and different levels like that, and need to take into account the local multiplier effect and the local benefits to the community from small and medium-sized enterprises gaining these contracts.

[44] **Sandy Mewies:** Are you saying that there is not a particular lack of clarity, but perhaps some fine tuning needs to be done?

[45] **Ms Rhys:** Yes, with regard to the ease of gaining the contracts. It is not always about the levels of awareness of what is available; many businesses feel that their time could be

better spent calling five different companies and gaining work in that way, rather than filling in forms.

10.00 a.m.

[46] **Christine Chapman:** I would like to follow on from what other Members have said. You have 10,000 members in Wales, so how confident are you that all 10,000 members are clear about where they should go if they found themselves during this difficult time needing help. I note that, according to paragraph 28, you found the Welsh Assembly Government particularly helpful, which is good, but how confident are you about getting responses as quickly as possible? If you are a struggling business, every minute counts. I know from speaking to businesses, and it is currently a difficult time for them, that they feel that they do not always know where they should go to get help. What assessment would you make of that? With a struggling business, how confident are you that it would know where to go for help?

[47] **Ms Rhys:** There has been much confusion with Business Eye being replaced; it was quite well known and well publicised. For the last year, there has been a gap, so to speak, with regard to the one-stop shop—a recognisable place where business can go. Many businesses turn to local authorities as their first port of call, so they have their role to play with regard to signposting the new number to contact. However, we would welcome further advertising and the Welsh Assembly Government being more proactive in terms of going out to businesses. We have felt that business advisers in local authorities, in particular, have not been able to be proactive and go out to businesses to ask them how they could help in a practical way and ask if they needed to access business support. They have to wait for businesses to be in such dire straits that they have to go out of their way to find someone who can help them, at which point it is often too late. We are talking about something that is often quite practical such as a business succession plan or help with cash flow. Providing such help can really make a difference.

[48] On the nature of the public sector, it is often at odds with the private sector because the latter, particularly at the moment, needs to react and adapt quickly. A small and medium-sized enterprise is in a great situation to be able to do that because of its size and nature. As much support as possible needs to be provided and the public sector needs to be proactive and make decisions quickly.

[49] **Ms Davies:** It is hard to get through to businesses that help is available. They do not always accept that they might need the help. When they decide that they need it, they might not know where to get it now that Business Eye has gone, and the Federation of Small Businesses may not be advertised enough because businesses do not necessarily know about it. So, I agree that they might not yet know where to go, but hopefully that will change because businesses need to know.

[50] In terms of immediate help, businesses that have gone looking for it—and they have obviously talked to Mr Jones down the road, and it is strange how that information then spreads through the business community—have not necessarily been able to get help in terms of cashflow. That is the main concern in terms of what they need now, namely help with cashflow. Unfortunately, neither the Welsh Assembly Government nor local authorities can help with that. So, that is a global crisis. On how that is affecting businesses now, if they say that they have gone looking for help and cannot get it, they will not bother looking for advice and help on the different things that affect them. That is their main concern. What the Welsh Assembly Government can offer is for the longer rather than shorter term.

[51] **Christine Chapman:** When businesses access help, and you mentioned the big problem of cash flow that is more difficult to tackle, are there other levels of expertise that you feel could be improved on when they access local authority or Welsh Assembly

Government assistance? Or are you reasonably happy that an appropriate level of support is available?

[52] **Ms Rhys:** Often, many small businesses want to avoid accepting public money in the form of grants as much as possible. Members usually prefer soft loans to make moneys more sustainable. Our statistics show that small businesses often will use personal forms of finance, which puts them in a precarious situation with personal credit cards, remortgaging, overdrafts and so on. That is one aspect, and it is often the case that businesses are not aware that practical support may be available to them. For example, currently, instead of getting rid of staff, they could ask whether there is a way of inviting someone to look at the business and perhaps say, 'Actually, you could streamline here and here, and make your business a lot more effective or efficient'. Mentoring is something that we welcome, because businesses will listen to other businesses, and they respect that approach a lot more.

[53] **Andrew R.T. Davies:** My apologies for being late, and I apologise if I go over ground that other Members have covered in my absence.

[54] I have four points to raise with you, and they emanate from the paper that you presented. The first is on payments, and in particular, payments to subcontractors. I note from the target dates at the front of your paper that despite the best efforts of the Welsh Assembly Government—we must applaud it for its efforts on this—Wales sadly lags behind England in the payment timeframe. How, in your opinion, is the public sector in England managing to do a better job of paying out than we here in Wales are? More importantly, it is often the case that the headline act that has landed a large Assembly contract is a non-Welsh company, while the subcontractors are Welsh-based businesses, and they are the ones that can often wait a considerable time to receive payment. Do you have any suggestions or examples? The First Minister used a perfectly good example during First Minister's questions of a hospital build programme for which the large company that won the contract is not a Welsh-based company, but many of the subcontractors doing the work are. Do you therefore have examples to show how the system could be improved so that subcontractors can receive their money within a given time? Also, are there ways of implementing that as quickly as possible to help our figures to improve against the English figures?

[55] Secondly, on the reference groups and the economic summits, all parties have applauded the economic summits as being a good focal point to bring all interested parties together in the current climate. You make two points. One is that you felt that, with the last summit, the time could have been better spent. There is a danger that, as we go further into the cycle, the economic summits, as your paper suggests, just turn into a lobbying exercise with the Secretary of State for Wales. How could those summits be better engineered, shall we say, to achieve more positive outcomes for the organisation such as yours that engage in the dialogue at those meetings?

[56] You highlight in your paper the fact that the reference groups that come out of the summits are perhaps not functioning as was first envisaged, because the economic summit is a catalyst for ideas, with everyone sitting around the table. In his evidence to the committee two weeks ago, in response to my criticism of the lack of further education involvement in the headline act—the economic summit—the Deputy First Minister alluded to the reference groups as perhaps being the best placed for many of the ideas to take root and be progressed. I would be interested to know your views on how the reference groups can now suddenly spring to life rather than, as your paper puts it, withering on the vine, or certainly not reaching their full potential as was first envisaged for them.

[57] My third point is on working across departments. You praise the Assembly's economy department for being open and responsive to your ideas, but you then go on to say that, because of the scale of the economic crisis, it transcends the boundaries—education and

skills being a classic example. You may be hinting at a not-so-receptive open-door policy at that department. If that is the case, can you suggest ways in which that department can open up, to be receptive to your views, so that Government could be more productive in working across departments rather than you having to go to individual Ministers time and again?

[58] My final point is on convergence funding, and it is the final point in your paper. You make the point that the Welsh Assembly Government could well be diverting funds to plug gaps left by the recession instead of building a Wales for the future.

[59] **Nerys Evans:** That last point has been addressed already.

[60] **Andrew R.T. Davies:** It has? So, can you address the three remaining points?

10.10 a.m.

[61] **Ms Rhys:** With regard to payments for subcontractors, all businesses and organisations are noticing this at the moment. The Welsh Assembly Government has ensured that its payment times have been reduced dramatically, which is great. However, this is not being passed on to indigenous Welsh companies from bigger businesses—the bigger businesses are using it as a buffer to release some cash flow. We would welcome the inclusion of social clauses in contracts. Local authorities and the Welsh Assembly Government are able to ensure, when they contract out, that those things are taken into account. However, in the first place, it would help if contracts were broken up to make them more manageable so that small and medium-sized enterprises—which account for 99 per cent of business stock in Wales—can realistically win these contracts so that you can avoid the situation of a large business from outside taking the contracts and just hiring people locally.

[62] **Andrew R.T. Davies:** If you break up the contract, would that not lead to a more expensive contract, because you must also have value for money?

[63] **Mr Rhys:** Value for money is about more than just going for the cheapest price—it is about making sure that the work goes locally, so that money is reinvested by those individuals in the community. It is much more than the cheapest price, and that is potentially more beneficial to the environment because companies will not be travelling long distances from across the border. For example, in north-west Wales, we have contracts for which companies from Manchester are travelling back and forth every day. These are the types of examples that we have been given by members in north Wales. Therefore, we feel that there are smarter ways of getting value for money.

[64] **Andrew R.T. Davies:** Why do you say in your paper that the UK average for payment within 10 days is 20 per cent, but that in Wales it is 26 per cent? Given the scale of operation in Wales, one would have thought that we could be far nimbler on our feet. Do you have examples of why we are lagging behind the rest of the UK in making these payments?

[65] **Mr Rhys:** We gathered the statistics in January. We do not have the ability to look into who these contracts are awarded to, let alone the knock-on effects. That is, hopefully, something that can be looked into, because it needs to be resolved, otherwise we are being left behind and Welsh businesses are being put at a disadvantage. So, hopefully, if that can be the answer, it could lead to an improvement.

[66] On the point that you made with regard to the economic summits, the time to go to these summits is important, and there have been very successful summits, with new ideas. However, it is important for the economic summits to increase confidence in Wales—it is important not to be talking us down all the time—which will also help Welsh business and, in turn, the Welsh economy.

[67] With regard to the reference group, it was envisaged that it would ensure that the ideas generated by the economic summits are implemented in the workstreams sitting underneath, which is the practical element of it with regard to ensuring that these great ideas are put into practice.

[68] **Ms Davies:** I attended the last two reference group meetings, and it was my understanding that we would be looking in depth at what came out of the summits, but it does not feel like that from the last few reference group meetings that I attended—it seems to have become more of a forum to say what will come up in the summits. That is what it felt like to me in terms of—

[69] **Andrew R.T. Davies:** Like a pre-summit meeting.

[70] **Ms Davies:** Exactly. So, that was completely different from what I had expected, and it is a waste, because the people that attend the reference group meetings are representatives of many sectors and would be able to input much information and provide much help to the Welsh Assembly Government if it wanted it, but it does not feel like that is the case. So, in terms of the seven subject areas that the Welsh Assembly Government is looking at, they have come from the papers that we have fed in. However, that has not come back to the reference group for it to look over what has come from the seven areas.

[71] It has just turned into saying, ‘This is what is coming up, by the way’. When the summit came along, that is why it was such a disappointment, because it had been built up in the reference groups as, ‘Heads up, this is what is coming’. In terms of the papers that came from the third and fourth economic summits, the third economic summit paper was very handy. What happened in the third economic summit was reflected in the paper, and everyone was happy with that, but the fourth summit did not live up to that standard, especially because it was built up by the reference group as the main thing that was to come—that is why the fourth one was such a disappointment. The reference groups are a wasted opportunity, because so many people attend who could have an input.

[72] **Andrew R.T. Davies:** So, you are saying that the whole structure needs to be looked at so that we revert back to the original concept, which is that, rather than the reference group meetings being pre-summit meetings that pull things together for the main show, namely the summit, it is the other way around: the summit should send the work down to you in the reference groups, and you would work through it so that it is delivered on the ground. However, from your observations, that is clearly not happening at the moment.

[73] **Ms Davies:** We feel that the work is going on behind the scenes, because when we are reported to in the reference group and in the summit, it is obvious that the work is going on, but where does the reference group sit then? Is it having an input, or is it just there to be reported back to every so often? If you want help, it is there. It feels as though the work may be going on, but it is not necessarily filtering through to the reference group, for it to be able to—

[74] **Andrew R.T. Davies:** So, as a partner, you are not being included in the work.

[75] **Ms Davies:** We are included on different levels, but not necessarily through the reference group. We have found the Department for Economy and Transport quite helpful and open, if we want to feed in, but the reference group as a whole could play a bigger part. It has a lot to feed in, and it is not necessarily being utilised.

[76] **Andrew R.T. Davies:** Can you give me a feel for how often the reference group meets? Do you meet a week after a summit takes place or a fortnight after a summit? Between

that and the following summit, do you meet two, three or four times, or is it the case that the summit takes place, the reference group meets and then the next summit takes place?

[77] **Ms Davies:** It more or less happens in between—I think that the last one was held about three weeks before the summit, so we got to know what was coming up beforehand. That is why we were concerned about the workstreams, because we thought it had been set up so that the reference group would sit on top of the seven working groups and monitor them, but it has worked out that the working groups had been merged with what was already happening in WAG, which is fair enough, because you do not want to duplicate anything, but the ideas of the seven working groups then did not necessarily filter through into the reference group. So, the group is there, but is not necessarily being utilised.

[78] **Ms Rhys:** Part of the point about the cross-departmental co-operation and working is that so many different things can affect business and so, to provide that support for the economy at the moment, that is crucial. The reason why different departments are not co-operating is traditional and historic. It is not just at the Welsh Assembly Government level, but at the local authority level. With regards to the Department for Economy and Transport, there have been a tremendous amount of changes recently, and wholesale change in some respects, which we feel are for the better. Therefore, whether other departments have gone through the same phase or are working differently may need to be looked at by the heads of the departments to ensure that that co-operation is happening. That is the internal working of the Welsh Assembly Government, so it is not something in which we would be involved.

[79] **Andrew R.T. Davies:** Would you say that there has been a change in mindset at the Department for Economy and Transport, but that that change in mindset about cross-departmental working and openness has not happened in the Department for Children, Education, Lifelong Learning and Skills, for example, with regard to skills and education? Your paper mentions skills in paragraph 28. Would it be fair to say that there has been a change in mindset in the Department for Economy and Transport, but that that change in mindset has not happened at DCELLS?

10.20 a.m.

[80] **Ms Rhys:** Looking from the outside in, that is the impression that we have been given. We cannot comment on whether that is true or not, but that is the impression that we have been given. What helps a lot is the informal, one-on-one discussions—open dialogue, rather than official feeding-in. Ideas are often generated at the pre-consultation stage, when you can be a lot more open. That leads to there being a much better working partnership, because you feel that it really is a partnership. As I said earlier with regard to the manufacturing strategy, you felt that there was buy-in from business from the beginning, because it was part of the process and, therefore, when it came to consultation on decisions, the support was there and you knew what was needed. It sounds simple but that really does help.

[81] **Ms Davies:** On internal working, we will not necessarily know about that, but while we can feed into the Department for Economy and Transport, we have had hardly any consultation or contact with the DCELLS, although they must be working together—

[82] **Andrew R.T. Davies:** You have had no contact with DCELLS?

[83] **Ms Davies:** It has been minimal compared to that with DET. We feel quite happy going to somebody from DET, but we do not have the same rapport with DCELLS. That is a concern, because what is coming through the economic summits is that a lot of what DET and WAG want to achieve goes through DCELLS, for example, ProAct would go through DCELLS. So much comes through other departments. DET might not do it itself, but rely on

other departments for implementation. So, we might have a channel into DET, but we do not necessarily have one to other departments.

[84] **Ms Rhys:** Again, business rates and planning are huge issues for business, but they do not come under the Department for Economy and Transport.

[85] **Ms Davies:** I made the point before about business rates. We feel that there was not necessarily any consultation before the multiplier was increased at a rate higher than that of inflation.

[86] **Jeff Cuthbert:** I have two points. It is concerning to see from the table on the enterprise finance guarantee scheme in paragraph 5 that roughly two thirds of your members do not know whether or not their banks are making that available. What is your role as a body in improving understanding and establishing whether banks are making that available?

[87] My other point follows on from what Jenny said much earlier about the importance of tourism. Tourism is very important to the Welsh economy—there is no doubt about that. The industry of main business table under paragraph 2 shows that the hospitality industry makes up 9 per cent of industry in Wales compared with the UK average of 7.2 per cent. So, clearly it is important, and more so for Wales than for the UK as a whole. Given the weakness of the pound against the euro and other key currencies, it is reasonable to assume that many Britons will be holidaying at home this summer and perhaps next summer too, and that people from the eurozone and elsewhere will come to Britain because of the relative cheapness of holidays here. Is that an issue that your members in the hospitality field are gearing up for? Do they need any extra support, in your view, from Government or wherever, to help them cope with what could be a significant increase in business, certainly compared with last year?

[88] **Ms Rhys:** On the first point on the £1.3 billion scheme, we find that the banks at the top level are saying the right things. Businesses often run into difficulty with the local branches—it may be that the messages have not filtered down to them from the top, perhaps. One of the things that we have discussed in Business Wales, and all business organisations will agree with this, is that, along with the economic summits, a financial summit might be useful to get a dialogue between business and banks going. We also welcome the fact that they will be part of the Weathering the Storm campaign with regard to the different meetings that are going to be held throughout Wales. Those sorts of steps are very important, because, with regard to cash flow, the banks are crucial, and they need to happen sooner rather than later. The situation must be rectified urgently.

[89] **Ms Davies:** It is not clear which businesses come under the business finance guarantee scheme either. It sounds like a good idea in practice, because, like the small firms loan guarantee scheme, it should increase bank lending as there is then some sort of security, but there is the question over whether businesses can tick the boxes to gain access to it. In addition, will the banks play their part and look into it? The feedback that I have had suggests that banks do not want to play a part in the scheme. So, not only is it a matter of whether the businesses tick all the boxes to fit into the scheme; it is also a question of whether the banks want to take part in it. It is not only that they do not know about it, the question is: could they do anything about it if they did know about it?

[90] **Ms Rhys:** With regard to tourism and Visit Wales, in the past, the amount of national public support that has been available to tourism was very welcome and very strong. However, business feels that, over the last year, the support at a national level and the promotion of tourism has waned. As I said earlier, anything and everything can affect tourism and it is a subject that crosses departments. Businesses in Pembrokeshire and the west coast have highlighted particular problems with infrastructure, such as public transport, which is very important. For example, buses do not run on bank holidays. One example that I was

given was of someone catching a bus to take a walk along the coastal path, but, when they got to the other side, there was no bus back.

[91] **Jeff Cuthbert:** They could walk back. [*Laughter.*]

[92] **Ms Rhys:** Little things like that can ruin a holiday. Someone's first impression is important. When someone arrives at a train station and sees graffiti or that the station is unclean and untidy, their first impression of their holiday has already been made before they have even reached their hotel. It does not matter how fantastic the individual bed and breakfast, hotel, or restaurant is, the package of Wales as a whole will be judged. So, there are different levels of support. There is the practical support, which for businesses would be the same as that for any other business—help with cash flow, and so on—but there is also the support with tackling crime, improving the infrastructure, and similar higher-level Welsh Assembly Government policies.

[93] **Ms Davies:** We will also be looking at the effects of the Severn bridge toll and at whether it acts as a barrier preventing people from coming over the bridge into Wales, thereby affecting the tourism industry. If people across the UK are looking to stay at home for their holidays, perhaps taking caravan holidays or coming to Wales, will that act as a barrier?

[94] **Nerys Evans:** Pryd ydych chi'n disgwyl gwneud y gwaith ar effaith y tollau? **Nerys Evans:** When do you expect to undertake that work on the impact of the toll?

[95] **Ms Rhys:** Mae gennym gyfarfod yn y Cynulliad ar 18 Mawrth i lansio'r gwaith gyda'r panel. Prifysgol Aberystwyth fydd yn gwneud y gwaith. Byddwn yn lansio'r ymgynghoriad ar y gwaith a'r ymchwil, ac wedyn gobeithiwn y bydd gennym adroddiad erbyn yr haf, a hynny er mwyn dechrau'r sgwrs am y gwahaniaeth ymarferol y mae'n ei wneud wrth ddenu pobl i Gymru. **Ms Rhys:** We have a meeting in the Assembly on 18 March to launch the work with the panel. Aberystwyth University will undertake the work. We will launch the consultation on the work and the research, and then we hope to have a report by the summer, which will start the discussions on the practical difference that it has in attracting people to Wales.

[96] **Nerys Evans:** Mae gan David gwestiwn ychwanegol. **Nerys Evans:** David has an additional question.

[97] **David Melding:** You have called for a financial summit. However, I am not quite sure what the Welsh Assembly Government can do to try to encourage banks because that area is driven by the UK Government, essentially, although it is certainly true that the Welsh Assembly Government can amplify any measures here. However, the figures that you give are stark. By the time you take out the people who have not replied or those to whom the data are not applicable—presumably, those who are not looking for funding—about half the sample at the Wales and UK level found major difficulties either getting credit or renegotiating credit at reasonable terms, despite historically low interest rates. I am not quite sure how we get around that unless we nationalise the banks, which the Welsh Assembly Government certainly cannot do.

[98] **Jeff Cuthbert:** We should write this down.

[99] **David Melding:** Well, at the moment, the banks are not lending. That is what these data are telling us, if they are trustworthy. Finance Wales's headline rate is as low as possible, but it can fund innovation and development only where there is market failure. It is in no way a credit supplier as a bank would be. Are we at the last-chance saloon before a large number of businesses fall through? We know that bankruptcies are increasing, but will we see a significant acceleration in that and a considerable loss in our business stock? Will that

happen, and will it happen in the next few months? I am really quite shocked by the data that you have given. They really are betraying a position of crisis in trying to negotiate reasonable lines of credit.

10.30 a.m.

[100] **Ms Davies:** We have looked at our businesses and seen many examples of businesses that have had an overdraft facility of £0.25 million, for example, for five or 10 years, but suddenly the plug has been pulled and banks are saying, 'We will withdraw that facility from today'. However, those businesses can survive—on paper. So, that is what we are looking at. We want to make sure that our businesses have a good business plan to show that they can survive into the future. Those are the businesses that need the help, because the bank has put them in danger by pulling their overdraft facility. In my opinion, that is completely unacceptable. The trouble is how to plug the gap left by the bank. It is a worry. Finance Wales cannot help with cash flow, which is what will affect businesses. They have wages to pay at the end of the month, and Finance Wales cannot necessarily help with that. We have the rescue and restructure package, which—

[101] **David Melding:** I will just interrupt you there, if I may. I understand the problem, and you have expressed it with much more clarity than I did, but I still do not quite know what the solution is or how a finance summit would help. We can all say to the banks, 'Please start normal lending again', but we all know what they are doing: they are trying to sustain their own assets and drive up their reserves so that they can get through this financial crisis, but they do not want to sell their assets, as then they would have to face the actual cost. It seems to me that all the intervention so far has preserved the banking system, which was essential because, had that fallen through, we would be in a much worse situation. Part of the trick, which we are finding great difficulty with, is working out how that help is passed onto any business, particularly small and medium-sized businesses. What can we do? I suppose that that is what I am asking. Do you have any immediate suggestions?

[102] **Ms Davies:** If the banks are being told different messages, such as to build up their reserves plus lend more, that does not necessarily correspond to a plan. It does not work; you cannot build up your reserves and lend more. So, we have been thinking about what we can do. The idea of a finance summit is to come up with new ideas of where money could come from that could be lent to businesses. I used to work in a local authority, and it had funds that it could loan to businesses. The idea of a finance summit is that it may come up with fresh ideas for how we can find that money.

[103] **Ms Rhys:** We welcome the fact that HSBC and the Principality were represented at the first economic summit. That was useful as they need to be a part of this dialogue. When we asked our members in a survey who they thought would get us through this economic recession, the numbers putting the onus on the public sector were low. The answer lies with the banks and business, so the banks need to be a part of this. These steps have been put in place at the highest level in the UK, but they are not making a difference at a local level, to microbusinesses and small and medium-sized enterprises. We need to get them to take the responsibility for being a part of the solution, and sit down and kick off this dialogue, part of which means kicking around ideas. However, there is also the added pressure of needing to do something about it, because the outcomes will need to be implemented.

[104] **Nerys Evans:** Mae gennyf un cwestiwn byr. Soniasoch yn gynharach fod rhai trafodaethau yn cael eu cynnal y tu ôl i ddrysau caeedig ac nad ydych wedi bod yn rhan ohonynt. A yw'r drafodaeth am gyfraddau busnes yn cael ei chynnal yn **Nerys Evans:** I have one brief question. You mentioned earlier that some discussions had been taking place behind closed doors and that you had not been a part of them. Is the discussion on business rates being held openly in these summits or are you a part of

agored yn yr uwchgynadleddau hyn neu a ydych yn rhan o drafodaeth fewnol gydag adran Llywodraeth y Cynulliad?

internal discussions with an Assembly Government department?

[105] **Ms Davies:** Ni chawsom ymgynghoriad yn ei gylch. Dywedwyd wrthym fod y lluosydd wedi cynyddu o 4.9 y cant, ond ni chawsom unrhyw drafodaeth cyn hynny.

Ms Davies: We were not consulted on that. We were told that the multiplier had increased from 4.9 per cent, but we did not have any discussion before that.

[106] **Nerys Evans:** Diolch. Mae hynny'n cwblhau ein sesiwn dystiolaeth gyda chi. Diolch am eich presenoldeb ac am eich tystiolaeth, sy'n ffurfio rhan bwysig o'n hymchwil. Caiff Cofnod o'r cyfarfod ei anfon atoch ac, os oes gennych unrhyw wybodaeth bellach yr hoffech ei hanfon at y pwyllgor yn ystod cyfnod yr ymchwiliad—ac mae'r sefyllfa economaidd yn newid yn ddyddiol—byddem yn falch iawn o'i derbyn.

Nerys Evans: Thank you. That completes our evidence session with you. Thank you for your attendance and for your evidence, which forms an important part of our research. A Record of the meeting will be sent to you and, should you have any further information that you would like to send to the committee during the period of our inquiry—and the economic situation is changing daily—we would be very pleased to receive it.

[107] Symudwn ymlaen yn awr at ein tyst nesaf, Dr Philip Cooper. Croeso i'r Pwyllgor Menter a Dysgu. Fel mae'n siŵr y gwyddoch, yr ydym yn ymchwilio i'r sefyllfa economaidd gan edrych ar fusnesau bach yn enwedig. Diolch am eich papur tystiolaeth. Yr wyf yn siŵr bod yr Aelodau wedi ei ddarllen gyda diddordeb. A allwch gyflwyno eich papur am ryw bump i 10 munud cyn inni gael cwestiynau gan Aelodau?

We will now move on to our next witness, Dr Philip Cooper. Welcome to the Enterprise and Learning Committee. As I am sure you know, we are reviewing the economic situation, looking particularly at small businesses. Thank you for your evidence paper. I am sure that Members have read it with interest. Could you briefly present your paper for around five to 10 minutes before we take questions from Members?

[108] **Dr Cooper:** Nid oes gennyf lawer i'w ddweud am y papur. Siaradaf yn Saesneg, os yw hynny'n iawn, gan ei fod yn rhwyddach i mi wneud hynny.

Dr Cooper: I do not have much to say about the paper. I will speak in English, if that is okay, as it is easier for me to do so.

[109] The basic points that I have tried to outline in my paper are that the Welsh economy has serious structural problems, especially now that it faces a major downturn. I do not think that throwing money at business support—or at anything—is the best solution; it is certainly not an answer that I have ever considered. We need to revisit policies to make them more effective than they have been in the past.

[110] I am also looking to build on our strengths and not on our weaknesses, which is another concern, so the paper raises issues of how policy is formulated and especially how it is implemented. It recommends areas in which we should try to develop best practice in business support. In essence, that is all that I have to say about the paper. It is there for you to see. I apologise for the numerous typographical and punctuation errors and for the fact that it was incredibly long. However, I felt that it was important to elaborate, because it is not often that Assembly Members are given the opportunity to understand the realities of business support, which is incredibly complex. It is sometimes oversimplified, which can cause problems understanding the real issues.

[111] **Nerys Evans:** Bydd yr Aelodau yn awr yn gofyn cwestiynau, gan ddechrau gyda

Nerys Evans: Members will now ask you questions, starting with Chris.

Chris.

[112] **Christine Chapman:** Thank you for your paper. I enjoyed reading it. I have three particular points. First, in paragraph 14, you talk about the Welsh Assembly Government's general policy on small and medium-sized enterprises. I am particularly interested in how they stand up in the face of the economic downturn, and in your comment on the SME policy, namely that it ignores the significant regional differences and discriminates against firms in deprived areas. Could you clarify that?

[113] My second point is on paragraph 32, in which you talk about the single investment fund. In previous schemes, you had direct links with WAG case officers, who provided practical support with grant applications, which, in your view, is no longer as evident as it should be.

10.40 a.m.

[114] My third point is on Finance Wales. I have recently been dealing with a company that was promised a loan from Finance Wales, and now the company has been asked for more guarantees, which is a bit disappointing. How do you feel that Finance Wales is operating, particularly in the present economic downturn?

[115] **Dr Cooper:** I will answer the first one first, which is about paragraph 14, I believe.

[116] The SME policy originates from a document that was originally called 'WAVE'—'Wales: A Vibrant Economy'—and that has been transferred and modified to a certain extent into what is now an SME policy. The whole essence of 'WAVE' was to look at companies near the top of the pyramid, and it was effectively trying to pick winners. We have kept very quiet about that since the demise of the high-growth programme. The focus was therefore on trying to spend less money on nurturing fewer companies at the top of the pyramid. In paragraph 12, I try to show the reality of Wales's structural problems, and you can see that the industrial base is very different, giving us a bottom-heavy pyramid, which brings us to the regional differences.

[117] When you come to the top of this pyramid of higher-growth or more exciting companies, which are the fastest growing in the economy, we do not get many of them in Merthyr, the upper Caerphilly valleys, or the upper Cynon valleys. I do not have one. So, what happens there is that we have a totally different type of audience. In that audience, particularly in deprived areas, you have more people who are pushed into self-employment. There are two types of entrepreneurs: you have the necessity entrepreneurs and you have the opportunist entrepreneurs. The opportunists spot gaps in markets, and they form exciting companies that grow. Those who are entrepreneurs of necessity are those who are predominantly in the deprived areas of Wales. They cannot find any other work, particularly now, so they are pushed into self-employment as their only option. That creates problems, because our policy does not cater for that market. That policy was weakened severely when the Assembly Government took over the WDA. There was a programme to nurture what we used to call 'lifestyle companies', but they are now called 'sub VAT' companies, effectively.

[118] To get a person from unemployment into self-employment and keep that person active for over a year, and sometimes for three years—because our survival rates were exceptionally high—would cost the public purse around £700. To take somebody from long-term unemployment into employment for 13 weeks costs over £10,000. There are huge differences there, and what I am saying is that the current policies do little for those people in the deprived areas who are necessity entrepreneurs. While the economic benefits are debatable, there are huge social, behavioural and community benefits in getting those people into self-employment. That is the answer. There are huge regional differences in Wales.

[119] Where you have university bases, you tend also to have a higher level of companies. In deprived areas, unfortunately, you have a totally different reality. So, my argument has always been that a one-size-fits-all policy does not work in Wales. It will not work. I hope that I have answered the first two parts of the question.

[120] With regard to the single investment fund, which is in paragraph 32, and Finance Wales, the concept of a single fund is welcomed. However, the problem with merging seven different funds into one was that you had different funds at different levels. Instead of going to the lowest common denominator as the access point, we seem to have gone for the highest, which complicates the application process. Previously, we used to split it up neatly into groups, namely the Assembly investment grant and regional selective assistance. The Assembly investment grant was for small, quick grants of up to £75,000, while RSA was for bigger grants. Below the Assembly investment grant you had local authority grants in every region. What happened is that local authorities have got together and they have one common grant at the bottom end, which is excellent. However, the problem with the single investment fund is that, although I welcome the fact that there is much more money in it, the application process is far harder to access than it was in the past in that it has a single, rather complex, access point. So, that is the single investment fund.

[121] Regarding Finance Wales, it could not have timed the arrival of its new funds at a better time—the timing was perfect as the financial market had collapsed. Finance Wales is effectively the only game in town. On individual cases, the element of risk is too great for its appetite. I cannot comment on that particular case, because I do not know about it, but Finance Wales is not in the business of giving money away, so it is about its risk return. I do not have a problem with that, because we should not be supporting failure—we should be supporting success. It raises a question about why we originally founded Finance Wales; it was originally a lender of last resort, but that has changed. However, that is a political problem for you to sort out.

[122] Any additional funds in the marketplace are welcome. It is our duty, as a business support organisation, to overcome the hurdles as best we can to access finance, and Finance Wales is a group with which we work. So, the arrival of the new funds in Finance Wales is highly welcome.

[123] **David Melding:** You have given a clear critique of the current model and you have considerable reservations—to put it politely—about the approach that the Welsh Assembly Government has taken in the last few years, particularly in terms of winding up the WDA and having a model that is concentrated on the Government, which you see as derivative of the DBERR model and not concentrating enough on outputs. You have indicated why you think that it is a more complicated system in some respects, because you would not be after a one-size-fits-all solution—it would have different objectives and strategies in different parts of Wales. So, if you are looking at the most diffuse devolved model—if I can summarise what you are urging us to look at—internationally, there are many parts of the world with industrialised economies with some deprived areas that have tried to drive up their poorer regions, and have used a whole range of measures to do that in providing business support services in general. Is there somewhere we could look at which has developed a better model in terms of having a more varied and devolved approach? I realise that you cannot come up with something that we could emulate, but it might give us food for thought if it has been done with more success in other parts of the UK, Europe or the wider world.

10.50 a.m.

[124] **Dr Cooper:** That is a good question. The issue that I have is that we had what was considered best practice in Wales, and we were hailed as the leading lights of nurturing

growth and high-growth firms in Wales about four years ago. We were hailed at an international conference in London, and our model, at that time, of nurturing growth companies was hailed as best practice throughout Britain. Sadly, by constantly chipping away at it, we have lost that. We now have something that is a shadow of its former self. That is the reality. What we seem to have done is to copy the BERR model. In marketing terms, you would criticise any researcher for narrowing their field of research to a single model, but that is what we have done. We have just gone to the BERR model, slightly modified it and come out with FS4B. The reality is that I do not think that the BERR model is working. There is a lot of concern from my numerous contacts in different parts of England over their current model, but we seem to have adopted it here.

[125] My background is in international business, and I have spent a major part of my life in different parts of the world. I may be highly critical, but I am passionate about wanting Wales to do better, whether it is the rugby on Friday night or the economy. Sadly, we have far more debate on rugby than we do on the Welsh economy. That is the reality. We have serious issues on which I cannot see the debate, or the quality of debate, that is needed to get us through.

[126] Internationally, there are many examples that you could look at: Finland is a perfect example. I worked there for many years. It is on the remote edge of the world of northern Europe. They speak a language that no-one else in the world speaks. They were dominated by their neighbours for over 800 years, and yet they have totally transformed their economy in a matter of 15 years. When Russia collapsed in 1992, the Finnish economy was a basket case. Since that time, it has become one of the most entrepreneurial and dynamic economies in the world. So, my argument is that we should look at what is happening in England by all means, but that we should also go further afield. There is the Finland model, or we could look at Singapore, which has only 3 million people. It has incredible geographical problems, but the Singaporean economy has grown 8 or 9 per cent, on average, every year for the last 15 years. There are numerous countries that you can look at, and there are numerous programmes in different parts of the world, particularly export development programmes. I worked on one with the World Bank. There are business support models speckled around the world, but I do not think that we are looking hard enough to bring them into Wales.

[127] **David Melding:** May I make a suggestion? Listening to what you have said and to your reflection on the last four years and on the better, or best, practice in some respects that existed before, it seems to me a justified inference that you would like the WDA to be disengaged from Government, to be at arm's length—a quango or whatever—and perhaps to be a more federal model, so that the different parts of Wales could develop specialities in terms of an approach. That existed until about four years ago, although it may not have been strong enough. Let us keep this simple: would that be a better model, and should the Welsh Assembly Government just recognise that what it has done has not worked?

[128] **Dr Cooper:** In business, if you formulate and implement a strategy and find that it is not working, you change it quickly. If you look at the money spent by the department of enterprise over the years, you will see that it is a huge amount, but something is not working. To be honest, I was a big critic of the Welsh Development Agency, but there was an element of independence that I valued, and I also valued the fact that we could have a vigorous debate about what worked and what did not work and that we would then try to improve. What happens now is that as soon as I start to criticise what is not working, I am automatically criticising Government policies, and that is not healthy. I do not think that the model that we are currently using is effective enough.

[129] **Sandy Mewies:** Is that a 'yes' or a 'no'?

[130] **Dr Cooper:** Do you mean a 'yes' or a 'no' to the question of going back to the old

model?

[131] **Sandy Mewies:** Yes, or is it a ‘maybe’?

[132] **Dr Cooper:** As a strategist, I would rather see us acknowledging that there were huge failings in the WDA, but let us also recognise that there are big failings here too, with the current system. So, instead of going back, why do we not look at a new way of working, which is perhaps far better for the current climate and far better for taking Wales to where it should be?

[133] **Sandy Mewies:** Do you think that that would be done in time to meet the needs of people at this moment?

[134] **Dr Cooper:** In the current climate, no. However—

[135] **Sandy Mewies:** That is fine. Thank you.

[136] **Jeff Cuthbert:** Like Sandy, I am trying to reconcile your earlier statement about the WDA being seen as a world example with the fact that you say that you had big criticisms of it. I am not clear what those criticisms may have been. You might want to expand a little on that, because I am a little confused.

[137] However, my main question relates to paragraph 4. Thank you for the written information. I know that we have spoken several times in the past about issues in the constituency. I have a particular interest in the use of European structural funds, and you refer to them in the final sentence of that paragraph. I would like to ask a question about the strategy that we have, and particularly about its relationship to the Lisbon agenda for jobs, growth and training, and the JEREMIE, JESSICA, ProAct and ReAct schemes that are coming out now. Obviously there is more to be done yet, because spending will go on until 2015, but, on the direction that European structural funds are taking, and in the light of the current economic situation, which the whole of Europe is facing—and I know that the European Union is trying to be more flexible about the way in which structural funds can be used, although the same rules must apply across Europe—are there changes to business support that you would like to see made to ensure that the maximum benefit is gained from structural funds as a means of assisting in the current economic situation? I am not talking about solving it, because no-one would pretend that that was possible. Has your organisation made representations to the Welsh Assembly Government or to the Welsh European Funding Office in that respect?

11.00 a.m.

[138] **Dr Cooper:** To pick up on your first point about not being sure about my criticisms of the WDA and where the best practice was, the best practice was at Venture Wales. Venture Wales was hailed as the best practice model at this English conference. At that time, we worked closely with the WDA to build a partnership that suited the clients better. There was an active dialogue. The WDA was recognised as the fundholder, and we were recognised as the deliverers. However, there was a control element with the WDA. What it wanted for its money was a return on its investment in terms of outcomes, but it gave us the flexibility to manipulate the programme to the advantage of the client so that we could maximise the outputs. The result was that the WDA was very happy because the outputs for the programme far exceeded any of its other programmes and we were very happy because we were given the flexibility to work with the clients.

[139] That no longer exists under the current system, because we are told what we can and cannot do with clients. Therefore, we are trying to pigeonhole clients. My problem is that the

policies are creating boxes, and I am desperately trying to fit my clients into boxes where they do not often fit. I do not have any flexibility at all. It is either this or that; you either do it or you do not. I hope that I have cleared some of your doubt with regard to the WDA.

[140] **Jeff Cuthbert:** Just to be clear, am I right to say that the good practice was more to do with the outcomes—projects such as yours and the actual work done—as opposed to the structure and functioning of the WDA itself?

[141] **Dr Cooper:** The big difference between the WDA and the department for enterprise is that the WDA had a clear mandate. It was the fundholder and programme manager, but it did not deliver 99 per cent of the output. It depended on a delivery service from the private sector. Now, there is confusion in the department. It is a fundholder and a programme manager, but it is also delivering. Given the confusion, I question whether the public sector should be getting involved with what are commonly known as private sector delivery arms. What you have now is the worst of outcomes, to be perfectly honest.

[142] The entrepreneurs in the private sector who are generating wealth—which there is not enough of, unfortunately—are the dynamic risk-takers who are doing things and are creative. They also want it now. The department for enterprise is risk averse, bureaucratic and the total antithesis of these entrepreneurs. My argument would be that we should go back to basics and keep Government where it should be, as programme managers and fundholders, maximising value for the money. I cannot see the delivery arm in the public sector improving on private sector activity.

[143] Coming back to the second part of your question on European structural funding, Jeff, the sad reality is that we have received £1.2 billion in the first round that does not seem to have done very much for the economy. I think that we are now two years into our round, and we are still struggling to get things approved. We stopped getting involved with anything to do with Europe purely because the time consumed in trying to go through the various committees made it unworkable.

[144] **Jeff Cuthbert:** Sorry—who do you mean by ‘we’?

[145] **Mr Cooper:** Venture Wales.

[146] The reality is that, under the current system, the public sector is creaming off large amounts of the European structural funds, with an awful lot of duplication. If you look at the papers that I was sent about the approved projects, there is a lot of duplication and overlap. I worry that we may not be using it in the best way. We only have a few years left, so let us try to maximise this money. Given the current problems with public sector funds, I would like to see European structural funds opened up to the private sector in a more coherent way. That would certainly do a lot more in this downturn than patching up the little sidelines.

[147] **Nerys Evans:** Chris has a supplementary on this point.

[148] **Christine Chapman:** On your last point about the structural funds, I understand that for the first few months of the programme, Wales was leading the way across Europe for the speed at which schemes were being approved. Jeff might also be able to answer that. There is always frustration about any perceived delay, but across Europe, my understanding is that we are doing very well in comparison with other countries that are accessing the funds.

[149] **Dr Cooper:** In business, you tend to benchmark yourself against the best. If we were one of the best countries in our handling of these funds, I dread to think what the others were doing, to be perfectly honest. In my experience, it has not been a success.

[150] **Andrew R.T. Davies:** Thank you for your paper, Phil. It was detailed, and gave me a lot of food for thought. You might think that some of these points have been answered, but I would like to concentrate on the WDA's merger with the Welsh Assembly Government and some of the terminology used in your paper. I find the terminology interesting, especially in point 8, where you talk of a high-control culture that inhibits the creativity of staff and managers—that is, the Department for the Economy and Transport. I would be interested to hear about examples of that 'high-control culture'—it is an interesting turn of phrase. How could that culture be tweaked to make the department more responsive, and more in tune with what is required of it in the current climate?

[151] I note in point 10 that you talk of the department needing to be close to all its stakeholders, and not just a select few. What examples can you give of that kind of cherry-picking of people for preferential treatment? To be fair to the Minister, he highlighted in his evidence the facilitators who are working across the whole of Wales. My colleague David Melding has referred to the regionalisation that was a strength of the WDA, but the Minister said that people could now engage with facilitators on a regional level to access help and support. You say that that is not the case, and it is just the select few who get that preferential treatment.

[152] We are dealing with an inquiry into the Welsh Assembly Government's response to the current international downturn, and we are all aware of the slowness of approvals for convergence funding, and in particular the slowness in accessing those funds. However, the Minister's evidence stated that the European Union was now picking up speed, and was more nimble of foot, in approving various initiatives. I believe that the Minister was with us on a Thursday and was going out the following Monday to discuss various ways for these schemes and options to be explored and expedited. I hear what you say about your own company not being engaged with European funding—I think that that is how you put it—but is it your experience, from talking to colleagues, that the current climate is leading to a more nimble response and a more expeditious way of delivering the funding? We may lament what has gone on to date, but the one upside of the economic crisis could be to focus and energise decision making.

11.10 a.m.

[153] **Dr Cooper:** That is quite a complex question. I will answer the middle question first, relating to the select few. The typical response of Government is to invite the leaders or the leading lights of industry to any inquiry. This is the first time that I have been invited and I am absolutely delighted to be here—diolch yn fawr. However, the reality is that every inquiry involves the same names and, sometimes, there is a gap in the marketplace. One of the things that I tried to demonstrate by the statistics in paragraph 12 is that not all the constituencies of the industrial structure of Wales are represented. Let us take two: the FSB, which attended today, and the Confederation of British Industry, which I believe is also coming to give evidence. These organisations are always called to any inquiry. That is great, because they have a lot to contribute. However, they are two different ends of the spectrum. The CBI's membership would certainly cater for the larger firms—medium-sized firms and larger. These companies form a very important part of our economy, but the number of companies involved is quite small. At the other end of the spectrum is the FSB. Its papers show that around a quarter of its members work from home. The majority of its members do not employ many people. So, there is a gap in the market, as firms that are too big for the FSB but too small for the CBI are not represented in these meetings. That has been a concern for a long time. There is no body to do that, so it is not that easy to do. So, I hope that I have answered question 10.

[154] I will leave point 8. You asked whether I am seeing an improved nimbleness in the release of funds coming from Europe: yes, it has a definitely improved. However, we started this process in January 2007, so, what has happened since then? It is true that it has drastically

improved, but something has gone on during that period, and I do not know what. While I welcome any improvement, the beneficiaries of structural funding are predominantly in the public sector. Ultimately, hopefully, it will come through to the private sector through the strategic capital investment fund, the First Stop 4 Business and various other things. However, I would prefer to see the private sector having a better slice of the pie.

[155] **Nerys Evans:** On that point, before we move on to address the other issues, Jeff and Sandy have supplementary questions.

[156] **Jeff Cuthbert:** It might be helpful to say that, throughout 2007, negotiation was under way with the European Commission on the content and structure of the programmes. This concluded towards the end of 2007. It could not have been done any faster, because it was not approved for another round of funding until the very end of 2006. I am sure that you remember that. For the record, we need to say that there are around 66 strategic projects there now—and you may want to comment on this—unlike the hundreds of Objective 1 projects; it is a wholly different approach. You may want to comment on this, but the private sector will be a key partner in the procurement of services under the schemes, even though the structure may be publicly led. I hope that that is helpful.

[157] **Dr Cooper:** That is very helpful. My argument is not so much about who gets the European funding, but about getting it out to the marketplace as quickly as possible. That could do a lot of good in this economic downturn. Having said that, I would like to go back to Andrew's point—

[158] **Nerys Evans:** Before you answer, there is another supplementary question from Sandy.

[159] **Sandy Mewies:** You may well have been about to answer this—some questions on point 8 were unanswered. This is an evidence-based inquiry, and when you use the phrase 'high-control culture', I would like to see some examples of that, and the outcomes of it. To go back to the point that you made earlier, I think that you said that there were a lot of overlapping structural funds projects. Would you like to expand on what projects they are, and how you would stop that? You have obviously looked at these projects closely and feel that some of them, because they are overlapping, should not have been approved. I wondered if you had examples of those.

[160] **Dr Cooper:** Rather than my naming specific projects, I will just say that the overlaps are pretty obvious if you look at the list. There are numerous examples that jump out, where there are clear overlaps between different organisations trying to do similar things. I do not think it is my job—

[161] **Sandy Mewies:** You do not have to name names, but could you give us a general indication?

[162] **Dr Cooper:** Let us look at two areas. Inclusion is a hot topic, and there are two substantial bids in that area that seem to duplicate each other. I cannot see any difference between them. Then there are three or four, or even more, bids that overlap with the business growth social enterprise model. Those are just two examples, but it is not my job to look at duplication. How do you eliminate duplication? It is a good question, and a hard one to answer. What we lack in Wales is a small business champion. We need a champion who understands the issues and needs of small businesses, and is articulate enough to pass those on to the public sector. It is also difficult to capture what the private sector wants, because it does not often articulate itself clearly. So, there is a role there for a champion, which we do not currently have. In the Department for Economy and Transport there is no-one who springs to mind who could fulfil that role. So, a small business champion could possibly help to avoid

overlaps.

[163] **Sandy Mewies:** Coming back to the high-control culture, do you have examples of that?

11.20 a.m.

[164] **Dr Cooper:** To come back to Andrew's question and the issue of the high-control culture, there was a wonderful book published in the 1980s—as a former publisher, I remember it well—*In Search of Excellence*, by Peters and Waterman. I am sure that many of you have read it. They basically highlighted what excellence was in running organisations. Sadly, many of their points have not been replicated at the Department of Economy and Transport. There were 10 points, and the main ones on which I can see the department failing on are on, first, being close to your customer. Also, you have to stick to your knitting, that is, you have to stick to what you are good at. You should not go into areas in which you are not good, but concentrate on where your strengths are and develop those. You should have a loose-type culture, where control is important but there is enough flexibility to deal with situations. You should not be too prescriptive. Those are just a few examples. Many people blame Europe for the high-control culture, because many of these projects are European based. Many argue that it is not down to them, but to Europe and that Europe requires all of these things. I do not know about that. I have worked on European projects for different countries, but I have never found things to be as complex as they are in Wales. I have worked on European projects in Finland and they were incredibly easy compared with our structure here. That control culture is micro-management to the extreme, which is bad for the implementation of policies. It also destroys the morale of many people in the organisation.

[165] We interface with numerous parts of the Assembly's Department for Economy and Transport. I would recommend that you do an internal survey of the morale in that department because, although it is improving tremendously, it has gone through sheer hell over the last three years. I do not think that it is right, and I wish that it had improved sooner, but that control culture is inhibiting the implementation of projects.

[166] **Nerys Evans:** Before we move on to Jenny, Andrew has a supplementary on this.

[167] **Andrew R.T. Davies:** To clarify, would you say that that is down to a lack of leadership in the structure of that department? I was just looking at the minutes of our previous meeting, and a whole host of people accompanied the Minister—the director of this and the director of that. There were so many directors that it was a job to know whether there were any indians in the department, to be honest. Is that down to a lack of leadership or the wrong direction of the department?

[168] You also made a point about a champion for small business and you said clearly that we do not have one. When you look at the figures for Wales, that is surely of fundamental importance to any business-oriented department here.

[169] **Dr Cooper:** It is not for me to comment on the effectiveness of people in WAG, but my impression is that there is a lot of scope for improvement in all areas.

[170] **Jenny Randerson:** I read your evidence with great interest, largely because I wanted to say, 'I told them so'. It chimes well with my natural instinct on the whole procedures. You say that, three years on, things are getting better but that the department has suffered a great deal. All the evidence on organisational change shows that it takes five years after such an upheaval for the individuals concerned to start getting up to speed again and get over the shock of what has happened to their way of working.

[171] On your comments about everything being in boxes and a lack of flexibility, that is something that businesses in my constituency have consistently reported—that the system is too bureaucratic and they never appear to fit into any of the boxes. The difference between now and the days of the former Welsh Development Agency is that the old committee used to have a free and frank discussion with its representatives, who would be critical of Government. They used careful terms, but we knew what they meant. You simply could not expect civil servants to do that. So, we are having trouble drilling down to what we should be critical of and what is working well, because the message that we get is that everything is working well. That is not realistic given the outcomes that businesses in all our constituencies tell us about.

[172] Given that a lot of attention this morning has been concentrated on the high-level stuff, I want to take this opportunity to get down to some of the detailed criticisms in your comments. You are very critical of the structure and concepts of Flexible Support for Business, stating that they are too centralised. You give a disturbing analysis of all the hoops that one must jump through, and of the going back and forth and so on. Is it your experience that the assistance is too generic, in that officials are not flexible enough to provide the specialist assistance that is needed? Is it your experience that they are too risk-averse? On the key issue that you raise, I was unaware that the client has to pay the consultant at the end and then claim back the money. Am I right in understanding your evidence to say that this is a change from the old system? Do you have any evidence of clients having difficulty with the re-claiming process? How long does it take? To me, this is not a strategic thing; it is detail and could be dealt with relatively easily. That is my first set of detailed questions.

[173] You also talked about the role of local authorities. How well do you think they are co-ordinating with the Welsh Assembly Government in their responses? We would all expect their responses to differ from one place to another. That is the point of having local authority responses.

[174] Finally, you say that the knowledge bank:

[175] ‘is perceived as a closed shop for a few favourite businesses in areas of support activity where there is no market failure’.

[176] Does that criticism still stand? There may now indeed be a market failure, although there may not have been one in the past, and you might wish to expand on your comments on the knowledge bank.

[177] **Dr Cooper:** Yes, certainly.

[178] **Nerys Evans:** Before you answer, I remind you that time is running out, so please try to keep to concise answers, if possible.

[179] **Dr Cooper:** I beg your pardon. I will start with the last question about the knowledge bank. If I asked the three Members sitting to my left, whose constituencies I know well, how many knowledge bank companies there are in their areas, the answer would be, ‘Very few, in reality’. The idea of supporting knowledge bank companies came from a policy generated by a consultant to WAG who came in from one of the big four accountancy firms. That small firms policy was geared exclusively towards that person’s clientele but it did not address the markets that I have highlighted as an issue. After I do not know how many years, nobody has come to see me to explain what the knowledge bank is, what it does, or what its achievements are. That is possibly a failure in marketing its successes, but I am totally unaware of what those may be.

[180] There is no market failure at the top end, even in this credit crunch. The market

failure is at the bottom end of the market, in deprived areas, where companies find it incredibly difficult to pay for regular business support to get it profitable enough for the private sector to pay for it. There is a market failure there, but there is no market failure at the knowledge bank.

11.30 a.m.

[181] The role of local authorities has improved, but there is lots of overlap with Welsh Assembly Government, both in the structure and in the large numbers of employees in economic development in every authority. Authorities have certainly improved by forming common grant funding arrangements between certain areas of Wales, such as south Wales, and south-west Wales as well, which is to be welcomed. There is possibly a lot more to be done to create better synergies between the local authorities and the Department for the Economy and Transport.

[182] On the point about boxes, I quickly looked at the paper submitted by the FSB and I guess that about 50 per cent of its clientele would not be eligible for anything. So, that is one way of putting people into boxes. One example of a box would be retail, and 30 per cent of the FSB's clients are retail firms, but there is no support for retail. In every programme that we manage, we are not so concerned about helping companies to start, but we must get the right number of starts in competitive versus convergence areas. The inability to move funds from one area to another means that we have massive demand in one area that we cannot satisfy and too much money in another area where we do not have sufficient clients. So, that issue around boxes needs to be improved. I do not think that the boxes are an element of the risk-aversion; they are because of the two totally different cultures of the public and the private sector. I do not expect the public sector to take risks to the extent that the private sector does.

[183] **Jenny Randerson:** There was one more question, namely whether you had any evidence on the delay in getting consultants' fees.

[184] **Dr Cooper:** The scheme is very new, but the sad thing is that it was a part of the programme that was launched last summer. Fifty companies were awarded tenders for that business growth programme throughout Wales, but, on 23 December, we were informed that the tender had been withdrawn in light of the summit. That was one example of the summit getting it spectacularly wrong. We now have the total demise of general business support that revolves around simple, quick solutions for firms and a boost, albeit a welcome boost, to the paid consultancy market. The issue that I have is that, by opening up the market, how on earth will you control quality? Quality will be a huge issue in that. Let us compare this year with last year. I have spoken with four or five companies that have not had a single project approved since early January, but, last year, we alone would have worked with about 30 or 40 companies during that time, so that is evidence that there are delays. These are early days for it, but I am worried about it.

[185] **Nerys Evans:** Before I call on Huw Lewis for the final question, I remind Members that we are running over our allotted time, so it would be great if you could keep contributions concise.

[186] **Huw Lewis:** We are here to talk about what to do in the face of the economic downturn and what best to do about WAG's relationship with business in that context. We have rehearsed the past, and I think that we have agreed that, given the urgency of what we are up against, it is no good talking about returning to it. If it has taken five years to get to here, we do not want to go back to the future. The urgency surrounds convergence funding and the need to learn the lessons from Objective 1. I was chair of an Objective 1 partnership the first time around, and the partner with whom I had the most difficulty was the former

Welsh Development Agency, which refused, at least on a regional basis, to see itself as an enabler of Objective 1 partnership working. It had a stand-offish attitude to that. There is nothing perfect about the WDA, as I think you have said.

[187] You could also argue that the ding-dong between public and private sector cultures does not get us too far. You could also argue that it is the private sector's attitude to risk-taking that has actually got us here. The public sector did not cause the economic downturn. Those arguments can be had but they do not take us forward very much.

[188] I have heard things during this inquiry that made sense, namely that, during this downturn, there are central issues with which the Welsh Assembly Government has to concern itself. The first is the preservation of jobs and the promotion of job creation. Another is, crucially, investing in the skills of people so that we are ready for the turnaround when it comes. Likewise, it is crucial that we have a really urgent attitude towards infrastructural improvement—and not just transport infrastructure but information technology and so on—so that we are ready for the upturn, and we are in shape to take advantage of it when it comes. If you were to add another couple of bullet points to that list of jobs, skills and infrastructure, could you draw out the essence of what you are saying this morning? Jobs, skills, infrastructure, and what else?

[189] **Dr Cooper:** Jobs, skills and infrastructure are vital. The other thing is that we have an opportunity with convergence funding, so let us use that effectively and quickly. Let us get that out to the marketplace quickly. Secondly, let us improve the competitiveness of Welsh firms. This is where the risk-averse nature of Government comes in. Too many contracts are going across the border to organisations that have nominal offices in Wales but which are not as good as the Welsh-based firms that are losing contracts. I can give you excellent examples of that. So, release convergence funding and improve the competitiveness of Welsh firms. Get them into the tendering process—and there are umpteen excellent initiatives—but get more contracts to Welsh businesses, because we know that that will make a hell of a difference.

[190] What else is badly needed is linking university innovation with innovation per se, and funding innovation, which is badly done. We spend far too much money on building buildings and not enough on helping innovative companies to create wealth. Successful companies can build their own buildings in the end, but let us fund innovative products. That funding stream is not there at present; it is very difficult to access. So, universities, innovation, and there is a whole string of things that I would love to continue to discuss, but I can see that Nerys is about to cane me if I prolong the discussion any more. [*Laughter.*]

[191] **Nerys Evans:** Diolch yn fawr am eich tystiolaeth. Yr ydym wedi cwblhau cwestiynau yr Aelodau. Bu eich papur a'r sesiwn heddiw yn hynod ddiddorol a gwerthfawr i ni yn ein hymchwiliad. Gwneir Cofnod o'r cyfarfod a chaiff ei anfon atoch. Fel y dywedais wrth gynrychiolwyr y Ffederasiwn Busnesau Bach, mae'n amlwg bod y sefyllfa economaidd yn newid yn ddyddiol, ac felly os teimlwch y bydd unrhyw wybodaeth bellach a allai fod o fudd i'r pwyllgor yn ei ymchwiliad, mae croeso i chi ei hanfon atom er gwybodaeth. Diolch yn fawr am eich presenoldeb.

Nerys Evans: Thank you for your evidence. That concludes the questions from Members. Your paper and this session today have been extremely interesting and valuable to us in our inquiry. A Record will be produced of today's meeting, which will be sent to you. As I said to the representatives of the Federation of Small Businesses, it is clear that the economic situation is changing daily, and therefore, if there is any further information that you feel would be of use to the committee in its inquiry, please feel free to send it to us for information. Thank you for your attendance.

[192] **Dr Cooper:** Diolch yn fawr.

Dr Cooper: Thank you.

[193] **Nerys Evans:** Cynhelir cyfarfod y **Nerys Evans:** The committee will meet next
pwyllgor yr wythnos nesaf i gymryd week to take evidence from the sector skills
tystiolaeth gan gynghorau sgiliau sector. Daw councils. That concludes today's meeting.
hynny â chyfarfod heddiw i ben. Diolch yn Thank you.
fawr.

Daeth y cyfarfod i ben am 11.39 a.m.
The meeting ended at 11.39 a.m.