



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

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

**Dydd Mercher, 2 Rhagfyr 2009  
Wednesday, 2 December 2009**

**Cynnwys**  
**Contents**

- 4 Cyflwyniad ac Ymddiheuriadau  
Introduction and Apologies
- 4 Y Strategaeth Gweithgynhyrchu  
The Manufacturing Strategy

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,  
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

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.

**Aelodau'r pwyllgor yn bresennol**  
**Committee members in attendance**

Christine Chapman	Llafur Labour
Jeff Cuthbert	Llafur Labour
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Nerys Evans	Plaid Cymru The Party of Wales
Gareth Jones	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
David Melding	Ceidwadwyr Cymreig Welsh Conservatives
Sandy Mewies	Llafur Labour
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

**Eraill yn bresennol**  
**Others in attendance**

Lis Burnett	Ymgynghorwr ar Faterion Allanol Cymru, NESTA External Affairs Consultant Wales, NESTA
Rob Halford	Pennaeth Polisi'r Sectorau a Pholisi Masnachol, Adran yr Amgylchedd a Thrafnidiaeth Head of Sectors and Commercial Policy, Department for Environment and Transport
Gareth Hall	Cyfarwyddwr, Adran yr Economi a Thrafnidiaeth Director, Department for the Economy and Transport
Teresa Holdsworth	Pennaeth Datblygu Sgiliau a Dysgu yn y Gweithle, yr Adran Plant, Addysg, Dysgu Gydol Oes a Sgiliau Head of Skills Development and Workplace Learning, Department for Children, Education, Lifelong Learning and Skills
Leighton Jenkins	Cyfarwyddwr Cynorthwyol Polisi, Cydffederasiwn Diwydiant Prydain Cymru Assistant Policy Director, Confederation of British Industry Wales
David Rosser	Cyfarwyddwr, CBI Cymru Director, CBI Wales

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol**  
**National Assembly for Wales officials in attendance**

Dan Collier	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Cynghorydd Cyfreithiol Legal Adviser
Siân Phipps	Clerc Clerk
Ben Stoakes	Gwasanaeth Ymchwil yr Aelodau Members' Research Service

*Dechreuodd y cyfarfod am 9.32 a.m.  
The meeting began at 9.32 a.m.*

### **Cyflwyniad ac Ymddiheuriadau Introduction and Apologies**

[1] **Gareth Jones:** Bore da. Estynnaf groeso cynnes i chi i gyd i'r cyfarfod hwn o'r Pwyllgor Menter a Dysgu. Dechreuaf gyda'r cyhoeddiadau arferol. Fe'ch atgoffaf fod y cyfarfod yn cael ei gynnal yn ddwyieithog. Mae clustffonau ar gael i dderbyn gwasanaeth cyfieithu ar y pryd o'r Gymraeg i'r Saesneg. Mae'r cyfieithiad ar sianel 1, a gellir chwyddleisio'r sain ar sianel 0. Bydd cofnod o'r cyfan a ddywedir yn gyhoeddus. Dylem oll ddiffodd ein ffonau symudol ac unrhyw ddyfais electronig arall. Fe'ch atgoffaf hefyd i beidio â chyffwrdd y microffonau. Nid ydym yn disgwyl ymarfer tân, felly, os bydd argyfwng, bydd rhaid inni symud allan o'r ystafell, ac efallai'r adeilad, dan gyfarwyddyd y tywyswyr.

**Gareth Jones:** Good morning. I welcome you all to this meeting of the Enterprise and Learning Committee. I will start with the usual announcements. I remind you that the meeting will be held bilingually. Headsets are available to receive simultaneous translation from Welsh into English. The translation is on channel 1, and amplification of the sound is on channel 0. There will be a record of everything that is said publicly. We should all switch off our mobile phones and any other electronic equipment. I also remind you that you do not need to touch the microphones. We are not expecting a fire drill, so in the event of an emergency we will have to leave the room, and perhaps the building, following the instructions of the ushers.

[2] Yr ydym wedi cael ymddiheuriad gan Huw Lewis; nid oes dirprwyon.

We have received an apology from Huw Lewis; there are no substitutions.

9.33 a.m.

### **Y Strategaeth Gweithgynhyrchu The Manufacturing Strategy**

[3] **Gareth Jones:** Sesiwn dystiolaeth unigol sydd gennym y bore yma. Byddwn yn craffu ar randdeiliaid a swyddogion mewn perthynas â'r strategaeth gweithgynhyrchu i Gymru. Ein bwriad yw cyfrannu at gynnwys y strategaeth, ac, yn amodol ar ei ffurf derfynol pan y'i cyhoeddir y flwyddyn nesaf, mae'n bosibl y byddwn yn dychwelyd at y pwnc hwn yn ystod tymor y gwanwyn. Fel y dywedais, sesiwn unigol yw hwn inni edrych ar yr hyn sy'n digwydd yn y maes. Efallai down yn ôl at y pwnc pwysig hwn ryw dro yn nhyrnor y gwanwyn.

**Gareth Jones:** This morning we have a single evidence-gathering session. We will be scrutinising stakeholders and officials in relation to the manufacturing strategy for Wales. We intend to contribute to the content of the strategy, and, depending on its final form when it is published next year, it is possible that we will return to this topic in the spring term. As I said, this will be a single evidence-gathering session for us to look at what is happening in this field. We may perhaps come back to this important topic at some point during the spring term.

[4] Mae'n flin gennyf gyhoeddi nad yw'r Dirprwy Brif Weinidog a'r Gweinidog dros yr Economi a Thrafnidiaeth, Ieuan Wyn Jones, yn gallu bod gyda ni y bore yma, ac yr ydym wedi derbyn ymddiheuriadau ganddo. Fodd bynnag, mae'n bleser gennyf estyn croeso i gynrychiolwyr Llywodraeth Cynulliad Cymru sydd yma ar ei ran, sef

I regret to announce that the Deputy First Minister and Minister for the Economy and Transport, Ieuan Wyn Jones, cannot be with us this morning, and he has sent his apologies. Nevertheless, it is a pleasure to extend a warm welcome to the representatives of the Welsh Assembly Government who are here on his behalf,

Gareth Hall, cyfarwyddwr cyffredinol yr Adran dros yr Economi a Thrafnidiaeth, Rob Halford, pennaeth polisi'r sectorau, polisi masnachol a sgiliau yn yr adran honno, a Teresa Holdsworth, pennaeth datblygu sgiliau addysgu yn y gweithle yr Adran dros Blant, Addysg, Dysgu Gydol Oes a Sgiliau. Deallaf fod cydlynnydd polisi'r sectorau, sef Mike Firth, yn eistedd yn y cefn. Yr ydym yn falch bod y tystion yn ymuno â ni ar gyfer y sesiwn craffu hwn. Mae'n flin gennyf nad yw'r Dirprwy Brif Weinidog gyda ni, ond dyna yw'r sefyllfa sydd o'n blaenau.

namely Gareth Hall, director general of the Department for Economy and Transport, Rob Halford, the head of sectors, commercial policy and skills in that department, and Teresa Holdsworth, the head of skills development and workplace learning in the Department for Children, Education, Lifelong Learning and Skills. I understand that Mike Firth, the sector policy co-ordinator, is sitting at the back. We are pleased that the witnesses are joining us for this scrutiny session. I am sorry that the Deputy First Minister is not with us, but that is the situation that we face.

[5] Diolch am y dystiolaeth ysgrifenedig ddefnyddiol a gawsom gennych. Yr ydym wedi cael cyfle i ddarllen cynnwys y papur. Yn unol â'r drefn yr ydych bellach wedi hen arfer â hi, gofynnaf ichi roi cyflwyniad byr o ryw bum munud, Gareth, ac yna cawn gyfle i ofyn cwestiynau.

Thank you for the useful written evidence that you have provided to us. We have had an opportunity to read the contents of the paper. In accordance with our normal practice, to which you are well accustomed, I ask you to give us a brief presentation of some five minutes, Gareth, and then we will ask you questions.

[6] **Mr Hall:** First, I reiterate the apologies of the Deputy First Minister. Unfortunately, he cannot be with us, but he has written to you, Chair, and has offered to come along to this committee at another time. Therefore, it is pleasing to hear that you will be revisiting this subject in the spring. That will be an excellent opportunity for you to ask questions of the Deputy First Minister at first hand.

[7] I reiterate the submission and what we stated in the paper about manufacturing and its importance to the economy of Wales. We have a vibrant manufacturing forum, the chair of which, Roger Evans, meets regularly with us as officials in the Department for Children, Education, Lifelong Learning and Skills and the Department for the Economy and Transport, and meets regularly with the Deputy First Minister.

[8] You have the background to the draft strategy, which was produced last year. Elements of that strategy have been progressed and we will be pleased to update you on different elements and the progress that has been made. The chronology of events is important because we received the draft strategy for discussion at the onset of the recession. In our meeting with Roger Evans and members of the forum, they stated very explicitly their immediate priorities, which were based around business survival because the manufacturing sector in Wales, which is disproportionately greater in Wales than other sectors, compared to other parts of the UK, was being particularly hit by the recession. They told us, in no uncertain terms, what their immediate priorities were. Their priorities were a combination of ensuring business survival, but also being very mindful of placing those businesses in manufacturing to advantage for the time when Wales came out of the recession. They said to us, 'We have a programme, called ReAct, which we are using. It enables manufacturing businesses in particular, in Wales to provide skills training for people who have been made redundant and are out of work'. The manufacturing sector said to us, 'The last thing that we want is to lose people from our businesses because when the good times come, we want those people to be in our businesses so that we can take advantage of the upturn'.

[9] They then said, 'We would like to have something similar to ReAct to be available to people who are in work but who have not been made redundant', to which I said, 'What you need is a ProAct equivalent'. That is my contribution to ProAct; the rest is history and down

to others, but it is a direct response to the feedback that we had from businesses. If you so wish, we will be able to update you on ProAct. However, in the back of our minds, we were still very mindful that, if that was a vehicle to help businesses during the recession, there are a number of other things that need to be done as we come out of the recession. This coincides, as mentioned by the Deputy First Minister when we met last week to talk about the green jobs strategy, with the fact that businesses—not just manufacturing businesses—are telling him that the way that businesses will do business coming out of the recession will be different from what it was before. They are asking the Assembly Government to respond accordingly, which is why he set in train his economic renewal programme, invited participation from this committee, and has given an undertaking to update you on progress.

9.40 a.m.

[10] On the input of the manufacturing sector, he has asked the manufacturing forum to revisit its draft strategy in the light of its experience of the recession, particularly around the areas of bank finance, which we all know are difficult. A major strand of the strategy is how we can get small businesses that are in manufacturing—and small and medium-sized enterprises in particular—to take advantage of opportunities to move up the value chain and to take advantage of the skills and other support. That will feed into the work that is being undertaken over the next six months or so by the Deputy First Minister on his economic renewal programme. I hope that that provides a context for our paper and some background information for your questions.

[11] **Gareth Jones:** Thank you, Gareth. I noticed, as I am sure did all Members, that you emphasised the point on bank finance. I hope that certain progress is being made in that regard. It takes two: it has to come not only from the Government side, but also the finance sector itself. I would like to think that we are making some progress because that is essential. The first question is from Christine Chapman.

[12] **Christine Chapman:** Could you tell me a little more about the manufacturing strategy? We have been looking at the green jobs strategy, so how will that be reflected in the manufacturing strategy? You mentioned, Gareth, that there are an awful lot of small businesses now. I think that green jobs technology is still relatively new, so how will you stimulate interest and innovation to feed into the manufacturing strategy?

[13] **Mr Hall:** We discussed this last week, and green jobs present a fantastic opportunity for businesses large and small. I have talked to a lot of businesses and, in the main, they see the whole climate change agenda—on which Wales is leading and has some very ambitious targets—as a business opportunity that they are all looking to grasp. I go back to the paper that was prepared by the manufacturing forum. It sees huge opportunities for businesses to move up the value chain, because one area in which we have been hit, not just by the recession but by competition, particularly in the far east, is in manufacturing businesses that deal with high volume, low margins and low technology. That is the essence of what they want manufacturing to do: move up the value chain. By definition, to get those higher margins and higher profits, they need to have a higher technological input, and that means that there is an awful lot of opportunity to work with the universities when it comes to research and development to develop the new technologies. Climate change is one of the priority sectors for research and development, as agreed by the Cabinet. In agreeing those priorities, the Cabinet has also appreciated that advanced manufacturing is also a priority sector for research and development. So, we have convergence there, not just with manufacturing, but with the opportunities presented by climate change.

[14] The other important thing, which is also reinforced in the document from the manufacturing forum, is the role of small businesses in the supply chain to larger businesses. The SMEs in that supply chain come under the same pressures and have the same

opportunities as the bigger businesses that they work for. I was with a company yesterday, EADS Defence and Security Systems Ltd, which is a classic example of a high-technology, international, advanced manufacturing business that is operating in Wales. We have set up a joint innovation works with that company where we are co-funding research and development, particularly with Cardiff University. That has been going for 12 months. The first project has created intellectual property that can be commercialised and that intellectual property will be acquired by one of the subsidiaries of EADS. That will lead to new investment and new jobs in Wales. They will pay for that and those receipts will go back into the fund so that they can be recycled, and we will eventually end up with an evergreen fund for developing new technology and new intellectual property. There are opportunities for small businesses to take advantage of there. EADS is making a call for topics for new research and development subjects for commercialisation, and part of that call will invite ideas from small businesses in Wales in this supply chain.

[15] **Christine Chapman:** You talked about opportunities, and there clearly are opportunities, but how do you ensure that more companies are involved? You talked about universities, but not all companies have a great relationship with universities; in fact, some companies are quite anti-universities, unfortunately. So, I am slightly concerned. Although the opportunities are there, what is the Welsh Assembly Government doing to be much more proactive with these businesses? We talk about climate change and green jobs but, in some cases, it is still seen as an alternative agenda, and we want it to be at the heart of the manufacturing strategy. Can you give assurances that that will be the case?

[16] **Mr Halford:** There are a couple of important points in this context. The first is that the manufacturing forum was tasked with looking at issues of generic significance to the sector, because the position adopted at the outset was that there would be separate strategies for each of the sub-manufacturing sectors, such as aerospace, automotive, and so on. In assessing what we are doing to support the sector, we must look at the totality. Gareth said that there are things going on, and one thing that emerged from the manufacturing forum's discussions was the concept of communities of interest. That means groups of companies that have similar issues and similar opportunities. A recent proposal has emerged from the automotive forum, which goes to the core of the question that you were asking. It is looking at low-carbon opportunities by brigading companies to participate in an exercise to maximise the benefits for those companies. So, there are things going on that are parallel, but not integral, to the manufacturing strategy.

[17] The broader issue to recognise is that the strategy was developed during a period of significant change in the support mechanism through which we support businesses in Wales, such as the Flexible Support for Business arrangements. At their core, these arrangements have a new relationship management function. Relationship managers, those responsible for innovation, and others within the department are currently engaged in working groups that cut across these areas and themes, and we have recently been looking at the low-carbon agenda. The opportunities for funding that currently arise from the Department for Business, Innovation and Skills point to the fact that we should engage with this particular agenda. In recent days, a number of proposals have been put forward to that department that would give companies in Wales opportunities to take forward the low-carbon/green agenda.

[18] So, there is a lot of joining-up to be done, and we have to see the opportunities and the strategic solution in the round, which must involve a conversation that goes beyond the manufacturing sector per se. The strategy must commence with a specific remit, namely to be an overarching strategy dealing with the generic issues, and not the finer ones that fall to individual sectors.

[19] **Mr Hall:** I have a practical example of that. At last week's meeting when we talked about green jobs, the Ministers referred to the Arbed initiative in the Heads of the Valleys,

where we are using brought-forward capital investment to upgrade 40,000 homes in partnership with registered social landlords. Many local businesses are installing new insulation into these homes, such as photovoltaic cells and ground source heat pumps. An announcement was made this morning by the UK Government that all homes are to have smart meters installed for electricity and gas. There are opportunities for small businesses to get involved in that, particularly given the joined-up approach that we have in Wales towards regeneration. It will be attractive to businesses to seek out opportunities, not just to install this equipment, but to set up the manufacturing, because we are doing it on a very large scale. It will start there, but it will also be rolled out to other areas.

9.50 a.m.

[20] **Gareth Jones:** Thank you for that detailed and encouraging response to Christine's point. Do you still feel that a substantial number of businesses do not engage?

[21] **Mr Hall:** Before you introduced Christine's question, you talked about finance, and the feedback that we have had from the economic summits is that dialogue with the banks is a priority. Therefore, that will be a main topic for discussion at tomorrow's economic summit, which is being held in Aberystwyth. So, it is an ongoing issue, and I did not want to let that one go.

[22] We have to engage with as many people as possible. We cannot do that through our relationship managers where we do have relationships. We have to create networks between businesses, or communities of interest, because they learn best from each other. Our discussions with the banks have involved trying to persuade them to be more receptive to lending to business. Banks are engaged with businesses because businesses go to them for loan facilities. That is why we are developing pilot schemes with a few banks in Wales to refer their customers to us. Our business support can then help them to present a better proposition when they go to the bank manager to ask for a loan. To extend our reach, we have also made an agreement with the two chartered accountancy bodies in Wales to use their accountants, because research tells us that the first people that those running small businesses turn to are their family and friends, and the next person is an accountant because they have to do their VAT returns. Then, it is important to have a relationship with the bank, so they go to the bank next, and finally they turn to public sector bodies. We are using those intermediaries to extend our reach and to promote the awareness that we described.

[23] **Gareth Jones:** That is pleasing to hear, as it taps into a new source, does it not?

[24] **Mr Hall:** Yes, and we will talk tomorrow in Aberystwyth about our concern for small businesses in rural areas, because of their remoteness. We have been talking with the two farming unions, the National Farmers Union Wales and the Farmers Union of Wales, which have their networks of area managers and area secretaries. They are keen for us to use them for signposting and as an intermediary, because they go out to talk to farm businesses, small businesses and rural businesses, too. So, we can use them to extend our reach as well.

[25] **David Melding:** The UK has had a manufacturing strategy that focuses on England, although there are UK aspects to it, since March 2008. At that time, our strategy was in the pipeline, but was not published, although it was expected imminently, as I understand it. Now that has been delayed further and you have explained why, but I want to draw out some further facts. As I understand it, the manufacturing forum and the wider manufacturing sector urged Government not to publish its strategy because the immediate focus was on saving jobs—although our record on that is mixed, to put it mildly. However, that was the focus, and there was a lack of demand for a manufacturing strategy at that stage because of the need to get through the recession. In addition, your technical advice to Ministers has been to wait until the recession is over before proceeding with the manufacturing strategy. So, this whole



delay has not happened for political reasons, as a result of decisions taken by the Deputy First Minister, but because of technical advice that you have given him. Do I understand that correctly?

[26] **Mr Hall:** No, I think that your interpretation is slightly misplaced there. In no way was I communicating a black-and-white response on the part of the Welsh Assembly Government. There was a draft strategy, and elements of that have been progressed. I will ask Rob to expand on that and maybe Teresa can come in as well. However, there was a question of timing, and I told the Deputy First Minister that his immediate focus, for the reasons that I explained, should be on ProAct, but not exclusively. I reinforce the point that this was not black and white. It was a case of putting the strategy on hold—

[27] **David Melding:** I will tell you what is black and white: we have been waiting 18 months. If you meet the deadline of March 2010, that is 18 months after the publication of the UK strategy, when we had a draft that was, presumably, pretty close to being able to be published. You cannot string out things in that way due to an issue of timing. It is 18 months, for heavens' sake.

[28] **Mr Hall:** We will start to explain some of the actions that were asked for in the strategy and what we have been doing about it.

[29] **Mr Halford:** It was clear that the manufacturing sector felt that its strategy was close to where it needed to be. That is the reason that it submitted it—

[30] **David Melding:** That was in—

[31] **Mr Halford:** In October 2008. At that time, it felt that the strategy was at a stage at which it could be shared with the Deputy First Minister. Gareth is alluding to the fact that that strategy was generated and being taken forward by a group of individuals. Another key point to grasp on this is that the process that we have been through brought together all those with either a substantive or a material interest in the sector in Wales, and the anticipation was that we would create a shared, jointly-owned strategy. So, when we talk about this being a Welsh Assembly Government strategy, that was never the intention; it was always intended that it would be owned by all the participants in the forum, of which we were one. The reason for that is that in the earlier exchanges, there was an explicit recognition that the scale of the challenges facing the sector was such that it went well beyond the ability of the Assembly Government to resolve some of the issues and to create the opportunities that were needed to sustain the sector going forward. As another point of clarification, that was the exact position at the outset.

[32] From my recollection, the conversations in October last year with individuals within the sector were about the fact that many of them had clear difficulties; many had committed considerable time and energy to developing the strategy, but they found themselves having to put all hands to the pump to sustain jobs in their business, and they were retreating to their factories at that point. The reality is that the economic summit processes overtook the dialogue, and we found that in those summits, and in the continued engagement of the chairman of the manufacturing forum in particular, much of the development work that had been done, as well as the debate and discussion on the issues, served to accelerate the process through which we were able to develop new initiatives. Gareth has already alluded to the ProAct initiative, but other things have come to the fore.

[33] It is not a clear-cut scenario, but you are right in your contention that in October last year the forum felt that its strategy was fit for purpose. However, at that point, the scale of the recession was unknown. The strategy deals with medium to long-term issues, and at that point in time, it was difficult to be clear about what those medium to long-term issues were. The

issues that we now face are quite different in nature to those with which we went into the recession, although many of the key points in the strategy remain pertinent. So, hopefully, that clarifies the position. It is quite clear that the forum felt that its strategy was fit for purpose in October.

[34] **David Melding:** I have to infer from that that the decision not to publish the strategy—and some of the i's needed to be dotted and the t's crossed, but I cannot think that the wit of a Government department could not have stepped in to help the forum at that stage—was political, was it not? It has to be. If you did not give the technical advice that the strategy was not in a fit state to be published, the fact that it has not been published has to be because of a call by the Minister—it is as simple as that.

[35] **Mr Hall:** In the Deputy First Minister's most recent dialogue with the chair of the group, they agreed to revisit the strategy, which was originally a draft, in light of the lessons learnt from the recession. That has been agreed, and that is being done as we speak. They will come back with that, and, as I said in my introduction, that will be part and parcel of the economic renewal programme of which an agreed strategy will be a part.

10.00 a.m.

[36] **Mr Halford:** There was a meeting in June this year between the Deputy First Minister and the Chair, at which the strategy and its constituent elements were discussed. The process went live again and we have been progressing accordingly. There is now a clear plan to move to a position in which the strategy is revised and published.

[37] **Mr Hall:** We have also provided a financial resource to accelerate that process.

[38] **Gareth Jones:** Do you want to add anything to that, Teresa?

[39] **Ms Holdsworth:** To add to what Gareth has said, the fact that the strategy has not been formally published has not stopped the activity, particularly on taking forward the skills agenda, and a lot of the work—

[40] **David Melding:** However, you have stopped its scrutiny by this committee and others in the Assembly who are not members of the Government.

[41] **Gareth Jones:** I share David's frustration. It has been a long time for us, as the scrutiny committee, not to have been engaged in that sense. That point has been made and I thank you for your response. I move on to Nerys Evans.

[42] **Nerys Evans:** Pan fydd y strategaeth yn cael ei chyhoeddi, a fydd amserlen a chyllideb wedi cael eu dynodi er mwyn sicrhau bod y strategaeth yn cael ei rhoi ar waith? A fydd targedau penodol yn y strategaeth a thargedau y gellir eu mesur mewn blynnyddoedd i ddod? Sut ydych chi'n bwriadu asesu effaith y strategaeth? A fydd pwyntiau gweithredu penodol i Lywodraeth y Cynulliad yn y strategaeth? **Nerys Evans:** When the strategy is published will a timetable and a budget be allocated to ensure that the strategy is implemented properly? Will there be specific targets in the strategy, targets that will be measurable in the years to come? How do you intend to assess the impact of the strategy? Will specific action points for the Assembly Government be contained in the strategy?

[43] **Mr Hall:** In the Deputy First Minister's dialogue with the forum, he has asked for a set of actions that can be implemented, not just using the resources of his department, but those of other departments, too, and the response to that has been positive. It is plain that there will also be input from DCELLS, but there will be relationships with other departments,

returning to your question about the green jobs agenda, Christine. So, there is also a link there with DESH. It will be very much action oriented and it will be an integral part of the Deputy First Minister's overall response and how his department and the wider Assembly Government respond with all their support mechanisms for businesses, coming out of the recession. These actions, by definition, will have to have outcomes, and they will also need to be measured. We need to ensure that the resources do not just come from my department, but also from the other departments, so the way that we plan for this work needs to be joined up, particularly through the business planning process. We need to share how we set up the mechanism and the baseline—a good example of this is ProAct—and ensure a robust performance measurement dimension.

[44] **Nerys Evans:** Beth am y pwyntiau o ran amserlen a chyllid? A fydd cyllid yn cael ei ddynodi gyda'r strategaeth ac a fydd amserlen ar y pwyntiau gweithredu?  
**Nerys Evans:** What about the point regarding the timetable and budget? Will funding be allocated with the strategy and will there be a timetable on the action points?

[45] **Mr Hall:** This ties in with the Deputy First Minister saying that he is looking at six to nine months for the implementation of the economic renewal programme. He has also said that this will not be a big bang, and, along the way, he will also be looking for major advances. So, we are looking towards the spring for agreement on the manufacturing strategy and that can be part of the jigsaw that will be put in place early on. We will need the necessary resources from both departments to sit behind that, so I can see things starting from spring of next year.

[46] **Nerys Evans:** What about the finance?

[47] **Mr Hall:** The finance will come from our single investment fund which, by definition, is flexible. We do not want to compartmentalise this. The whole purpose of collapsing all our previous different grant mechanisms was to provide a flexibility that responded to demand. All of the appropriate resources from around the departments, and not just my department, but skills and management development training too, will be brought to bear on this. Each case is taken on its merits.

[48] **Gareth Jones:** So, we will see that integrated approach from, not only the Department for Children, Education, Lifelong Learning and Skills, but also the Department for Environment, Sustainability and Housing where there is a massive investment, as far as I can see. So, we can trace that.

[49] **Mr Hall:** Yes. You will be talking to the Confederation of British Industry later and a major thrust of its submission is support for the planning regime and procurement as well as direct financial support. It has to be, what has now been described as a 'whole Government approach'.

[50] **Jeff Cuthbert:** Thank you for your comments so far. You mentioned that the priority for businesses out there was survival and I understand that and am obviously aware of the ReAct and ProAct schemes and their benefits. However, you also made the point that the strategy is for the medium to long term, and again, I do not dispute that for a second. I wish to concentrate on skills because you will be aware that over the weekend, there were reports in 'Engineering UK', the annual report of the engineering and training body that over the next seven years, the UK as a whole will need approximately 600,000 engineers. A shortfall of which Wales will have more than its proportionate share, given, as you have already said, the disproportionate size of its manufacturing sector.

[51] How will that be built into the strategy, particularly the links with higher and further education to ensure that, as far as manufacturing is concerned, entering skills at all levels will

be properly catered and planned for? I understand the issue of small and medium-sized businesses and how difficult it is, particularly for the smaller ones to engage. So, the next question is: in terms of the framework of sector skills councils, are those who work in engineering and manufacturing engaged or on board? In other words, is all of that part of the strategy or can we expect to see it when it is published?

[52] **Mr Hall:** Before I bring Teresa in, I will reinforce one point: our support in the main over the last 12 months has focused on business survival. However, at the same time, in supporting businesses to survive, we have had one eye on the future. So, there were two sides to that coin: support for survival, but particularly on skills, by providing support through ProAct, we stopped people being laid off. At a time when they would otherwise have been laid off, they were being trained and their skills were developed in order to equip them to take advantage of the upturn. So, that was an immediate response; our other response was to look to the future. I wanted to reinforce that point, but Teresa will expand on it.

[53] **Jeff Cuthbert:** Briefly, I understand the principles of ProAct and we have had a lot of discussion on it, but that is not long term and I am trying to focus on that issue.

[54] **Mr Hall:** Teresa will address that point.

[55] **Ms Holdsworth:** I will pick up the point that Gareth just made. We had a meeting on Monday with a group of employers who have received ProAct support to date. Just to echo Gareth's point, the messages from companies who have been engaged are that a number of them are now in a situation where, not only have they been able to maintain their staffing levels throughout the recession, but some are now in a position where they are looking to recruit and they have won new business as a result of the skills that they have been able to develop among their workforce through the support that they have had. A number of companies are giving us evidence and information of new technologies being introduced as a result of the skills training that they have had. All of them, without exception, are identifying the opportunity that they have been able to take advantage of, albeit during a difficult time. The amount of skills training that they have put in place with their existing workforce is already reaping benefits and they are winning new business. They have introduced new technologies and have won new contracts as a result of that. So, it is important to echo that.

[56] However, to pick up on your question on what is being done in the long term, first, the sector skills council for science, engineering and manufacturing technologies is directly engaged as part of the manufacturing forum. It chairs the skills sub-group of that forum and, as such, it is hearing first hand from the employers in the forum what the issues are and what needs to be done in respect of the relationship with FE and HE to ensure that the supply side is gearing up for the skills that are required for the future.

10.10 a.m.

[57] At a UK level, SEMTA is charged with ensuring that the qualifications structure reflects the changing technologies, and that the need to look at changes to apprenticeship content, for example, is built into national occupational standards, and, subsequently, into frameworks for apprenticeships, so that we ensure that the new people who are coming through the system have the skills that are needed for the future, rather than just the traditional skills.

[58] We have a range of initiatives to look at 'pulling through' young people into the sector. We have had huge success with the work-based learning pathway, which is targeted at 14 to 16-year-olds, and which offers them vocational options. Engineering is one pathway that has been introduced. There has been incredible success in respect of people coming through that pathway. In some cases we have seen 100 per cent completion and retention rates

in respect of 14 to 16-year-olds coming through that work-based learning pathway, 95 per cent of whom progress to an apprenticeship through that route. So, that has been successful.

[59] Again, through the economic summits and some of the anti-recessionary activity that has been put in place, this year we have introduced a new pathways to apprenticeships route. We have 650 young people on an engineering apprenticeship pathway, which is a full-time FE course, and which has been designed with employers and with SEMTA. It gives young people distinct, direct training, and employers are part of that process, offering work experience through the first year. The feedback that we have had to date is that, as a result of their time in FE, the young people understand quickly and much more effectively what the employers' needs are. The feedback from employers is that this has been a saviour to them this year, and it means that, whereas otherwise they would have expected not to be taking on apprentices, they are now able to engage with young people who have done the full-time FE course. So, that progression route is there.

[60] On higher education, we are working with some major companies and are piloting higher-level apprenticeships at level 4. That addresses the need for the higher-level and technician-level skills that employers are looking for, and we are looking to extend that advanced apprenticeship route where appropriate. Work is being done in higher education on the development of foundation degrees that are linked to engineering. The 'pull-through', if you like, of young people into the sector is an issue that is being addressed. The forum has identified that the image of the sector is a key factor for young people who are looking to enter it, and many of the initiatives that we have put in place aim to attract and enable young people to understand what engineering is about, as well as the opportunities that have been created for engineering. There are initiatives such as the F1 in Schools challenge, and there are a number of national competitions that schools can enter that give young people exposure to what a career in engineering might mean. There are now opportunities and alternatives available for them to get to quite high-level jobs, either through the traditional route of going into higher education and then graduating, or through the alternative route of vocational learning, for which there is now a pathway that allows someone to start at a much younger age and which extends all the way through to higher education.

[61] **Jeff Cuthbert:** I am pleased to hear all that; it is very positive, and I look forward to seeing that as part of the strategy, and, in years to come—if I am still here—to have opportunities to measure how it is going and to scrutinise Ministers and key partners on its development. You mentioned the F1 in Schools challenge, and I am trying to think of the name of its successor. It will be launched in Swansea later this month. It is not called F1; I think it is called the Bloodhound Project or—

[62] **Ms Holdsworth:** I cannot remember.

[63] **Jeff Cuthbert:** It has a different name because it has moved on a little. On apprenticeships, when I was a lad, more than 10 years ago—[*Laughter.*] What are you laughing at? I said 'more than'. I did an apprenticeship through the National Coal Board that was fully paid for by my employer. It is a point I intend to raise with CBI Wales, because it talks about the need to continue to fully fund apprenticeships using public resources. Does 'fully fund' mean that they should be literally fully funded from public resources? Should we not be moving towards a position where there is a clear contribution from employers, because, after all, they are the principal beneficiaries of the apprenticeship scheme? How is that panning out? What is the actual situation?

[64] **Ms Holdsworth:** You will be aware that our consultation on the fees policy is currently out, and we expect it to close towards the end of this year. Following significant discussion and identification through employers, 'fully fund' effectively means that we pay the actual cost to the training provider of delivering the apprenticeship input with which the

training provider supports the employer. Employers argue that they make a significant contribution to the cost of an apprenticeship—they pay their apprentices' wages from day one, and new legislation on apprenticeships means that, in future, anyone classed as an apprentice must be waged. Employers will have to meet the minimum wage proposed by the Low Pay Commission shortly, and they will have to make that contribution of paying the wages from day one when the apprentice signs up with them. To all intents and purposes, the apprentice is non-productive for the employer during the early part of the apprentice's training, so the employer is making a major contribution through that wage.

[65] The employer is heavily engaged in on-the-job training. The apprentice will do off-the-job training as part of the apprenticeship delivery, but much of the training that they do is on the job. The employer makes a contribution through the provision of a supervisor that is assigned to that apprentice and who supports their learning and ensures that they are meeting the standards required for the apprenticeship framework and those required by the employer. So, although the employer will not make a direct contribution to the external cost of training, the employer, through that support, is providing a considerable amount of financial investment in that individual to ensure that they can undertake that learning. As such, the proposal in the fees policy, and the feedback from employers, suggests that where an individual is doing a full apprenticeship, it would be expecting too much of the employer to make an additional contribution to the external costs over and above the wages and the cost of the investment in training.

[66] **Jeff Cuthbert:** That is very helpful. I understand the issue of employed status, but the use of the term 'fully fund' is misleading. It would be better if a different term was used that said that the additional costs associated with the training should be met through public funds, while the wage bill and everything else should be met by the employer.

[67] **Gareth Jones:** Rob wants to make a contribution, and I believe that Sandy wants to make a follow-up point.

[68] **Mr Halford:** I want to broaden the response slightly, because when we start to talk about skills we inevitably focus on the shop-floor skill sets and ignore the management dimension to skills.

[69] **Jeff Cuthbert:** I said 'all levels'.

[70] **Mr Halford:** I know, but I am trying to broaden the response. In the context of the manufacturing forum, Gareth has already mentioned the emphasis that it has placed in its deliberation and draft strategy on driving businesses further up the value chain. Implicit within that is a need to improve skills at higher levels, and these include management skills. So, I thought that it might be useful to mention another area in which progress has been made, irrespective of whether the strategy has been published or not, and that is the whole area of high value added manufacturing. SEMTA, who is a partner in the forum, as Teresa mentioned, has done work through a pilot project to identify mechanisms through which the three components that I highlighted earlier—the implementation of high-performance working practices, the development of knowledge management and the refinement of corporate ethics—are developed within manufacturing companies in Wales. That work led to analysis by people from academia. You mentioned further and higher education; there has been HE and FE involvement in the forum from the outset, so that is an encouraging dimension.

10.20 a.m.

[71] As we sit here today, funding is becoming available through funds that the Department for Children, Education, Lifelong Learning and Skills has been able to brigade

for management and leadership development. One of the early projects that will be considered, hopefully, as part of the deployment of those funds, is one that links directly to the pilot work that has been done through the early stages of the manufacturing forum's existence, and to the development of the skill sets of managers in Wales to enable them to drive towards this higher value added manufacturing agenda. It is important to recognise that while apprenticeships are clearly important, this other component is vital in terms of driving the longer term perspective that the forum is proposing.

[72] **Sandy Mewies:** To go back over the discussion that we have just had, as Jeff said, much of what you have said is very positive. I was pleased to hear Gareth talk about co-operation between departments and that it should not just be a matter of having financial contributions, and to hear Rob telling us about these higher level management skills. You referred to the CBI's paper. One of the things stated in that paper is that the most common concern expressed by business by far continues to be the lack of employability of a significant proportion of school leavers. This is due not just to literacy and numeracy problems; there is a larger group that has wider communication and attitude problems, a lack of confidence and understanding of team work in problem solving and basic economic literacy. The point that I am making is that 14 years of age and onwards is fine. This has been said for an awfully long time. Airbus has been saying for years that it has to skill people up in basic numeracy, literacy and other skills. Is it improving? It has to be done before 14 years of age, so what are you doing with the Department for Children, Education, Lifelong Learning and Skills and do you have a measure of improvement?

[73] **Gareth Jones:** That is a very important point. Listening to you, Teresa, I was encouraged in terms of the projects and initiatives. What kind of assessment do you make of those schools and authorities that do not engage? Is the situation patchy in Wales and, if so, how do you respond to that?

[74] **Ms Holdsworth:** I am not an expert on basic skills or the schools agenda, therefore the answer that I will give you will be fairly broad based. I apologise because perhaps I cannot give you the level of detail that you are seeking. A range of measures has been introduced fairly recently to address basic skills and the need for a full and rounded education for all of our young people. Much of this will be on a long-term basis, and the benefits and the measures of success will be seen over a period of time rather than immediately. In terms of the introduction of the foundation phase, specific activity in schools to look at the introduction of teaching assistants, and a new way of learning from a very young age, we would expect to see the impact of that coming through to young people over a period of time.

[75] There has been specific targeting of groups and individuals in areas where there is an identified need. As you know, the basic skills strategy has specific actions to target the school agenda and to look at measuring the impact that that has in terms of how schools are performing and how young people are being measured at the transition points of seven, 11 and 14 years of age, which is where we know there are particular issues that need to be addressed. However, we also know that the identification of problems with young children should start before the age of five and that all the experts tell us that you can identify early on whether an individual will have problems. That is where a lot of the focus has been placed: through the early years, the foundation phase, and the introduction of a range of measures to tackle that with a view to gaining a long-term benefit. That does not mean that we do not need to address the issues between the ages of five and 14. As I have identified, a range of things have been put in place to target specifically 14 to 16-year-olds and also within the 14-19 agenda, because we know that there is a particular issue with that age group. That does not mean that action is not being taken to address issues for those of all ages. However, the long-term strategy is to address those problems at the youngest age possible and to look at measuring that impact. I do not have the detail at my fingertips, but I can arrange for that to be supplied if needed.

[76] **Sandy Mewies:** I would like to see that. We have looked at this matter, but I would be interested to see that information.

[77] **Gareth Jones:** Thank you. Finally, Jenny Randerson has a question.

[78] **Jenny Randerson:** You have a table in your evidence that shows GVA per workforce job. It illustrates that, between 1997 and 2007, there has been a steady decline. In 1997, we were above the UK average, but we are now significantly below that. NESTA's evidence shows that Wales has had one of the highest shares of high-growth manufacturing businesses in that time. Can you explain why it is that GVA has declined in the face of that? Are you convinced that the manufacturing strategy will address that issue? This is not just about jobs, but about high-value jobs.

[79] One of the criticisms levelled at the Government's policy up to now is that it has been too broadly based and has not been sufficiently focused. That criticism was also made of the draft strategy: that it is not sufficiently focused and that it does not concentrate—as, for example, Ireland's did—on a narrow range of industries. I would like your comments on those two points.

[80] **Mr Hall:** The disproportionate statistics for GVA compared with the rest of the UK is down to the structure of the manufacturing sector in Wales. That reinforces the point—this is the whole essence of the draft strategy—that part of that restructuring has to be based on moving up the value chain. While we have a highly productive workforce, we want to improve that workforce, through skills, through apprenticeships and through the education of the managers, so that the managers are producing goods that are high up the value chain, which will lead to higher profits and higher wages, which are the two components of the gross value added calculation. So, I agree that we have to move up the value chain. In moving up the value chain, there has to be focus, because we cannot be all things to all people. That is why the Cabinet, earlier this year, agreed the priority sectors for research and development and commercialisation, because those are the main elements of moving up the value chain and increasing GVA.

[81] In arriving at those key sectors, which include advanced manufacturing, there are two main dimensions. The first is where the expertise is in our universities, so that we can capitalise on the research and development. We also analysed what businesses in Wales currently take, or have the potential capacity to take, advantage of that research and development capability and capacity, so that can then be translated, through moving up the value chain with new inventions, processes, products and services, into better paid jobs and more jobs, which will give a higher gross value added figure.

10.30 a.m.

[82] On the second part of your question, there is a need for focus and, in developing that focus, it is not for the Assembly Government or any Government to pick winners—the Deputy First Minister is adamant on that—because Governments do not have a good track record on doing so. It is all about engaging with businesses to see where those opportunities are, so that we can then make decisions about where we can start to focus our resources. That is the essence and principle of the economic renewal programme that he has embarked upon, which he mentioned to you last time he was here.

[83] **Jenny Randerson:** At the beginning of your answer you said that the problem in relation to GVA was the structure of manufacturing business. I take you back to the evidence from NESTA: its analysis shows that Wales has had one of the highest shares of high-growth manufacturing businesses. So, it is not true that the problem is the structure of our



manufacturing; it is that we have failed to exploit what we have had here, developing among us. The point of my question is to ask whether you are now satisfied that, in future, we will be exploiting those advantages, because, clearly, we have not exploited them properly in the past. The higher and further education link is key. I do not want to go into that in much detail now. Teresa said earlier how important FE and engineering are, but there are waiting lists for engineering courses in further education and there will be longer waiting lists next year because FE is being hit by what is effectively a 5 per cent cut and, therefore—I would like you to respond on this—there is still insufficient co-ordination between the economic development department and the education department. The education department is swimming in the opposite direction to your manufacturing policy.

[84] **Mr Hall:** There were a couple of things there. I do not know the detail of the NESTA analysis, so I need to look into that further. Are you saying that a high proportion of added-value businesses have been attracted to Wales?

[85] **Jenny Randerson:** Yes, and have developed within Wales.

[86] **Mr Hall:** I think that we have got a good track record on that. I do not know what that is as a proportion of the totality of the sector. You are quite right that it is one thing attracting businesses—be it through inward investment or whatever within the UK—but we also put a lot of effort into embedding those businesses. There are a number of aspects involved in embedding those businesses. One is that you have to get them working, ensuring that it is not just their manufacturing capacity that is in Wales, but that their research and development goes on here. If you get a linkage between their in-house research and development and what is going on in the universities, you have a far better chance of their next generation of products being developed and exploited in Wales, rather than being moved away. The other aspects are ensuring that those companies have competitive supply chains feeding into them—that is where the small business dimension is very important. The other thing is the need to continually upskill their workforce and their managers. That is where all those things need to come together and that is where you get the embedding. When it comes to making the choice about where their next product is developed, it should be that they automatically decide to carry on doing it in Wales, rather than thinking about doing it somewhere else. So, I would agree with you on that.

[87] **Ms Holdsworth:** Do you want me to comment on the FE sector?

[88] **Jenny Randerson:** Yes.

[89] **Ms Holdsworth:** I think that it is fair to say that there are pressures on budgets in current times and we are trying to work closely with the FE and the HE sectors to look at identifying where the demand is and where the demand for learning will lead to career opportunities and jobs for young people.

[90] Where that can be clearly demonstrated, we would look to tailor provision through FE to address that need. This is where we are working closely with the Department for the Economy and Transport, through the identification of the sector priorities fund. We will work closely with FE and HE and use that fund to build their capacity in terms of skills for the future. However, we will also look at targeting resource to respond to the need for training in those specific areas. So, where the higher end opportunities exist in engineering and manufacturing, we would look to work with FE to target support for those areas. Part of the fees policy consultation is looking at ideas on the sector priorities fund, which is very much about identifying key opportunities for FE to tailor what it delivers to the needs of industry and, through that support, to target training in particular sector areas, where we know that it will have a huge impact on the Welsh economy.

[91] So, going forward, although we all understand the budget pressures, we are looking to identify more clearly the type of training that is needed and the level and range of qualifications that will give the individuals, going through FE, the best opportunities for job prospects and for career progression.

[92] **Gareth Jones:** We are grateful for that answer. I think that Jenny has pointed out an area of concern. That is one reason why we undertook an inquiry into the economic contribution of higher education—it is as if we have slipped there. However, it is encouraging, again, to hear that you are mindful of that situation and are getting to grips with it.

[93] That concludes this part of our scrutiny session on the manufacturing strategy. It goes without saying that we have missed the Deputy First Minister, but that we understand the circumstances. It is my duty to thank you, as officials, for sharing with us your views on development in this important field. Thank you for explaining the developments and issues to us and how you are approaching this important area. We wish you well with this important issue.

[94] Diolch yn fawr a phob hwyl ichi. Thank you and all the best.

[95] Symudwn ymlaen at ail ran eitem 2 ar y strategaeth gweithgynhyrchu. Mae'n bleser croesawu ar ran Cydffederasiwn Busnes Prydain Cymru, David Rosser, y cyfarwyddwr, a Leighton Jenkins, cyfarwyddwr cynorthwyol polisi Cymru. Croeso cynnes ichi.

We will move on now to the second part of item 2, which relates to the manufacturing strategy. It is my pleasure to welcome, on behalf of the Confederation of British Industry Wales, David Rosser, the director, and Leighton Jenkins, assistant director of policy for Wales. A warm welcome to you.

[96] Croesawaf, hefyd, gynrychiolwr y Gwaddol Cenedlaethol ar gyfer Gwyddoniaeth, Technoleg a'r Celfyddydau, Lis Burnett, sy'n ymgynghorwr ar faterion allanol Cymru.

I also welcome the representative from the National Endowment for Science, Technology and the Arts, Lis Burnett, who is an external affairs consultant Wales.

[97] Ar ran y pwyllgor, diolch ichi am eich tystiolaeth ysgrifenedig. Cawsom gyfle i ddarllen cynnwys y ddau bapur. Yr wyf yn siŵr eich bod yn dra cyfarwydd â'r drefn yma. Gofynnaf ichi wneud cyflwyniad o rhyw bum munud. Gall David neu Leighton siarad yn gyntaf ac yna gall Lis wneud cyflwyniad hefyd, os yw'n dymuno. Cawn gyfle i ofyn cwestiynau ar ôl hynny. Felly, drosodd i chi.

On behalf of the committee, I thank you for your written evidence. We have had time to read the content of those two papers. I am sure that you are very familiar with how things are done here. I will ask you to make a presentation of about five minutes. David or Leighton can speak first and then Lis can make a presentation, if she so wishes. We will get an opportunity to ask questions after that. So, over to you.

10.40 a.m.

[98] **Mr Rosser:** Diolch, Gadeirydd. Mae'n bleser mawr i dderbyn y gwahoddiad i fod yma heddiw i siarad â'r pwyllgor.

**Mr Rosser:** Thank you, Chair. It is a pleasure to accept the invitation to be here today to talk to the committee.

[99] We believe that manufacturing remains an important part of the Welsh economy. The statistics on employment levels in manufacturing can sometimes be misleading and can underplay the importance of the sector for the overall economy, particularly given that many manufacturers now support service sector jobs directly, which may have been included in

manufacturing statistics in earlier years.

[100] There are two approaches that we want the Welsh Assembly Government to consider in supporting manufacturing. The first is to create what we regard as a good and supportive general business environment, and there are probably three key aspects to that. The first is energy, because manufacturers are increasingly driven by the need to have a secure and cost-effective energy supply, and many large manufacturers in Wales see their future in the UK as being predicated on getting a manageable Energy Bill. The second aspect is the planning system, which is closely linked to energy. We need a system that enables all companies, but certainly manufacturers, to change their processes and invest in new energy sources, and to do so in a timely and efficient manner. We are placing great hopes on the planning review that the Welsh Assembly Government is undertaking. The third aspect is the general level of skills and labour availability in the economy, given that many manufacturers have an ageing workforce and that people are entering the workforce without the necessary skills and training.

[101] The second approach is direct, firm-level interventions. There is much more debate about how Government should start to deploy the inevitably limited resources for firm-level interventions. We are interested in the economic renewal programme that the Deputy First Minister has announced, and we hope to engage with that fully to take it forward. I genuinely do not know what the right answers are in that area, but we look forward to bringing as many of our members as possible together with the Assembly Government to discuss the most productive route for the spending of the economic development budget.

[102] **Ms Burnett:** I thank the committee and you, Chair, for the opportunity to contribute to the manufacturing strategy for Wales. My role within the National Endowment for Science, Technology and the Arts is to co-ordinate and communicate its activity in Wales and, as you will have seen, we are an independent body whose sole purpose is to help the UK to become more innovative.

[103] NESTA is currently undertaking a programme of work that explores the role of innovation in economic development and growth, and it is the findings of that ongoing research that we would like to share with you today. It is a stunning fact that only 6 per cent of high-growth companies that employ more than 10 per cent of people are responsible for 50 per cent of the employment growth in the 2002-08 period. What is important about that is that, in finding these growth companies, it is not just about picking winners or supporting start-up companies, because growth companies can also be existing organisations, nor is it just about high-tech companies, given that the evidence shows that manufacturing companies can also be highly innovative. It is about fostering that innovation that feeds into growth. It is important to look at the value-creation, innovation and growth aspects of business, but what is probably more relevant to this committee is the creation of an environment that fosters innovation and leads to growth. That applies to all sectors, but we have evidence to show that it is especially relevant to manufacturing. Relevant factors include attitudes to competition, the entrepreneurial attitude of a nation, the amount of research ongoing, and the openness to collaboration within companies and sectors, but also to new technologies and new ideas. The speed with which a country accepts or adopts these new ideas is also important, as are the skills available, the skills that can be built, and the demand for innovation. Too often, innovation is consumer led rather than being created by policy makers, and that is another area that could be of relevance to the manufacturing strategy. I would be delighted to hear your questions.

[104] **Gareth Jones:** Thank you for both presentations. I turn first to Jenny Randerson.

[105] **Jenny Randerson:** I have two questions—one to NESTA and another to the CBI. In your evidence, Liz, you say that Wales has had one of the highest shares of high-growth

manufacturing business in 2002-08. However, the Minister supplied us with evidence that shows that gross value added per job in the manufacturing sector fell relative to that in the rest of the UK. It started off above average but is now significantly below. I also know that, historically—although I am not aware of the current situation—Wales has failed to receive its relative share, its 5 per cent, of NESTA funding, so I would like your comments on why that was. Why have we not exploited the advantage that we had by converting our high-growth manufacturing industries into high levels of GVA per job? Why have we not had our pro-rata level of NESTA funding? I want to tease that out. Is it that we have not been applying for the funding and have failed to exploit the industries that we had?

[106] Moving on to my question for the CBI, there is a shortage of engineering skills in the UK, and a significant increase is needed. What is your view of the capacity within the various schemes devised by the Government and in particular within further and higher education to deliver those skills? I ask that question in the knowledge that there are waiting lists for FE courses in engineering, and there is the potential for financial cutbacks next year in further and higher education.

[107] **Ms Burnett:** The specific evidence that the comments were based on was a measurement of growth within the UK economy. That looked at the number of high-growth businesses by sector, and showed that, in manufacturing, Wales was at the top in the 2002-05 period, but then dropped back quite markedly in 2005-08. That is of interest to us, and we feel strongly that it is an area that should be further explored, but as this was published only last month, it has not yet been taken forward.

[108] In manufacturing, Wales was at the top and has now come back to being just above average. Why that does not translate into GVA per job, I cannot say. I do not have any information on that at the moment. I can go back and ask our policy and research team. However, my understanding is that that is outside the remit of our current research on this.

10.50 a.m.

[109] You talk about Wales's 5 per cent of NESTA funding. Historically, NESTA was an arts funding body, although it no longer is. We work by promoting innovation through our policy, research, venture capital investments and programmes. We seek to work across the UK, and there are programmes that are operational in Wales. One that has been successful recently is the big green challenge, and the Brecon Beacons National Park is a finalist in that. We are currently doing some work on ageing, and there are potential finalists from Wales in that, too, which we hope will be successful. So, we do not exclude Wales; we seek to work across Wales. The colleagues who worked with me on putting together the submission are based at the marina in Penarth and in Cowbridge, so I am delighted to have a good Welsh presence in NESTA.

[110] **Jenny Randerson:** Are you saying that you are responding adequately to the requests for funding that come from Wales?

[111] **Ms Burnett:** We communicate with everyone, and we always seek to increase our communication. I work closely with various departments of the Assembly Government, and I seek to communicate with anyone else about our work, which is why I am so delighted to be here today. If we could increase that communication and our work in Wales, we would be delighted to.

[112] **Mr Rosser:** We receive messages from a wide range of companies in the manufacturing sector that are concerned about the inflow of engineering and science skills in particular. With young people coming into the workforce, whether from school, FE, or university, it is the one area in which we talk more about shortages than about quality. It is

quite a complex situation; universities cannot turn people on to do science degrees if they have not taken the right subjects at school. You need to look back down the chain at how we can encourage more people to be interested in science and engineering. There is clearly a role for business to play in that, too, and more businesses could usefully do that. Some do it very well; others need to step up to the plate more.

[113] We are concerned about ongoing funding for HE and FE in Wales going forward. At degree level, the market for the provision of education and for recruiting graduates tends to be UK wide. Welsh kids will study courses at English institutions, and there will also be a flow in the other direction. In the case of many of these skills, companies will recruit at a UK level. We are concerned about the funding for FE and HE in Wales going forward, and we are increasingly concerned not only about the level of funding that goes to institutions but also about the directional nature of the Government's approach to how that funding is used. I have just taken part in the Assembly Government's external reference group for the HE review, and there was a huge amount of discussion, which is understandable and proper, on things such as widening access, but very little discussion on what many people regard as the core purpose of higher education, namely the development of higher-level skills in some core academic subjects. When one poses the question of why that is, the answer that comes back is that that is taken for granted. I am not sure that we should be taking it for granted. So, it is not just about the quantum of funding for these sectors; it is about how that funding is deployed and the extent to which institutions will be encouraged and allowed to work with the external customer base, in this case, businesses.

[114] **Nerys Evans:** Yr ydych yn dweud yn eich tystiolaeth ysgrifenedig y dylai'r strategaeth gweithgynhyrchu gyd-fynd yn agosach â'r strategaeth swyddi gwyrdd. Clywsom gan swyddogion y Llywodraeth fod cydweithio agos rhwng y ddwy adran o ran bwrw'r targedau y mae'r Llywodraeth wedi eu gosod o ran newid yn yr hinsawdd, ac yn y blaen. A ydych yn awgrymu felly nad oes digon o gydweithio rhwng adrannau, neu bod y cydlyn rhyngddynt ar hyn o bryd yn annigonol?

**Nerys Evans:** You say in your written evidence that the manufacturing strategy should be more closely aligned to the green jobs strategy. We heard from Government officials that there is close working between the two departments to meet the targets that the Government has set with regard to climate change, and so on. Are you therefore suggesting that there is not enough joint working between departments, or that the co-ordination between them at present is insufficient?

[115] Hoffwn ofyn hefyd am eich rolau ar y fforymau gweithgynhyrchu. A ydych yn cymryd rhan yn y fforymau, ac, os ydych, a yw'r strwythur hwnnw yn effeithiol?

I also wish to ask about your roles on the manufacturing forums. Do you participate in the forums, and, if so, is that structure effective?

[116] Yn olaf, yr ydych yn sôn am yr uwchgynadleddau economaidd yn eich papur. Yr ydych yn dweud y dylai'r uwchgynadleddau yn y dyfodol sicrhau cynrychiolwyr o blith cyflogwyr mawr, ac y dylent gael blaenoriaeth yng ngwaith yr uwchgynadleddau. Felly, beth yw'r diffygion ar hyn o bryd o ran y strategaeth ar gyfer cynnal yr uwchgynadleddau?

Finally, you mention the economic summits in your paper. You say that the summits in future should secure representation from large employers, and that they should be given priority in the work of the summits. Therefore, what are the current deficiencies in the strategy for holding these summits?

[117] **Mr Jenkins:** On the green jobs strategy, the engagement that the Assembly Government has had with industry on the issue of low carbon has been through the Climate Change Commission for Wales. We have had a group of about 12 companies who are large emitters working with the commission and the Assembly Government, but the engagement

has largely failed to embrace the huge opportunities that are available from these companies. We want a forum that can engage with these companies to maximise the energy efficiency that is available, which they can provide. We need an all-Wales response to the green jobs strategy and climate change, and the earlier comments by Gareth regarding that are quite promising, but it is not happening at the moment.

[118] **Mr Rosser:** On your second question about the various manufacturing fora, the CBI as an institution is not represented on most of the manufacturing fora, but some of our member companies sit on the different sectoral groups. Many of our members find the fora quite helpful in creating a voice for their individual sectors.

[119] On your question on the economic summits, we were supportive of the economic summit process as initially set out. The first two or three summits had representatives from some of the largest Welsh businesses around the table. The challenge with the economic summits was to turn them into a delivery process that set out a clear agenda, measured progress against that agenda and demonstrated outcomes. There has been pressure to find something new to talk about as the summit process has gone forward to take the summits to different geographical locations around Wales. I can understand the pressures to do that, but that system has probably not lent itself well to the ongoing engagement of a core of busy executives in some of the biggest companies that we have. It will probably be the right time in a year to a year and a half to pause, reflect and think about how we can restore and capture the original value that was being driven from the summit process, and ensure that we continue to take that forward.

[120] **Nerys Evans:** Diolch. O ran y pwyt am gydlynu strategaeth gweithgynhyrchu gyda'r strategaeth swyddi gwyrdd, clywsom gan swyddogion y Llywodraeth mai'r fforwm gweithgynhyrchu sy'n datblygu'r strategaeth gweithgynhyrchu ar y cyd â'r Llywodraeth ar hyn o bryd, yn cydlynu ac yn gwneud yn siŵr bod y gwaith ar swyddi gwyrdd yn rhan annatod o'r strategaeth.

**Nerys Evans:** Thank you. On the point about co-ordinating the manufacturing strategy with the green jobs strategy, we heard from Government officials that the manufacturing forum is currently developing the manufacturing strategy jointly with the Government, co-ordinating and ensuring that the work on green jobs is an integral part of that strategy.

11.00 a.m.

[121] Os nad ydych yn aelod o'r fforwm gweithgynhyrchu, sut ydych yn gallu dweud nad oes digon o gysylltiad rhwng y strategaeth gweithgynhyrchu a'r strategaeth swyddi gwyrdd, neu a oes cynrychiolwyr o'r busnesau yr ydych yn eu cynrychioli yn dweud wrthyich bod y broses yn annigonol ar hyn o bryd a bod angen strwythur newydd, fel y dywedasoich?

If you are not a member of the manufacturing forum, how can you say that there is inadequate linkage between the manufacturing strategy and the green jobs strategy, or do you hear representations from the businesses that you represent that the process is inadequate at present and that you need a new structure in place, as you said?

[122] **Mr Jenkins:** What we mean is that, at the moment, there is not that overarching strategy that speaks for the whole of the Government that provides an economic framework for engagement. It is fine to have a manufacturing strategy and manufacturing engagement, but it needs to embrace all of the companies in Wales that have something to offer. That is what we would like to see.

[123] **Christine Chapman:** I wanted to talk about the green jobs strategy, but I think that that has been covered. I was interested in the CBI's paper on the image of manufacturing. I totally agree with the point that you need to improve the image of manufacturing if you are

going to attract new people to the industry. However, to be fair, we have been saying that for generations, have we not? I am not sure that we are making much progress on that. I know that a comment has been made that a lot of the work needs to be done at school level and so on, but I still maintain that a lot of work needs to be done by the industry itself because, to be fair, young people will vote with their feet: if they saw an industry that was thriving, innovative and exciting, there would not be a problem. Do you agree that more needs to be done by the sector? Jeff has mentioned it and a number of us have had meetings with Sir Anthony Cleaver from—

[124] **Jeff Cuthbert:** He is from Engineering UK, formerly known as the Engineering and Technology Board.

[125] **Christine Chapman:** I made that point to him as well. A lot of work could be done at an educational level, but I still think that the industry needs to do a lot more to work out what barriers there are, why people do not want to go into manufacturing and what it is about the sector that, for some reason, puts off good people who could do well. I would be interested in your comments on that.

[126] **Mr Rosser:** I agree with your comments. More is being done and many companies have responded in recent years. Certainly in the last decade, I have come across more and more companies that are developing links with local schools and colleges because they are concerned about the long-term flow of people into the workforce who are interested in manufacturing. So, more companies are doing it, but there is much more to be done and much more of this has to come from business. There is probably a role for Government in helping to systematise that and perhaps in encouraging the educational institutions to be more receptive to those approaches. Life is busy for everybody, not only companies, but schools themselves with their multiple responsibilities and curriculum changes and so on. I would almost say that the onus has to be on industry and the companies because it is in their long-term interest to achieve change. Government could probably help to put a little bit of oil into the machine, maybe with some systems, but certainly with encouragement to educational establishments to be receptive. I would agree with the points that you made.

[127] **Christine Chapman:** We are almost running out of time here, are we not? If we are to have this radical shift, something more radical needs to be looked at. We have been saying this for generations and I have still not seen a huge change. There are some good examples—Jeff has mentioned what used to be the F1 in Schools challenge—and there is a lot of good work going on.

[128] **Jeff Cuthbert:** It is now known as the Bloodhound Project.

[129] **Christine Chapman:** Yes, that is right. However, I still think that it is not just about image; it is about visibility as well. With a lot of young people, particularly, they are not clear on what is available. If they are in a poorer area where job opportunities are scarce, where are they supposed to go? What can they aspire to if they do not see these companies? There is another problem here. Over the years, there has been an element of uncertainty about manufacturing in this country, which would be enough to put a lot of young people off.

[130] **Mr Rosser:** We probably need to be a bit more flexible. My son went to do some work experience with an electronics company in Newport recently. The difficulties for someone from a Cardiff local authority school going to do work in Newport local authority stunned me. He has had work experience with a number of businesses and that company was by far the most systematic in the way that it linked what it does to the curriculum that he is studying at school and in the effort it put in. The company thought, 'We need to grab the opportunity to show off what we are doing and get people enthused'. However, there was also some grit in the system that could have done with some oil to take it out.

[131] **David Melding:** I will start with a joint question. NESTA's evidence was saying that, when we look at things such as a manufacturing strategy, we need to take a more expansive view than we possibly would have years ago. Some sectors are now merging into each other—there are examples in health and bioscience, and the green economy has been referred to. I think that NESTA even mentioned the creative industries. I suppose that this is more for the CBI. Do you think that it is important that the manufacturing strategy recognises that things are blurring much more than 30 or 40 years ago, when there was a traditional manufacturing base? Linked to that, and perhaps you can both answer this, how important is it that we have a manufacturing strategy, even if it is constructed in a more connected way to other sectors, or are we obsessive on this? Should we be pushing the Welsh Assembly Government all the time, asking 'Where is it? We have been waiting 18 months and it is still not here'? Should we chill out or are we right to be agitated?

[132] **Mr Rosser:** It is self-evident, but the importance of a manufacturing strategy or what we lose by not having one depends on what is in it, at the end of the day. One can take the right actions without having a defined strategy, as long as they are the right actions. Most of the companies that we have turned to in preparing for today have said, 'Yes, it would be helpful'. They want to see a defined range of actions being taken by the Welsh Assembly Government and the UK Government to support them, and they recognise the point about image. They would welcome some recognition that there is a commitment to manufacturing, that it is seen as important and that it is seen as a sector with a future. For those reasons, it is useful to have a manufacturing strategy going forward. It probably has to be fairly widely crafted.

[133] My concern is that, if we have a strategy that will focus on firm-level interventions and miss the big picture of a good business environment—I refer you to my opening comments—two distinct categories of things need to be done. The first category is almost a duty to provide a good business environment by any Government. That will help manufacturing companies and other companies. That will help the wide definition. When you get into firm-level interventions, it gets harder because you cannot do everything for everyone, and it would be ridiculous of us to suggest that the Assembly Government should find the funding to do that. However, then you move into some tough choices, and I do not pretend to know what the right answers are, but we need to engage companies in debate on that.

[134] **Ms Burnett:** Our position on this would be that, in effect, no strategy is discrete and that the—

[135] **David Melding:** They are on a spectrum.

11.10 a.m.

[136] **Ms Burnett:** Yes, the divide between manufacturing and services is increasingly blurring. You mentioned the three areas that we specifically focus upon: the green economy, the creative economy and healthcare in the twenty-first century. We heard earlier the evidence discussing the scope of opportunities that green technology is offering. We feel quite strongly that that can be harnessed by the manufacturing industry to provide the goods that are being used to provide that sort of green strategy. It is more a question of being aware of where the overlaps are and that the strategies work together synergistically towards one end.

[137] Similarly, some of the new areas in technology are much more attractive to people and, hopefully, as we move forward into those, they will also help to attract them into the sector.



[138] **David Melding:** I found both of your papers to be beautifully succinct and thoughtful, which is a rare combination in my experience; so, thank you for that. My second question is about NESTA's analysis, but I would like the CBI to comment on it. You said that regional policy in the UK, and not just here, is too often spatially blind and seeks to copy success elsewhere. I understand that concept: you see what a particular region has done well, and just copy it in order to achieve the same success. You then go on to say that we really should move away from corrective to creative interventions, which I thought was an interesting concept. However, I wonder whether they are consistent, because it seems to me that you will be importing some better practice in terms of creative intervention from elsewhere. I am not quite sure how some of these spontaneously exist. I would appreciate your views on that, and whether you, David, think that there is something in terms of looking at interventions as corrective or creative and moving more to the creative ones.

[139] **Ms Burnett:** The creative interventions are more about policy creating the right platform upon which a sector can thrive, rather than trying to prop up a sector that is failing. So, a creative intervention would be more about looking at the skills that are within that sector and looking at how they might be usefully used in the future. That is why we talk about phoenix industries building upon the successes of the past. It also links into the idea that the history of an area matters, in that you look at the historical or existing skills of an area, and seek to support those with new technologies and industries, rather than saying, 'I think that we will plonk a science park here', and then having to create everything from scratch. We have a successful manufacturing and industrial base; we just need to—

[140] **David Melding:** To me, that sounds like being corrective rather than creative. Perhaps that is where I am conceptually confused.

[141] **Ms Burnett:** Being corrective tends to try to support what is already there and keep it as it was, rather than helping it to evolve into new industries and sectors.

[142] **David Melding:** That is a useful way of looking at it. For instance, the Government said that it was a shift but more from a sort of grant-giving culture to a loan-giving culture. Perhaps that fits into this concept. Do you think so?

[143] **Mr Rosser:** I am not sure that I am bright enough to grasp the concept, but I will hand you over to my colleague who wrote our succinct and thoughtful paper, if that helps.

[144] **Mr Jenkins:** Thank you. As far as I understand the question, I think that an example of this is General Dynamics UK Ltd, which has set up a space inside its plant in Wales to provide access for bespoke small and medium-sized enterprises to come in and innovate—to get access to technology and expertise that they would never usually be able to access. I think that that is our interpretation of being creative, as much as it can be, because it is creating new opportunities, hopefully new intellectual property, and enabling it to be commercialised here. I think that that is a good example because it does not always have to involve Government. Particularly given the lack of resources coming down the line that would be particularly helpful.

[145] **David Melding:** Taking one specific intervention, the biggest ProAct grant went to British Steel, did it not? Is that creative or corrective?

[146] **Mr Rosser:** It probably offsets the increase in their business rates.

[147] **David Melding:** I noticed that someone else also made that comment.

[148] **Mr Jenkins:** I would say that corrective is useful too, for instance ProAct. I would not want to say otherwise.

[149] **Jeff Cuthbert:** I do not think that I have to worry about whether you understand the question or not. My question is about the current shortage of engineers, and it builds on Jenny's and Christine's earlier points on skills, and it is the same point, broadly speaking, that I put to the Welsh Assembly Government officials earlier. You will be aware of the reports over the weekend by Engineering UK stating that, within the next seven years, there will be a shortage of just under 600,000 engineers across the UK. Wales will have its share of that, albeit a disproportionate share, because of the size of our manufacturing base. From your side of the equation, do you think that there is a joined-up approach in preparing for this medium to long-term issue, particularly the links with FE and HE, together with private employers, to ensure that, on the manufacturing side, their training needs are identified? It is impossible to be too prescriptive, but I would like to see a pretty good stab at it. Is there adequate provision to upskill the workforce and to recruit and train new engineers? I am talking about engineers of all levels—from the craft to management and higher levels. I would welcome your response to that and on how well you feel that the sector skills councils that work in manufacturing and engineering are currently doing their business.

[150] My question to Lis is on entrepreneurship and innovation. You will be aware that, in terms of being employment-ready, we have new employment policies in Wales, the 14-19 learning pathways is rolling out and will become a legal entitlement from next September, and we have had the Welsh baccalaureate now for a few years. Have you been able to carry out any research that suggests that these are easing the way in terms of employability for young people coming through the education system and who want to move, perhaps after FE or HE, into employment? Are there any signs of benefit for Wales? I understand that it is early for the 14-19 learning pathways, but you may have some instinctive feel for it.

[151] **Mr Rosser:** We saw with interest the recent draft skills funding review released by the Welsh Assembly Government. I participated in a working group, a number of months ago, to help to inform some civil service and Government thinking on that. That was one of the more rewarding processes that I have been involved in with the Welsh Assembly Government, where there was a genuine desire to understand, not just from the business community but also the FE community, at a very early stage, what a strategy may look like and what the key issues were. I recall dragging the human resources and training managers from eight or nine large, mainly manufacturing, Welsh companies into a focus group meeting with the civil servants running that process, and talking about what the consequences of a radical change in public support would be for apprenticeship programmes. So, we were pleased to see funding for apprenticeships, which is proposed to be maintained, and we were pleased to see the suggestion that there could be more flexibility for employers to deliver modules of qualifications and to get some support for that.

11.20 a.m.

[152] I am pleased to see a general move towards tailoring public funding towards qualifications that employers identify as being of value to them. This goes beyond manufacturing, although it is a pretty wide range of qualifications. So, there is an attempt by Government to move more in the direction of applying the necessarily limited training budget and to cater for the needs of employers in the future. We think that it could probably go further. There is an issue around destabilising the current delivery system, which we understand. So, our view is that we are moving in the right direction, but it could probably be a bit more radical or a bit more accelerated. However, at least we are moving in the right direction.

[153] Our impression from members regarding the role of SSCs and the manufacturing sector is that, after quite a long bedding-in period, we are now getting better engagement between the sector skills councils and a wider range of manufacturing companies, and

companies generally, in Wales. It is not surprising that, initially, the biggest companies were involved, but we think that there are now signs of that permeating lower down the company-size base, which is to be welcomed. So, we are making some progress in this area. However, companies' training budgets are constrained in the current business climate. I do not think that any company reducing its training and skills budget does so lightly, but some companies have had to do that over the last year or two. I can only hope that that gets restored as business conditions improve.

[154] **Ms Burnett:** In relation to education, we have undertaken a few pieces of work, some of which were referenced in your report into the economic contribution of higher education. This looked at the connected university: the role of the university and how it should be embedded within its community. More recently, we published a provocation piece that talked about reinventing the civic university. Again, this looked at the role of education as a catalyst to change and to skill development within communities.

[155] We have not specifically looked at the 14-19 learning pathways or the Welsh baccalaureate. However, the work that we have done regarding the need to develop soft skills, problem-solving skills and similar projects would seem to fit in with the messages that NESTA is seeking to get adopted. In fact, we noticed that the 14-19 learning pathways were singled out by the Nuffield Foundation for specific praise in being far ahead of the rest of the UK in helping to build the skills that we need for the future. So, while we have not looked at it specifically, it would chime well with everything that NESTA is saying about education and its future role.

[156] **Mr Jenkins:** I would like to add that, in relation to employability skills, the kind of feedback that we received from our members when we asked them to give some views on this paper was that, in local communities where there are major employers, such as south Wales, the key skills that they require are employability skills. They like what they see about the Welsh baccalaureate, because they can train up the people they need. However, they still need to go outside those communities, regardless of the high unemployment level, because they do not see the employability skills that they would like to see. That seems a shame and something that could be put right relatively easily.

[157] **Mr Rosser:** It is probably worth mentioning that, earlier this morning, I spoke at the launch in the Senedd of the Deloitte employability scheme in Wales, which has been rolled out by Yale College, in conjunction with a number of other further education colleges in Wales. This specifically aims to train college lecturers to deliver employability skills to their students through the curriculum. So, this is an area in which there is a lot going on and some good, positive work is being done, including in Wales.

[158] **Gareth Jones:** Thank you for that, David. I am not sure if I understand this question myself, but we are in confession mode this morning about difficult questions. The Betsi Cadwaladr University Local Health Board represents a huge development in north Wales, as it serves 700,000 people in a huge geographical area. You mentioned the blurring of services in manufacturing in your paper, Lis, but in terms of healthcare, research and development and manufacturing medical equipment, although it might be limited, when the Government undertakes a massive reorganisation of that type, if we do not have a manufacturing strategy it could be very difficult to apply something to that which would be beneficial to the people of Wales. Should a modern manufacturing strategy be flexible enough to be applied to that type of development, so that we can get the greatest benefit? Superficially, it is simply reorganisation, but it is far more than that in terms of its potential. How would NESTA and the CBI view that type of situation?

[159] **Ms Burnett:** That is an interesting question. If we are looking more at the need to create markets in Wales, the types of strategies that the Welsh Assembly Government is

agreeing will create markets for different sectors. In terms of the joined-up thinking type of approach, we could look at what markets are being created by the various sectors and whether or not there is an opportunity for Wales to meet that demand. If support is given to meeting that demand, it subsequently drives innovation, so people will come up with ideas in terms of meeting that need. However, if the strategies to do with green technology go off in one direction and strategies to do with manufacturing go off in a different direction, it seems that an opportunity is being missed.

[160] **Mr Rosser:** Lis is absolutely right; this is around creating markets. It is not just for manufacturing, but for service provision, and there is a huge blurring of services in this regard. The CBI is clear that if we are to repair the UK level of national finances while preserving the integrity and volume of public services that most people want, it will need a radical redesign of service delivery. Reorganisation is a step towards that, but it could go further.

[161] Businesses understand that there is a long-term commitment to markets. If Government is going to do something, it sends out very strong signals that it is committed to this policy over a period, and that it will not waiver from it. Business can see that there is a clear market opportunity so that companies can invest to try to win some of that market; it could mean services or manufacturing. Renewal of the housing stock is a good example. If we knew that all the housing stock in Wales was going to be transferred and brought up to current standards, businesses could react accordingly. We think that most housing stock will be transferred—we are not quite sure, because there has to be local votes, but there are issues that we can get around. ‘Intelligent customer’ is the phrase that is used in this regard, and it will not always be Welsh companies winning the contracts, and we have to accept that. However, if we create sustainable markets of a good size on our doorstep, one would hope that Welsh companies would step up to the plate and innovate accordingly.

11.30 a.m.

[162] **Gareth Jones:** So, do you agree that when we face that type of reorganisation, which will obviously have an impact, the manufacturing and services sectors should be aligned somehow and that the strategy that we are trying to locate, as it were, or deliver, should take issues like that into consideration?

[163] **Mr Rosser:** Yes, aligned. I am not sure that we need to go out and try to create a manufacturing base. Support to help companies to tackle the market opportunities that are being created is probably where it should be.

[164] **Gareth Jones:** Thank you for that. David has the final question, I believe.

[165] **David Melding:** My question is related to something that is prominent in the CBI’s paper. You unashamedly still use the ‘R’ word, by which I mean ‘roads’, not ‘recession’. You mentioned the M4 relief road. How profound an issue is sorting that in terms of manufacturing and other sectors in order to show the world that Wales means business, or are we obsessing a bit on our problems in that regard? Perhaps we need to take a more realistic attitude, now that the Government has removed it from the programme. I cannot see much chance of that scheme ever being completed without some form of road charging. Is that the quid pro quo that we will need? How imaginative would you want us to be in nudging the Government to reconsider this issue?

[166] **Mr Rosser:** At the last CBI Wales council meeting after the decision had been announced, we took members through the programme of works that the Assembly Government has suggested will provide an alternative solution to this particular transport problem. Our members were clear that, for them, it remains the key transport issue in Wales.

When it comes to manufacturing, the vast majority of goods are moved in and out of Wales by road, and that will probably continue. It is a question of whether we will see a general deterioration in the ability of manufacturers in south Wales to get raw materials in and product out. I do not know. I hope that the package of measures that have been announced by the Welsh Assembly Government to try to solve the congestion problem on that stretch of the M4 will work. I do not want to think what will happen if it does not work.

[167] At the moment, it is horrible, and one of my pet requests to the new First Minister is that he ensures that whoever he appoints as Minister for transport lives to the east of the Brynglas tunnels and has to do that journey twice a day, because it is grim. We are in the middle of a programme of improvements, and it is unclear to what extent the current problems on that road are a direct result of the improvements that are being put in place, which need to be put in place and we accept that there will be disruption as they are put in place. We hope that, once those improvements are completed, we will have a road that is fit for purpose for a long time. As I said, if they do not work, we will have a bigger problem. However, we will wait and see. I accept your analysis that it will not be delivered any time soon.

[168] **Gareth Jones:** On that note, and on behalf of the committee, I thank you very much for your contributions and for the evidence that you have submitted, both orally and in written form, and for bringing the dimensions that you have to the discussion on the manufacturing strategy. This is a one-off, insofar as we are looking at the situation now, but we hope to revisit it in the spring. We hope that, following our discussions, we can make a positive contribution to the strategy when it finally arrives. In the meantime, if you feel that there is anything further that you would wish to communicate to us as a committee, please do so. I simply want you to know that we value your contributions and the interesting discussion that we have had this morning. I wish you well.

[169] There are two papers to note, which are EL(3) 25-09 and EL(3) 26-09. With that, I declare the meeting closed.

*Daeth y cyfarfod i ben am 11.35 a.m.*  
*The meeting ended at 11.35 a.m.*