

Cynulliad Cenedlaethol Cymru
Y Pwyllgor Menter, Arloesi a Rhwydweithiau

The National Assembly for Wales
The Enterprise, Innovation and Networks Committee

Dydd Mercher, 14 Chwefror 2007
Wednesday, 14 February 2007

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynnddi 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 Cynulliad yn bresennol
Assembly Members in attendance

Leighton Andrews	Llafur Labour
Alun Cairns	Ceidwadwyr Cymru Welsh Conservatives
Andrew Davies	Llafur (y Gweinidog dros Fenter, Arloesi a Rhwydweithiau) Labour (the Minister for Enterprise, Innovation and Networks)
Janet Davies	Plaid Cymru The Party of Wales
Michael German	Democratiaid Rhyddfrydol Cymru (yn dirprwyo ar ran Kirsty Williams) Welsh Liberal Democrats (substitute for Kirsty Williams)
Christine Gwyther	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)
Alun Ffred Jones	Plaid Cymru The Party of Wales
Carl Sargeant	Llafur Labour
Swyddogion yn bresennol Officials in attendance	
Piers Bisson	Pennaeth Polisi Trafnidiaeth a Seilwaith, Is-adran Polisi Economaidd Head of Transport and Infrastructure Policy, Economic Policy Division
Tracey Burke	Cyfarwyddwr Strategaeth ac Adolygu, Yr Adran Menter, Arloesi a Rhwydweithiau Director, Strategy and Review, Department for Enterprise, Innovation and Networks
Jarlath Costello	Pennaeth Ymchwil a Datblygu Head of Research and Development
Gareth Hall	Cyfarwyddwr, yr Adran Menter, Arloesi a Rhwydweithiau Director, Department for Enterprise, Innovation and Networks

James Price	Cyfarwyddwr, Polisi a Strategaeth Director, Policy and Strategy
Julian Revell	Ystadegau Economaidd a'r Farchnad Lafur Economic and Labour Market Statistics
Robin Shaw	Cyfarwyddwr, Trafnidiaeth Cymru Director, Transport Wales
Karen Thomas	Cyfarwyddwr Rhanbarthol, y De-ddwyrain a Seilwaith Regional Director, South East and Infrastructure
Eraill yn bresennol Others in attendance	
Steve Leyland	Rheolwr Materion Allanol, Arfordir Orllewinol, Virgin West Coast External Affairs Manager, West Coast, Virgin West Coast
Simon Pickering	Rheolwr Cyswllt Teithwyr, Passenger Focus Passenger Link Manager, Passenger Focus
Tony Sadler	Pennaeth Cynllunio—Trenau, Virgin West Coast Head of Train Planning, Virgin West Coast
Stella Mair Thomas	Cynrychiolydd Cymru, Passenger Focus Wales Representative, Passenger Focus
Gwasanaeth y Pwyllgor Committee Service	
Claire Morris	Clerc Clerk
Sarah Bartlett	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9.00 a.m.

The meeting began at 9.00 a.m.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introduction, Apologies, Substitutions and Declarations of Interest

[1] **Christine Gwyther:** I call this meeting to order and welcome Members. Translation, as always, is available on channel 1 of your headsets. If there are any problems or we need to evacuate the building, please accept the ushers' assistance. Please ensure that all mobile phones, BlackBerrys and pagers are switched off completely.

[2] We have received apologies from Kirsty Williams; Mike German is substituting for her. Welcome, Mike, to the committee.

[3] I remind Members and other speakers not to touch the buttons on the microphones; wait until the red light comes on before you speak.

9.00 a.m.

**Cofnodion y Cyfarfod Blaenorol a Materion sy'n Codi
Minutes of the Previous Meeting and Matters Arising**

[4] **Christine Gwyther:** Do Members agree that the minutes are correct? I see that you do.

[5] Are there any matters arising from the minutes or the action outstanding, which is in the appendix?

[6] **Alun Ffred Jones:** On page 2, item 3, on the Atkins report, do we have any information on that?

[7] **Mr Shaw:** Yes. I have now been able to talk to Network Rail, and it anticipates giving us its initial report in April. We will then consider it and put a business case together if we consider it justified.

[8] **Christine Gwyther:** I see that there are no further comments.

9.01 a.m.

**Adroddiad y Gweinidog
Minister's Report**

[9] **The Minister for Enterprise, Innovation and Networks (Andrew Davies):** There are a few items to announce. We very much welcome the news that Pure Wafer Ltd, a Swansea-based knowledge bank for business company, has expanded considerably and has acquired its second wafer-reclaim facility, based in Arizona. It is now one of the leading wafer recycling companies in the world, and I am sure that the company will go from strength to strength.

[10] Another knowledge bank for business company, the Safe Information Group, yesterday announced its expansion into Caspian Point. It is the overall company for the Caerphilly-based Creditsafe and Marketsafe. This also is very good news. It is very much a knowledge-based company using software development. One of the most interesting things about the company is the fact that it is relocating its research and development facility from China to Wales. So that is again good news.

[11] It was also announced yesterday that Sanken Power Systems (UK) Ltd, which is a Japanese company, has opened its European technology centre in Pencoed. A few years ago, Sanken had a manufacturing facility in Abercynon, employing 400 people. Unfortunately, it closed that facility and moved the manufacturing capacity to eastern Europe and China. The local management and I made a strong case to the Japanese parent company to establish its research and development facility in Pencoed. I am delighted to say that, yesterday, those efforts saw the opening of the European technology centre, which I attended with the local Assembly Member, Janice Gregory.

[12] Last Thursday, I launched the nearly £19 million investment scheme to improve the Merthyr rail service. This will allow services that are currently hourly to move to half-hourly in 2008. It will lead to an improved station at Abercynon, new track and signalling in the Abercynon area, and a passing loop between Abercynon and Merthyr to allow those services to change from hourly ones to half-hourly. This is in line with investment in rail infrastructure throughout Wales, particularly on the Cardiff and Valleys lines. Together with the restoration of passenger services on the Ebbw Vale line later this year, this will put in place another piece of the jigsaw to deliver a prosperous future for the south Wales Valleys.

[13] I am delighted by First Great Western's announcement that train fares between London and south Wales have been cut to £25 return or £50 first-class return for passengers from London or Reading stations who have booked overnight accommodation in Wales. We welcome this initiative by First Great Western.

[14] **Christine Gwyther:** First, are there any questions on the oral update?

[15] **Janet Davies:** On the update on Valley Lines, it is good news that it is able to increase the services to Merthyr—and to the Cynon valley, presumably. I see that you are nodding. However, I do not know whether this will resolve the overcrowding problem. What is your estimate? Do you foresee that it will resolve that problem?

[16] **Andrew Davies:** Increasing capacity will give passengers more choice and that will increase capacity in itself. We have a programme to increase capacity on the Valleys lines, as we have for lines across the whole of Wales. There has been a station enhancement programme on the Aberdare line and we are working with Arriva Trains Wales to increase not only the quality, but the capacity of its rolling stock. We are not able to increase capacity on many of the lines because the stations are currently too short. So, we have been working with the South East Wales Transport Alliance on a forward programme of investment. That will lead to improvements. For example, one of the next phases is the enhancement of the Rhymney valley line. So, there is a planned programme of enhancement and increasing capacity on the Valleys lines, as there is on lines throughout Wales.

[17] **Janet Davies:** The trains that come down the Rhymney valley line often go on to Cardiff bay, but there is a rumour going around that the bay railway is going to stop operating. Is there anything in that rumour?

[18] **Andrew Davies:** I understand that Cardiff City Council has been looking at this matter; I believe that it has commissioned a study to look at demand on the bay link. Robin may like to come in on this.

[19] **Mr Shaw:** For clarification, since the standard pattern timetable came in, the service to the bay is only a shuttle service between Queen Street station and the bay. None of the Valleys services go down to the bay now, so it would not have any impact on any of the services that go up the Valleys—they all go through to Cardiff Central station now. The issue is whether or not that shuttle service in the present rail network provides the best future transport infrastructure to the bay. That is the consideration that is going on at Cardiff council and, obviously, we are party to that work.

[20] **Christine Gwyther:** Are you content with that, Janet? I see that you are. We will now move on to the written report. St Athan has a section of its own in the report, so are there any questions on that?

[21] **Alun Cairns:** The matter of the access road is sort of covered later on in the report, under a separate paragraph, but it relates directly to St Athan as well as to the other paragraph. The Minister decided against the trunking of the A48, despite the cost of the inquiry and so on, but I am delighted with that announcement nevertheless.

[22] Phase 1 of the proposal was the trunking of the A48 and phase 2 of improving the access road to Cardiff airport and/or St Athan was to be a new link to the M4 motorway, along the Ely valley. Can the Minister give us an update on what plans or proposals he has in that direction, particularly as a result of the development at St Athan? What action is the Minister planning to take, or has he taken, in relation to involving the community in the huge changes that will take place immediately? There are lots of concerns. There was delight at the announcements, but people are now starting to ask, 'How is this going to affect us? How can we influence it to ensure that it is also a win for the community?'

[23] **Andrew Davies:** Taking the last question first, I pay tribute to everyone who has played a role in winning the bid for the Metrix consortium. The work of the local authority has been very important in that. We and the Metrix consortium needed to be able to persuade the Ministry of Defence that we would be able to deal with what is effectively the building of a small new town in St Athan, and the impact that that would have on local services. I pay tribute to the work of the local authority because there were big issues regarding planning and the impact on education, social services and a range of other services that the local authority and others provide. Therefore, I believe that we were able to adequately satisfy the Ministry of Defence about the questions that it raised.

9.10 a.m.

[24] Transport links are important, as you say. We have a longstanding commitment to improving surface links to Cardiff international airport—both road and rail—hence the opening of the Vale of Glamorgan line in June 2005. One plan is on improving road links. In a democratic system, a trunking Order, like the development of any road, has to go through the democratic, statutory process. In this case, as is noted in my report in paragraph 23, the inspector recommended that the Orders should not be made, and I have accepted his advice. However, the improvement of road links is not dependent on that particular road being made into a trunk road. We are working with the Vale of Glamorgan Council on an investment programme to improve road links. I will bring Robin in in a moment to go through more detail on that.

[25] As part of the roll-out of the defence academy, we have regular meetings, led by David Swallow as the head of the integrated delivery team, with community councils and groups, including local representatives. Robin may be able to give more detail on that.

[26] **Mr Shaw:** On a direct link between the M4 and the area, as you recall, a study was done, I believe two years ago, which recommended a phased approach; you are talking about the final phase of that, which is the direct link. Two things have changed since that work was done. The first is the announcement of the defence training review, and the other is the decision to put the premier business park at junction 33, and, potentially, to put a regional transportation hub at that area. Therefore, we have now let a commission revisit the work previously done, to take a view and make a recommendation on the best route for direct access between the M4, Cardiff airport and St Athan. As with any scheme of that nature, a full public consultation and exhibition process associated with that development, so people in the area will have every opportunity to contribute to and to influence the final decision on the options and the chosen routes.

[27] **Alun Cairns:** My point is this: does the fact that the Minister has decided, following the inspector's report, against trunking the road force the Assembly Government's hand in terms of improving the link with the M4? Does it bring the link to the M4 much closer, if that it is likely to happen? I believe that, under the original plan, the earliest date for the trunk road forward work programme was 2010—without any timescale. Therefore, as Metrix has gone ahead and the Minister has decided not to trunk the A48, is it more likely that that will now be reprioritised, and can we expect an announcement soon on a new link with the M4, if that is what it is coming to?

[28] **Mr Shaw:** I expect that it will be the subject of a reprioritisation. We will be reviewing the trunk road programme later this year, and the change to traffic patterns, which is a consequence of the Metrix development, is likely to have an influence on that prioritisation process. On overall timescales, that will depend; it will not be an announcement in the near future on a definitive programme, because we will want to complete the further study and take on board people's views on that, before making a recommendation to the Minister on what should be the future route options and programme for that.

[29] **Janet Davies:** I do not know whether this is the right place to raise it, or whether I should raise it under promoting innovation, or wherever, but I flagged up a query with Sarah on Monday about coalfield gas extraction.

[30] **Christine Gwyther:** As you have raised it now, we might as well address it now. Did anyone else wish to come in on St Athan, though? I see that they do not.

[31] **Janet Davies:** Could I have an update on the situation with coalfield gas extraction, particularly in the Ogmore and Garw valleys and on whether there are any particular delays?

[32] **Andrew Davies:** If it is okay, I will write to give you detail on that; I am sorry, I do not have the information to hand. If I can find it, I will give it to you.

[33] **Christine Gwyther:** If it is available, perhaps we can return to the issue before the end of this session. The next section, paragraphs 2 to 15, is on supporting enterprise.

[34] **Alun Ffred Jones:** In reference to paragraph 3 and the Heads of the Valleys programme, I welcome the information and the news. I will use that as a peg to ask about the other strategy in Wales, namely the Môn a Menai strategy. When will announcements be made about that, and will any new money, such as the money announced in terms of the Heads of the Valleys programme, accompany that announcement?

[35] **Andrew Davies:** The first meeting of the Môn a Menai programme board is next week, on 21 February. I will be chairing that meeting. It will include representatives from Anglesey council and Gwynedd council and other key stakeholders, such as the university, the colleges and the private sector. As I have said on previous occasions, it is too soon to give a commitment on funding because we are still very much at the early part of the process, in terms of drawing up and developing a strategy on dealing with the decommissioning of Wylfa power station in 2010, and the possible implications of that for Anglesey Aluminium Ltd. So, it is too soon to say what funding—apart from convergence funding, which we know that we have—will be available. I would expect that convergence programme funding to be used to a large extent to deal with the situation following the decommissioning of Wylfa power station.

[36] **Alun Ffred Jones:** You referred to the decommissioning of Wylfa power station as one of the factors that will determine the strategy, but in the south of the county there is the decommissioning of Trawsfynydd power station. That is winding down, which will obviously have a huge economic impact. Will the Môn a Menai strategy take that into account?

[37] **Andrew Davies:** Very much so. I have already had initial discussions with the person in charge of the decommissioning process at Trawsfynydd power station, and he has made the point that there is a huge amount of expertise and skills there that are eminently transferable as they are not just relevant to Wylfa power station, they are relevant to the decommissioning process of any nuclear power station. These are highly knowledge-based jobs, and there is a huge reservoir of skills and expertise and we want to ensure that we maximise that, not just for Trawsfynydd power station, but also in terms of dealing with Wylfa power station.

[38] **Leighton Andrews:** I want to raise a question in relation to Burberry. As you will be aware, there is a lot going on behind the scenes. I do not want to talk about some of the things that are going on, but we know that attempts are being made to protect some jobs through a co-operative and that there are some expressions of interest from outside on some aspects. However, there is quite a lot of disinformation coming out of the company, which is destabilising for the workforce. There are two aspects that I wish to draw to your attention, because I am well aware of the points that you have made in the past about linking support for enterprise to issues of corporate social responsibility. The two specific issues relate to the fact that Burberry makes a lot of what it says that it is doing in terms of outplacement and retraining work, but it never seems to acknowledge the support that is available to individual employees who have decided to take redundancy at this stage, through the ReACT programme, for example. It is unfortunate, because the company seeks to give the impression that it is all down to its efforts.

[39] It has become apparent during the last week that the company has been engaged in disinformation—if it were in politics, we would refer to it as ‘dirty tricks’, to be blunt—by suggesting to workers that if a bid comes in from an outside company for any aspect of the factory, workers might lose their entitlement to redundancy pay. The union has taken that up with the company. I hope that you would want to condemn any campaign of disinformation by a company at such a stage of negotiation, when a union is still deeply involved in trying to protect the at that factory.

9.20 a.m.

[40] **Andrew Davies:** As you are aware, the chair of the company, John Peace, has spoken to me on several occasions, the first of which was when he rang me from Los Angeles to tell me informally of the offer of the site and premises in Treorchy to the local community. After discussing it with officials, I said that I felt that the company would need to look at the offer seriously, because the ongoing campaign by the union and others was in order to maintain as many jobs there as possible. I said that I have a wide duty of care and responsibility, as a Minister, and that, if the company went ahead with its proposal to close, we as a Government would be in the lead in dealing with that significant redundancy programme. I would not want to do anything to jeopardise that campaign and the attempts to keep jobs in Treorchy, preferably with Burberry; however, if the company is determined to go ahead, we need to look at other options. As you said, other companies have shown some interest in an operation of sorts—I know that there have been proposals for a co-operative, for example. At the moment, it is far too premature to consider those options, but anything that is said that destabilises the situation, including by the company, is unhelpful.

[41] ReAct is an Assembly Government programme that is funded by European Objective 1 money, run by Jane Davidson’s Department for Education, Lifelong Learning and Skills. The money is given in the form of an additional premium to other employers to take on those affected by redundancies. It is a well established programme, and has been very successful in helping people to go from one company to another. The money would not be paid to Burberry; it would be paid to other companies. I need to put on the record that it is not Burberry money and that the money would not go to Burberry.

[42] On bids from other companies, it is unhelpful if any disinformation that has been made public is being disseminated. My major aim is to ensure that we try to keep those jobs with Burberry; however, if the company decides not to heed that call but to close, I would not want to jeopardise the interests of those affected by the redundancies. As Minister, I have a wider duty of care. I understand that the company has a responsibility to its shareholders; however, I have a duty of care to the people of Wales, and, in this case, particularly to the people of Treorchy.

[43] **Leighton Andrews:** I also wish to refer to something that I raised at a previous committee meeting, namely the outstanding support given to the company in the form of regional selective assistance. As you will be aware, the company did not take up the full amount of RSA awarded. I have seen material that suggests that the company, in looking at the options for its exit strategy from Treorchy—if I can put it like that—suggested in some documentation that it may not have to repay the RSA. Can you confirm for the record that the company would have to repay the RSA if it were to close the Treorchy factory?

[44] **Andrew Davies:** It is very clear: if an offer of RSA is made to any company that is still within what is known as the ‘conditions’, and the company closes or has not created the number of jobs that was agreed when it signed its contract with the Assembly Government for the granting of RSA, all or part of that RSA will have to be repaid. When I first met the company, following its initial announcement, I made that very clear. I also made it clear that the remaining outstanding RSA that was on offer was still available to be drawn down. At official level, we discussed with the company a range of other options to keep production in Treorchy, or, indeed, in Wales. I understand from those discussions that the company wanted to stick to its original proposal. It has been made clear to the company that, as long as it remains within conditions, it will have to repay any RSA grant to the Assembly Government.

[45] **Christine Gwyther:** The next section, paragraphs 23 to 31, covers investing in networks. However, going back to paragraph 20, which deals with the Technium in Pembroke Dock, the First Minister was there recently, and I know that you have been there in the past, Minister. It looks very different now. The local authority there is leading on the marketing of the units to companies. It is very important that we get the right companies so that we get the synergy of high-tech companies working together. What support is the Welsh Assembly Government giving to the local authority to ensure that that happens?

[46] **Andrew Davies:** The whole energy industry has been completely transformed in the past few years with the importation of liquefied natural gas into Pembroke, the development of the existing oil refining capacity, and the potential for renewables. Pembrokeshire is becoming the energy capital of the United Kingdom. So, my department has been working with the local authority, and the lead on this has been taken by the Energy Wales team, a part of my department. It has been working with the local authority and other stakeholders, such as universities, particularly Swansea University, to market the Technium centre. My understanding is that that marketing campaign is proving very effective. The Technium centre at Cleddau bridge business park is seen as a very attractive proposition for energy and energy-related companies.

[47] **Mr Hall:** I just wish to add that this department provides umbrella support for marketing for all the Technium centres across Wales. We will be providing support through the central marketing team.

[48] **Christine Gwyther:** Obviously, I want to see the centre full, but I want to see it full of the right companies. Do any Members have any more questions on paragraphs 16 to 22?

[49] **Michael German:** On paragraph 18, I welcome the survey, which tells us what many of us already knew intuitively, which is that the further education sector is doing a good job for the economy of Wales. The last sentence talks about the knowledge exploitation fund supporting work in FE. If the report itself is a benchmark, does the Minister know how much of the KEF is going into the FE sector at the moment?

[50] **Andrew Davies:** I do not have the figures at the moment, but we can provide those for you, Mike.

[51] **Michael German:** I ask because, if this report is seen as a benchmark in its own right, it means that there is another benchmark for the amount of public money that goes into supporting it. Many people regard the FE sector as being the cinderella sector in terms of economic development, but it actually has a major impact. Clearly, this is a new start for many further education institutions in the sense that they are locking into the economic support that is available from the National Assembly. I would be grateful for a benchmarking indication that details what we are putting in at the moment and what our ambition is for the future.

[52] **Andrew Davies:** You are absolutely right about the FE sector being a crucial part of the support provided for companies and industry. You are also right in saying that it is often seen as the cinderella sector. The review of the FE sector that is being carried out by Sir Adrian Webb, as called for by the Minister for Education, Lifelong Learning and Skills, is an opportunity for Government and the sector to look at their wider contribution to developing skills and a knowledge-based economy in Wales. As I said, on the specific question about the proportion of funding within the KEF that goes to FEIs, we will make the figures available to you and the committee.

[53] **Carl Sargeant:** On paragraph 24, which deals with Tata Steel, Corus went through a very interesting process with the bidding wars recently—

[54] **Christine Gwyther:** Carl, we are still on paragraphs 16 to 22. May I bring you back in later?

[55] **Carl Sargeant:** Of course you can.

[56] **Christine Gwyther:** Leighton, do you want to come in at this point?

[57] **Leighton Andrews:** No, I thought that we had moved on, too.

[58] **Alun Ffred Jones:** On paragraph 19, can I have some information, though not necessarily today, on the films and television productions that have received investment?

[59] **Andrew Davies:** Yes.

9.30 a.m.

[60] **Alun Cairns:** In addition to that, some people I know who have been looking to draw down funds or make applications for funding but have found that the conditions are pretty restrictive, and it is just as easy to go and get a loan from the private sector. Can the Minister consider that when he reviews the broader policy?

[61] **Andrew Davies:** If that is the case, I would regard it as a success. Public sector funding should be used as gap funding, not as the first port of call. I am keen to ensure that we develop an investment culture in Wales, not a grant or subsidy culture, and the whole point of the Creative IP fund is that any company that comes forward with a proposal, whether for film, television, animation, or new media, should already have the majority of its funding in place, so that the IP fund is used as gap funding. If people can find funding from the public sector, I would regard that as the most important way forward.

[62] **Alun Cairns:** I did not really want to get into an argument about it, and maybe I did not present myself very well, but I have raised a matter about one specific company with the Minister and, although I think that that has now been resolved, I hear that there are incentives elsewhere in the UK. If we are to focus on keeping these creative industries here in Wales, incentives offered elsewhere could obviously be to our detriment. I used the term 'private sector' when perhaps I should have said 'public and private sector'. However, if our terms and conditions are so restrictive that a regional development agency elsewhere can come up with the package that these industries want, that is to the detriment of Wales when it is meant to be a positive incentive. I accept the principle, and the initiative is good, but, if I were a Minister, I would be concerned about that and I would want to look at it.

[63] **Andrew Davies:** You say that you have raised a particular case with me, but I need to clarify which company that is. However, I would be very surprised if that is what these companies are saying. When I have spoken to people in the sector and the industry, I have found that it is the other way around—people have told me that the Creative IP fund is really getting attention, not just in the UK but across the world. I had a conversation the other day with John Geraint of Green Bay, who had been speaking at a conference in Canada recently, and he told me that the advent of the Creative IP fund has really made people in the industry and the sector sit up and take notice. I also understand that, in Scotland, questions have been asked about why it is that Wales is at the forefront of these developments, and what is happening in Scotland. So, I would be surprised if there is evidence that we are at a competitive disadvantage; I would have thought that it was the other way around. We have established something through the Creative Business Wales hub, and particularly the Creative IP fund, that is making waves, is getting attention, and is seen as being at the cutting edge.

[64] **Christine Gwyther:** Next, we turn to investing in networks, which is covered by paragraphs 23 to 31.

[65] **Carl Sargeant:** On paragraph 24 and Tata Steel, Minister, Corus went through an interesting bidding war earlier in the month, and I note that you and the First Minister will be seeking an early meeting with the management team. Could you tell me what kind of future you are trying to secure with the company? The heavy steel industry in Wales is going through a delicate process because of climate change and other pressures, and I think that this company needs to give the workforce and the trade union, Community, some support for these plants in the future, so I was just wondering what your intentions are.

[66] **Andrew Davies:** As the First Minister said yesterday during his question time, this offer from Tata Steel is still subject to a vote of Corus shareholders, so anything that we say at this stage is obviously provisional. Nevertheless, the First Minister has spoken to Philippe Varin, the chief executive of the Corus group, and we are also working with the UK Government, in particular the Department of Trade and Industry, to get as early a meeting as possible with Tata Steel in order to understand its thinking and strategy. We have also been in close contact with the unions, particularly Community, the former Iron and Steel Trades Confederation, to share information and to get a clear understanding of Tata's strategy and thinking.

[67] So, the First Minister and I are seeking an early meeting with senior executives of Tata Steel and our understanding is that the company is very receptive to that. No date has yet been fixed, but it is dependent largely on the vote of the core shareholders.

[68] **Carl Sargeant:** Will you keep the committee updated on that?

[69] **Andrew Davies:** Yes; I gave a commitment in Plenary to keep Members informed.

[70] **Leighton Andrews:** Most of the work on the Porth/Rhondda Fach relief road is finished; there is some tidying up to be done as is usual with a road development. However, one of the outstanding questions is when will it be officially opened?

[71] **Andrew Davies:** You will be the first to know.

[72] **Michael German:** I have questions on paragraphs 24 and 31. First, on Tata Steel, I know that it is a different ball game to the situation with Allied Steel and Wire, where one company went out of business and disappeared and another picked it up, but the pension rights of ASW workers were lost in that melee. My concern relates to right of transfer of pension funds. Does the Minister have any thoughts on that? The problem with ASW was that the company used pension funds to try to keep itself in business. So, given the financial engineering that takes place during the movement from one company to another, what protection is available to the workforce to ensure that the pension funds that are in place are not damaged, touched, moved on or re-engineered in any way, so as not to affect the future pension earnings of the existing workforce or the pensions of those who are currently in the company's pension scheme?

[73] On the Broadband Wales programme outlined in paragraph 31, I am sure that the Minister is aware of the recent Wales Consumer Council report, which stated that over half of Wales could still be left in an information wilderness. The latest update issued by the council claims that 53 per cent of adults in Wales do not access the internet and would miss out on essential information about services, and also revealed that people in the most disadvantaged groups in Wales are the least likely to access the internet. It concludes that a great deal of work needs to be done to encourage people to use the internet and to represent the interests of people who do not want to use it, but also to ensure that schemes to increase usage are set up to the benefit of internet consumers. All of that sounds like work for the Broadband Wales programme. How does the Government intend to respond to the consumer council's report?

[74] **Andrew Davies:** On your first question, one of the few specific pledges that the Tata Group has made at this stage is an assurance that it intends to improve on the British Steel pension fund. As you rightly said, this case is obviously a takeover; it is different to the case of ASW, where the company went into administration. I remember the ASW case vividly, because I spent nine hours in the Department of Trade and Industry, working with the company, the banks and the creditors to try to keep ASW alive. Unfortunately that was not possible. However, we are in a better position in the case of Corus and Tata and, as I said, the Tata Group has given that assurance.

[75] On the Wales Consumer Council's survey, although it had little coverage in the media, we take issue with it. Its sample size was 990 people, whereas the Broadband Wales programme carries out a fairly robust series of regular surveys, with a much more extensive sample size—5,500 people as opposed to the consumer council's 990. In fact, the evidence from our surveys is that use of the internet is significantly higher than the survey undertaken by the consumer council suggests. The last survey, which is more recent than the consumer council's survey as it was done in June 2006, showed that 60 per cent of Welsh adults access the internet from home. So, we have a fundamental disagreement with the Wales Consumer Council about both the sample size and the figures. As the sample size of the Broadband Wales survey is significantly higher, we are able to get fairly robust figures on a local authority basis. So, the basic point is that we would dispute the findings of the consumer council survey.

9.40 a.m.

[76] **Michael German:** I understand what you say, but do you dispute the finding that it is those in the most disadvantaged communities who are the least best served by broadband?

[77] **Andrew Davies:** That is self-evident. As a Government, we have concerns about the digital divide. In fact, when this committee discussed the e-Wales strategy, it was accepted that, with the roll out of new technology, there is always the potential for more disadvantaged areas to be disadvantaged in terms of access to technology such as broadband and the internet. However, through investment in the lifelong learning network and through free access in libraries, our policies are aimed at overcoming that obvious disadvantage.

[78] **Janet Davies:** On paragraph 26, the transport grant, I see that the budget for the next financial year has increased, and that you will make an announcement on allocations in February. However, the condition of our roads is steadily worsening—at least, the ones that I see seem to be getting worse. In two of the valleys in the region that I represent, the Ogmore and Garw valleys—I have said this so many times before, but I will say it again—the access roads are dreadful, and people have to commute out of the valleys to get employment. There are no railway lines going up to those valleys. I have been told that applications are oversubscribed, but it seems that some local authorities are holding back on putting in applications for transport grants. Bridgend County Borough Council has told me that it does not feel that it can make applications for significant upgrading of roads. Do you feel that the transport grant is adequate, given that so much of the economy depends on people getting from one place to another?

[79] **Andrew Davies:** On the working of the transport grant, it is up to each local authority to decide its priorities. However, over the last few years, as you have pointed out, the transport grant programme has been severely over-programmed. That is why I have not accepted new bids from local authorities. One of the major reasons why it is over-programmed is that many local authority schemes have substantially increased in cost since they were first accepted into the programme. The Porth relief road is an example of that: it was originally budgeted to cost just over £30 million but it will actually cost £91 million on completion. It would, therefore, be irresponsible of me to accept new offers when I do not have the financial resources to honour any commitment. We will be moving to a new system and working with local authorities and, in particular, the four transport consortia in Wales—the South East Wales Transport Alliance, the South West Wales Integrated Transport Consortium, TRAC in mid Wales, and Taith in north Wales—to identify priorities, but within the regional transport plans. It will then be a matter of them prioritising expenditure in line with the priorities identified in the regional transport plans.

[80] Coming on to the specific issue of the state of roads, I would dispute the suggestion that roads are just getting worse and worse. There is a substantial backlog of necessary repairs to local roads, and the Government and the Welsh Local Government Association have commissioned work to identify that work. As a result of the research and the survey conducted by the Halcrow Group Ltd and the Welsh Local Government Association, you may be aware that there will be an additional £15 million in the budget settlement, made available to local authorities to spend on agreed priorities and on a programme agreed with us to address local road maintenance. However, that money is intended solely for the purpose of improving the local road network.

[81] **Janet Davies:** Where I live, I see roads gently subsiding and, certainly at the edges, they are giving way; a little bit of tarmac is chucked onto those roads, but that is gone after the first rain storm. One of these days we will see more than just gentle subsidence. This is over quite an area; I am not just talking about one small stretch of road.

[82] **Christine Gwyther:** Carl, do you want to come in on this issue?

[83] **Carl Sargeant:** I just want to put on record again, Minister, that I have some concerns about the £15 million allocated for road improvements. Some unitary authorities have kept on top of their road infrastructure and have invested heavily in it; I do not want to see those local authorities being penalised, with authorities that have not invested taking the lion's share of this £15 million. That would reward bad planning, and I do not think that we should be involved in that.

[84] **Andrew Davies:** I could not agree more. In negotiation with the WLGA, the method of allocating these funds will recognise that. Local authorities have been lobbying for some time for an increase in local road maintenance funding. I wanted assurance that the increase in the budget would go towards that work, and would not just become part of local authorities' block grant. I have received concerted and sustained lobbying on this issue from local authorities, so the duty is now on them to use this money to address some of the concerns that Janet and other Members have raised. I am clear in saying that the money is specifically for that purpose. It will effectively be hypothecated—it will not go into the block grant. As I said, local authorities have been lobbying me on this issue for many years, and now it is their responsibility to use the money for its intended purpose.

[85] **Christine Gwyther:** We will now move on to Visit Wales. Minister, paragraph 32 is on the Visit Wales roadshows, on which I understand there has been very good feedback from last year. When they are held this year, I think that the issue of self-catering-accommodation providers not being able to access business rate relief will come up. I have written to you on this issue, as I have received many representations from my own constituency on it, but I guess that it is a Wales-wide issue. Are you are planning to revisit the decision-making on this issue with Sue Essex?

[86] **Andrew Davies:** Yes, certainly. Like you, I have received strong representations on this issue. I have raised it with the Finance Minister, who has assured me that the decision will be reviewed in due course. We had very strong representations from Gwynedd Council on this matter, but the strongest protests have come from self-catering-holiday providers in Gwynedd, who feel that they have been disadvantaged by this decision. I have concerns, as Minister responsible for tourism, about any impact that this would have on the industry, so I have made representations to the Finance Minister; she has given me an assurance that it will be revisited.

9.50 a.m.

[87] **Alun Ffred Jones:** I have also had representations on this. Do you always implement suggestions made by Gwynedd Council? As I understand what the Minister has said, the point made in discussion with Gwynedd was about large-scale development, such as the Hafan in Pwllheli, and that it should not be allowed any relief, and also second-home owners who use their accommodation as businesses. It was not meant to target those farmers, in particular, who have done up their outhouses as accommodation. I am sure that by revisiting the rules and regulations, something can be done in that regard.

[88] **Andrew Davies:** Just for the record, Gwynedd Council did not lobby me; it lobbied the Finance Minister about the operation of the small business rate relief scheme. It specifically wanted self-catering cottages and second homes to be exempted from the rate relief scheme. On the basis of that representation, the Finance Minister made that exemption, but many companies and businesses, in Gwynedd in particular, are now complaining vociferously about the position that Gwynedd Council took on this matter.

[89] **Christine Gwyther:** I can confirm that Gwynedd Council's name is now mud in Carmarthenshire. Does anybody else have a comment on Visit Wales? We move on to paragraph 25, on International Business Wales.

[90] **Alun Cairns:** It is obviously good to hear that the job numbers appear to have been met in relation to inward investment. Can the Minister tell us what the situation is in relation to capital investment and whether that has been achieved, exceeded or otherwise?

[91] **Andrew Davies:** We do not have the information to hand, but we will make it available in writing to you and to the committee clerk.

[92] **Christine Gwyther:** Is everybody happy with that? Okay. We move on EU structural funds, paragraphs 36 to 42.

[93] **Alun Cairns:** In paragraph 37, the last line states:

[94] 'The Convergence documents, without the financial allocations, have been published on the WEFO website at'

[95] and it then gives the link. Are you saying that the financial allocations have already been submitted to the commission, so that, basically, all the information is known but not published on the site, effectively meaning that it has been published without the financial allocations as stated in that sentence? If so, why is that information being withheld, against the principle of open government, and when can we see it?

[96] **Andrew Davies:** This matter has been raised in committee before. The reason why the information has not been made available is that it is subject to negotiations between us and the European Commission. I do not think that it would be a good negotiating ploy to make that information available. However, as soon as a decision has been made and agreement has been reached with the European Commission, that information will be made available.

[97] **Alun Cairns:** I do not accept that; I suspect that it is more to do with saving the embarrassment from the Assembly Government's standpoint, but there is no point in pursuing it any further.

[98] **Leighton Andrews:** May I come in?

[99] **Christine Gwyther:** Yes.

[100] **Leighton Andrews:** Minister, I would very much want to reinforce what you said, because I would be very concerned on behalf of those of us who represent west Wales and Valleys seats if you were giving all of your negotiating hand away in discussions with the European Commission. I do not know if that is the way that we would have to suffer life if the Conservatives, God forbid, were ever to run this place, but, frankly, in any negotiation that I have been involved in, you always have to have something up your sleeve, and I do not blame you in the slightest for that.

[101] **Andrew Davies:** Quite, and thank you for your support for our position. Of course, it must be remembered that when the Conservatives were in power, John Redwood, as Secretary of State of Wales, point blank refused to negotiate for Objective 1 status for Wales. People need to be reminded of the fact that it is Labour that has delivered Objective 1 status and the funding to make it a success, and all the economic indicators demonstrate that that European money has made a huge difference to individuals and communities across the whole of Wales.

[102] **Alun Cairns:** On that point, Cadeirydd, it demonstrates the Minister's desperation when he has to hark back to John Redwood. If he wants to do that, then I will happily listen to that time and again and let the public judge his comments.

[103] **Christine Gwyther:** I think that Mike wants to lend his support as well.

[104] **Michael German:** I did not want to intervene earlier on a personal brief of the Minister, about his having said this, but the initial figures that you put out, the initial consultation, contained percentages of allocations for each of the areas. In other words, the broad figures were deducible because you knew what the global sum was, and you knew what percentage you were purporting to allocate. These were then withdrawn when the next round of documentation became available. That is the issue that I am interested in. You would know what your starting point was and what the broad figures were, and if there had been a change to what you initially proposed, one would suspect that you would make that information publicly available. I understand that the Minister is concerned about the intervention rates for each sector of the convergence programme, because that would give you an analysis of the level of match funding that would need to be provided from the public purse in Wales, and the gap between what is currently there and what is needed. Could the Minister give us an explanation as to why that change took place? We have heard that you want to keep your negotiating hand, but you have already displayed it in putting forward the first allocations.

[105] **Andrew Davies:** I do not feel that we are in a difficult or uncomfortable position; I think that we are in a strong position. We are ahead of the rest of the UK in the delivery of the programmes to the European Commission and, last autumn, the European Commission agreed that Wales would be the first part of the European Union to be allowed to undertake a self audit. That is a huge vote of confidence in our management of the European funding programme. On the specific question, in terms of the figures, what we did was publish indicative allocations as part of the wider consultation with stakeholders across Wales. However, as I have said, they were just indicative figures. As I said in my response to Alun Cairns, it is now a matter of negotiation between us as a Government and the European Commission as to the precise financial allocations in the programme. I have already given a commitment that once those negotiations have been completed, we will make that information publicly available.

[106] **Michael German:** I will ask the question in another way: have significant changes been made to the allocations that you indicated at the beginning before they were submitted to Brussels?

[107] **Andrew Davies:** When we make the information available, you will be able to make your own judgment on that, Mike.

[108] **Michael German:** I will, yes, but one would have thought that if you were going to make significant changes as a result of the consultation exercise, that should have been made known to those who contributed to the exercise. That is the point that I am making. If you have made significant changes to the programme on which you consulted, you would have thought that the stakeholders would have been informed of that. If, however, the allocations that you have put to the commission are broadly in line with what you consulted on, that would be a sufficient answer for me today.

[109] **Andrew Davies:** I cannot understand the rationale behind that. Why, as a Government, would we want to make our negotiating position known to local authorities, the private sector and the voluntary sector, when we know full well that those figures may change as a result of negotiations? What local authorities and others want to know is how much money will be available for each of the priorities. Obviously, once the negotiations with the European Commission have been completed, they will be given that information. However, we are not waiting for those negotiations to be completed. Extensive work is already being undertaken through the external stakeholders' group and through the spatial plan, with local authorities and many others, in terms of taking the convergence programme forward, developing the strategic frameworks and working up projects in those frameworks. I think that we are in a much better position now, with the convergence programme, than we were back in 1999 with the Objective 1 programme.

[110] **Christine Gwyther:** We will now move on to the next section, 'Job Gains/Safeguarded', paragraphs 43 to 55.

[111] **Leighton Andrews:** On paragraph 53, I welcome the Assembly investment grant for CrossLink Ltd. Just to be picky, may I just say that the post office may regard CrossLink as being in Ferndale, but my constituents regard it as being in Maerdy?

[112] **Christine Gwyther:** That was an extremely picky point. However, Minister, you may want to comment anyway.

[113] **Andrew Davies:** I will make sure that we have the correct location in future.

[114] **Christine Gwyther:** Does anyone else want to say anything on that section? I see that they do not. We will move on to 'Job Losses', paragraphs 56 to 59. It seems that no-one wishes to comment on that. Does anyone wish to comment on paragraph 60, 'Other Announcements', on the property strategy for employment in Wales? I see that no-one does.

10.00 a.m.

[115] **Andrew Davies:** I have one other announcement, Chair, as it has now gone 9.30 a.m.. The latest employment figures were published at 9.30 a.m.. Again, it is a good set of data for Wales, showing that the International Labour Organisation unemployment rate in Wales remains below the UK rate, as it has been for much of the last four years. The claimant count in Wales is declining, with reductions in each of the last five months. I am delighted to say that in, I believe, 14 out of the 22 local authorities, there has been a decline in the claimant count. I believe that Pembrokeshire—you may be particularly interested in this, Chair—has shown the biggest drop in claimant count, at 0.6 per cent. Wales is also maintaining an employment rate well above its historical average, with the level up well over 130,000 since the start of the Assembly.

[116] **Christine Gwyther:** Are there any comments?

[117] **Alun Cairns:** No, but I have a question on the action points following on from the previous meeting. I am looking at some of the companies for which the Minister has listed regional selective assistance and Assembly investment grant successful bids. I know that some companies have not drawn down funding, for a range of reasons. What analysis has the Minister conducted into those companies that were offered aid that has not been drawn down? That could be for a host of reasons, such as changing market conditions. However, some companies—and two jumped out at me immediately, as I have been speaking with them—are concerned about the terms and conditions and restrictions that are placed on them. They would like the opportunity to renegotiate those, because they feel that it is preventing them from investing in other aspects of their business that may well be more profitable as a result of market changes. Therefore, what analysis has the Minister made into offers that have gone well beyond the projected draw-down date and have not been drawn down, and has he come to any conclusions about this?

[118] **Andrew Davies:** Normally, I would ask Sharon Linnard to respond on the more detailed point, but, unfortunately, she is not well at present. Sharon is head of Finance Wales, and the chief operating officer. Her department monitors all RSA grant offers through the account management system, and there is regular contact with companies that have been offered RSA, to monitor the grant offer. Where companies have not drawn down all or part of the funding, that will be discussed with them. As you rightly said, there is a range of reasons why companies may not draw down funding. However, it is a contractual agreement with the company that, in return for financial assistance, it will undertake a certain level of capital investment, as well as job creation. If circumstances change, the company is able to discuss that with my department and renegotiate where feasible and possible. We have always adopted a flexible approach, because we recognise that circumstances change.

[119] **Janet Davies:** I have a question on the announcement that the Minister has just made on the unemployment figures. I believe that you said, Minister, that the claimant count has reduced significantly in 14 out of the 22 local authorities. Does this relate—

[120] **Andrew Davies:** I was wrong, I am sorry—it is 12 out of the 22.

[121] **Janet Davies:** Does that relate to whether they are in west Wales and the Valleys or in east Wales? Is there any correlation?

[122] **Andrew Davies:** I do not know at this stage whether there is any correlation—I do not think that there is. It depends to a large extent on what is happening in the local job market. For example, in Pembrokeshire, I would imagine that much of it is to do with the buoyancy there with regard to investments, particularly in the energy industry.

[123] **Janet Davies:** With the investment into the convergence area, there should perhaps be a correlation.

[124] **Andrew Davies:** What I referred to are fairly short-term changes. Over the longer term, the west Wales and the Valleys area has performed better. The fall in unemployment in west Wales and the Valleys over the longer-term period has exceeded that in east Wales, and has also been faster than the UK average. Similarly, my understanding is that the growth in average weekly earnings has been bigger in west Wales and the Valleys over the longer-term period than in east Wales.

[125] **Christine Gwyther:** We can drill down into those figures when we come to the gross value added discussion later on this morning, and it will also be useful to have that refresh when we discuss it.

[126] **Janet Davies:** Perhaps it would be useful for Members to have those figures because, otherwise, we are just operating on what was said.

[127] **Christine Gwyther:** It would be wonderful if it were possible to get those in the next 15 minutes.

[128] **Andrew Davies:** I do not know whether we will get all the figures on a local authority basis—I do not know whether they will be available at this time, but if not, we can certainly make them available to the committee clerk in due course.

[129] **Christine Gwyther:** Okay, perhaps we can try something in the break, so that we can have a very up-to-date picture to talk about.

10.06 a.m.

Rhestr o Is-ddeddfwriaeth Secondary Legislation Schedule

[130] **Christine Gwyther:** Joanest Jackson is here to advise us on this. We have already identified a list of items for further scrutiny: the quiet lanes and home zone regulations, the congestion charge regulations, the highways regulations, Orders arising from the Transport (Wales) Act 2006, the road user charging regulations, the public transport users committee for Wales and a proposed regulatory reform Order for buses. On that regulatory reform Order, the part that I think that Members were interested in—you showed some interest in this, Carl—was the length of bus subsidy contracts. That has been withdrawn from this regulatory reform Order and now forms part of the Road Transport Bill. So, are you content for us to scrutinise it as part of the Road Transport Bill?

[131] **Carl Sargeant:** Yes, that is fine.

[132] **Alun Cairns:** Can I check the status of what you read out, Cadeirydd? Were you reading out items that we want to look at or those that we have the option of looking at?

[133] **Christine Gwyther:** We have already identified them for further scrutiny. We have the programme for 2008. Do Members have anything else that they want to bring in for scrutiny?

[134] **Michael German:** I would just like to check my understanding of the new Standing Orders in relation to the road charging Orders. Where it says 'Negative' under 'Anticipated Procedure' in the paper, does that mean that Members have to pray against it, or does it mean that the committee would not automatically look at these matters? It should be positive, as I understand it. Am I wrong?

[135] **Ms Jackson:** A negative procedure means that the regulations would be made by the Minister and then laid, but they would be subject to annulment, should such a motion be put down by the Assembly.

[136] **Michael German:** In other words, if you wanted to look at these regulations in some depth, it would be the positive procedure that would be anticipated. Is that right?

[137] **Ms Jackson:** There is more scrutiny in the case of an instrument going through under the affirmative procedure, yes, because it would be looked at before it was made. It would probably be scrutinised by the Assembly before it was made.

[138] **Michael German:** It is difficult to judge the difference between the current Assembly and the new Assembly, and, obviously, this would be a matter for the Business Committee of the third Assembly. If the committee, in a similar circumstance in the next Assembly, were minded to scrutinise these particular regulations in more depth, it would presumably have to say that it wished for this to be done under the affirmative procedure. I do not know how that works, given that someone, somewhere has anticipated that it will be a negative procedure but we are talking about a new Assembly and nothing can be done about it now. My questions are about the way that that has happened, because it does not just apply here, it applies to many things that are coming up.

[139] **Ms Jackson:** In most cases, the procedure to be followed in the case of subordinate legislation will be set out—if it is set out at all—in the parent Act, namely the Act under which the regulations are made. There is normally a provision in an Act that will say that statutory instruments made under the Act or under a particular provision of the Act will either be subject to annulment or will require approval. Therefore, it may not just be at the whim of the Minister in terms of which procedure is to be followed within the Assembly; there may be no choice.

10.10 a.m.

[140] **Michael German:** That is very interesting, because it therefore means that an Act passed in London will determine our procedures. Is that what you are saying?

[141] **Ms Jackson:** In many cases, yes. Although when we come on to Measures, Assembly Members will obviously have more influence over the procedure in terms of subordinate legislation made pursuant to Measures.

[142] **Michael German:** You can see the point that I am getting at, Chair. There is an important point of principle here and not just in terms of this particular set of regulations, which are very important and which you have identified as items that you would like to scrutinise. In my humble view, if you wanted to do what you have described, you would have thought that you would have 'Affirmative' alongside them instead of 'Negative'. That would have given an indication to the new Business Committee that this committee wanted to follow that procedure—and obviously that the new committee, if there is to be such a committee, would want to follow that procedure. Does the Transport Act 2000 require the National Assembly for Wales to do this under a negative procedure?

[143] **Ms Jackson:** I do not have the provisions of the Transport Act before me, but if the procedure is prescribed by the Transport Act, the provisions in the Government of Wales Act 2006 operate to transfer those procedures to the Assembly.

[144] **Michael German:** Therefore, how could it be altered by the National Assembly in its own procedures?

[145] **Ms Jackson:** It would probably require a change to the Government of Wales Act 2006.

[146] **Mr Shaw:** If I could help a little, as far as this particular Act—[*Inaudible.*]—the references will be to the National Assembly for Wales and not to the Welsh Assembly Government, so it will therefore be a requirement for the National Assembly for Wales to make the regulations. The question then is how those regulations are translated under the new Government of Wales Act. It will clearly be appropriate to deal with some issues as a positive if there is a clear requirement and a precedent has been accepted—the one that I can think of is the provision in the Transport (Wales) Act 2006 for the consideration of a joint transport authority. It was always recognised that there needed to be a protection in that, in the sense that it would require a full Plenary vote. That was the premise, prior to the new Government of Wales Act. That would translate into a positive Measure rather than a negative resolution, because that requires a full Plenary vote. The negative resolution is, by and large, replicating the procedures within the House of Commons for dealing with a large volume of secondary legislation, where, normally, they are laid and if there are objections, it opens up the debate. It happens that way around, if you like, and that is the process by which all of the existing Assembly powers are having to be organised. Joanest was talking about any future legislation, and it would clearly be enshrined in that legislation which the appropriate route would be, but it is all being resolved now as part of the business processes going forward.

[147] **Michael German:** All I can say, Chair, is that if the desire in terms of the items that that you read out at the beginning were to be executed, you would have to change the word 'Negative' to 'Affirmative'. I do not know how you would achieve that, and I do not know what the process is, but I leave it to you.

[148] **Christine Gwyther:** It is a discussion that we may need to have outside of the committee. A very useful can of worms has been opened, so thank you for that.

[149] **Michael German:** Perhaps the minutes could reflect the discussion and the views.

[150] **Christine Gwyther:** Yes.

10.14 a.m.

**Rheoliadau Priffyrdd (Asesu Effeithiau Amgylcheddol) (Cymru a Lloegr) 2007
The Highways (Environmental Impact Assessment) (England and Wales) Regulations 2007**

[151] **Christine Gwyther:** We have not received any amendments or points of clarification. Minister, do you want to briefly introduce this item and then we will go to Members' comments?

[152] **Andrew Davies:** Tim Dorken is the official who is leading on this, so do you want to say anything, Tim?

[153] **Mr Dorken:** The principal purpose of the regulations is to transpose the requirements of the public participation directive, which were originally to have been transposed by July 2005. The main provisions are to include more detailed participation requirements in the environmental impact assessment of trunk road schemes and other schemes of the National Assembly. The other main issue is to change some of the provisions concerning access to justice, which are contained in the public participation directive. There are some minor amendments to the requirements to change the members referenced in the regulations to include those of the European economic area, which are the three states outside the EC. There are some other minor amendments relating to the assessment of special roads. It is a technical adjustment to do with ensuring that minor and relatively small schemes for special roads, such as motorways, are subject to the same assessment procedures as those for trunk roads. Those are the key changes.

[154] **Christine Gwyther:** Are there any Members who wish to ask a question on this—apart from Mike? I am joking.

[155] **Carl Sargeant:** The interesting detail of public participation is key to this new document. I have concerns. The Minister will not be surprised that I raise the issue of the A494 trunk road, which runs through my constituency. It has caused extreme concern to members of the public and there has been a great deal of public participation on this issue to date. I am aware that this document suggests that these regulations will not have any effect on this scheme as the draft Orders have already been published. This is a hypothetical question, I suppose. If this document was in place and had the ability to impact on the A494 scheme, what difference would it make to public participation? What strength does this give to constituents across Wales? What benefits does the document bring?

[156] **Mr Dorken:** The principal strength relates to the amount of detail required in the publication of information. The draft Orders published for that scheme have been subject to an environmental impact assessment, under the 1999 regulations. The publication process is very similar. The procedures that we have at present in Transport Wales cover most of the provisions of the regulations and the directive. Therefore, the way in which the public participation information is published in the press is already in that document. Therefore, that procedure is, currently, largely undertaken. The main changes are that, at the decision-making stage, the responses from the public and consultation bodies have to be reported in more detail, and the decision-making process has to be published in the local paper, in the *London Gazette*, for example, and on the website. Therefore, the main change will occur at the end of the process.

[157] **Carl Sargeant:** I probably have this wrong, but I will give it a go anyway. Are you saying that the changes to the decision-making process mean that the outcome in relation to individual objections—as they normally are—submitted must now be recorded?

[158] **Mr Dorken:** That is correct.

[159] **Carl Sargeant:** So, am I right in thinking that submissions made on the A494 now could be dealt with en masse, and that you do not really have to provide any reason for rejecting those objections?

[160] **Mr Dorken:** As the regulations stand, that amount of detail is not required. However, we do do that. The main representations are recorded in the decision-making letter. We set out the reasons for the decisions relating to those recorded representations. The process in the regulations makes that much more specific. At the moment, those are our procedures, but this will become a legal requirement when the regulations come into effect.

[161] **Christine Gwyther:** Presumably, you are content with that.

[162] **Carl Sargeant:** I am not content, because I would much prefer that this regulation had applied to the process with the A494. However, I recognise that the fact that the draft Orders have already been published prevents that. I do not think that there is a way around that.

[163] **Mr Shaw:** I understand that, but it is already our established procedure to follow this route; we have been doing this for some time, so the difference in terms of your constituencies is not actually significant.

10.20 a.m.

[164] **Carl Sargeant:** Okay.

[165] **Janet Davies:** Some of the people consulted wanted to allow judicial reviews, if requested, in certain instances. I just wondered why that was rejected.

[166] **Mr Dorken:** The judicial review process is related to the other Orders attached to those schemes, which have a six-week judicial review period, or period during which a challenge can be made in the High Court. The reason why it was felt that it was not appropriate was because they wanted to ensure that all those procedures were concurrent, and that the block period at the end of the six weeks could not prevent someone from coming back, once you had awarded a contract, and requiring a judicial review. My understanding of the law is that you could still possibly carry out a judicial review, as against a High Court challenge, as a matter of procedure.

[167] **Christine Gwyther:** Thank you. We will send a report of our findings this morning to the Business Committee. We will break now for 15 minutes, or a bit longer, and come back at 10.40 a.m..

*Gohiriwyd y cyfarfod rhwng 10.21 a.m. a 10.45 a.m.
The meeting adjourned between 10.21 a.m. and 10.45 a.m.*

Gwerth Ychwanegol Crynswth yng Nghymru Wales Gross Value Added

[168] **Christine Gwyther:** Item 6 will be an hour-long discussion, and I invite the Minister to introduce his paper.

[169] **Andrew Davies:** In addition to Gareth Hall, James Price, director of my policy and strategy group in the department, and Tracey Burke, whom everyone will know, we are also joined by Julian Revell from the economic and labour market statistics department in the Assembly Government, and someone who you probably have not met before, Jarlath Costello, who is an economist on James's policy and strategy group. He was formerly an economist with the Ford Motor Company.

[170] At the committee meeting on 17 January, Members requested information and a discussion on gross value added in Wales. That followed the publication in December of the GVA data for 2005. I offered to distribute a paper addressing the GVA issues raised at that meeting. As you will be aware, the paper is very wide-ranging and considers some of the technical aspects of GVA, including a description of how the figures are comprised, the components of GVA, which are mainly compensation of employees and corporate profits, further clarification of the difference between work-based and residence-based measures of GVA—and you will know from the paper that that depends on whether figures are published at a NUTS 1 or at a sub-regional level—and, finally, issues on the equality and scope of the GVA estimates.

[171] GVA data relating to the UK are available back to 1989 only, but, as Members will be aware, prior to that, regional gross domestic product data were published. As you will see in the paper, the two series are broadly comparable and allow us to look at the history of this important measure of prosperity back to 1971.

[172] We have identified three broad sub-periods in that longer time series of three and a half decades, and so there are three distinct phases. The first, historically was a volatile one, but without any clear trend in the 1970s and 1980s, although you can see from the GDP figures the impact of the oil price rise in the early 1970s and the impact of the Geoffrey Howe budget on the Welsh economy in 1981. The second shows a steep decline from the late 1980s to the late 1990s; I think that there was around an 8 per cent fall during that period. The third period is since 1999 and the advent of devolution, during which time the long-term decline has been arrested and stability restored, especially if the performance of the greater south-east of England is excluded from the comparison. Indeed, developments in relative GVA since the turn of the decade are very encouraging when viewed in an international context.

10.50 a.m.

[173] Data from the European Commission show that, since 1999, GDP per head in the UK increased from 11 to 17 per cent above the EU25 average. This was a stronger performance than that of any other major economy. As we in Wales have kept pace with the UK over this period, so our GVA growth performance has outstripped that of major economies such as that of the United States, Germany and Japan.

[174] There is no question that GVA is an important measure of economic prosperity and it is an internationally recognised benchmark. However, as we have made clear in 'Wales: A Vibrant Economy', our main focus is on raising employment and earnings as these impact most directly on the lives of people in Wales and the people whom we represent. Therefore, my paper also outlines what has been happening in the labour market. These developments are also very positive, as I indicated in my update on the latest figures, which have been published today. Incidentally, we have made the figures for claimant count available to Members, as requested, broken down by unitary local authority area. These are claimant count figures, which are obviously separate from the International Labour Organization figures. I hope that that helps Members. It also gives total figures and percentage changes from 1997 and 1999. It is an important topic, but I believe that the paper is comprehensive. My officials and I look forward to taking any questions that Members may have.

[175] **Christine Gwyther:** Thank you very much indeed, Minister. We will move on to Members' questions.

[176] **Alun Cairns:** I thank the Minister for his paper, which is useful in giving some of the technical data with regard to how the figures are calculated, and so on. However, in the first instance, we need to clarify and confirm that GVA is the international measure of wealth. Across all international measures of wealth, GVA is one of the key focuses, if not the key focus. That is what we measure in the European Union or the European Commission. When GVA falls below 75 per cent of the EU average, that is when you potentially qualify for the highest level of structural funds. So, that qualifies the force and the credibility that is given to GVA statistics. This is true to such an extent that, in 1999-2000, the Welsh Assembly Government set a target to raise Wales's GVA from the region of 80 per cent of the UK average figure at that time, to 90 per cent by 2010. That was in 'A Winning Wales' and its predecessor, and is also mentioned in 'Wales: A Vibrant Economy'. The First Minister has been categorical in the debates that we have had around 'A Winning Wales', which focused on the figure of 90 per cent of GVA being a target. Even when

members of the former Economic Development Committee said that this was generally unachievable unless resources were increased enormously, the First Minister's response was that it would be challenging to achieve the target, but that that was what he wanted to drive for. That was the priority that the Assembly Government and the First Minister personally, when he was Minister for economic development, gave to GVA.

[177] We have now come to the point in 2007—albeit that the data are a little historic, but they are the latest data available—where we are not that far away from 2010, and it is alarming and worrying that we will obviously not achieve that target of 90 per cent by 2010. If it were to close eight or nine percentage points from 1999 to 2010, it will be even more difficult to close a similar or a wider gap between now and 2010, that is, within the next three years. So, it is obvious that we will not achieve it.

[178] In defence, the Minister and the First Minister, in particular, have said that the value of the Welsh economy is £40 billion—we have broken through the £40 billion mark. That is good—let us accept that—but it is also the case that inflation will have played its role in that. Looking back to years gone by, when inflation was much higher, we would not be claiming the credit for growth in the Welsh economy, year after year, of 5, 10 or 15 per cent or whatever the rate of inflation was then; so, we need to discount that. It is important to note that we have reached the £40 billion mark, but it is hardly significant in relation to the debate about our relative position in terms of the rest of the United Kingdom. What it comes down to is that, whereas we were not previously the poorest part of the UK in GVA, we are now. We are now the poorest part of the United Kingdom, and not just west Wales and the Valleys: Wales, as a nation, is the poorest part of the United Kingdom.

[179] It is exceptionally worrying that we are so complacent in this respect, given that, in 1999-2000, we had an explicit target of achieving 90 per cent of UK GVA by 2010. We are quite obviously not going to achieve that target. The First Minister and the Minister for Enterprise, Innovation and Networks have previously questioned the rationale of the statements that I have made on this issue, and in reply to my questions a week or so ago on this very statistic, the First Minister came out with a flippant comment, which I choose to ignore. However, I used, line for line, the exact phrase that was used by the registrar general of the ONS at a dinner in Cardiff. The First Minister questioned what I said, but it did not come from me, on a party political level; it came from the registrar general of the ONS, who is responsible for the data that is coming out. I was using an analysis of the Welsh economy that she had used at a dinner in Cardiff. She said that, when she tries to attract staff to Wales from London, because of the growth of the office in Newport—which is a good thing—she has to tell them to look beyond the GVA data, telling them about the nice environment and the other positive things in Wales, which is right. However, she is dealing with statisticians, for whom, in looking at the quality of life, GVA is a major element. I have asked the Minister to address that issue.

[180] The other defence used by the Minister is gross domestic household income. Gross domestic household income is an important measure, which I do not want to discount, but according to the most recently published data, the index showing our comparative position in the United Kingdom tells us that, in 1995, we were at 90 per cent of the UK levels. According to the latest data available, we are now at 88 per cent of the UK levels, but if we go back to 1997, the level was also 88 per cent; we have not moved. In 1988, it was 87 per cent, so we have moved up one percentage point. If the Minister says that the drop in GVA has been stopped, the best that we can come up with is that the index of gross domestic household income is pretty level.

[181] Minister, what analysis have you conducted into GVA to establish why we are not achieving the Assembly Government's targets? To what level are higher inactivity rates in Wales contributing to that? Have you assessed your policies to ensure that we are tackling those specific challenges in order to seek to raise GVA, which, as I said in my opening statement, is the international measure of wealth? Sadly, according to that measure, we are the poorest part of the United Kingdom.

[182] **Andrew Davies:** I agree with Alun that GVA is an international benchmark in terms of economic performance—or one of them—as I pointed out in my introductory remarks; I accept that. However, we have had many discussions in this committee and its predecessor, the Economic Development Committee, about the robustness of GVA as an indicator and about some of the shortcomings of GVA/GDP. That is one of the reasons why, in 'Wales: a Vibrant Economy'—the economic development strategic framework that I have taken forward as Minister—we have looked at a range of tracking indicators, of which GVA is one, but by no means the only one.

11.00 a.m.

[183] Expanding on that, looking at specific areas, you mentioned gross domestic household income. The figures from when the Assembly was set up to the present day show that there has been a growth in GDHI. Similarly, on growth in average weekly earnings since 2001, Wales has outperformed the UK. The area of west Wales and the Valleys has outperformed the rest of the UK. The measures that have a real impact on the lives of families and communities, such as jobs, employment and unemployment, income, earnings or domestic income, which obviously includes transfer payments, show that the position has been transformed.

[184] However, one of the reasons for including the longer time series in the paper is the need to put into a historical context the reason why GVA has declined. As I pointed out in the paper, there are particular periods of decline, but the most substantial decline happened in the late 1980s and 1990s. That happened because of the substantial deindustrialisation of the Welsh economy. Looking at payment for employers and at profit, it is not surprising that the loss of 360,000 manufacturing jobs in Wales between 1979 and 1997 had a very deleterious effect on GVA.

[185] I know that this is a bit of a tired point, but I have to keep saying that we have never had a target in either 'A Winning Wales' or in 'Wales: a Vibrant Economy' on GVA. I know that you keep quoting one particular reference that the First Minister made in one particular exchange in Plenary, but it never was a target in 'A Winning Wales'. It contained other specific targets. We have always said—and since taking over as Minister, I have always made it very clear—that the figure of 90 per cent was an aspiration. We said that it was going to be challenging, but I make no apologies for being ambitious.

[186] On your question about the high levels of economic inactivity, that is a major factor in Wales's position relative to other parts of the United Kingdom. That is obvious. The reason for that is that, where there are areas of high levels of economic inactivity, particularly in the south Wales Valleys, it is largely a reflection of the massive economic and social structural change that took place with the effective ending of the coal mining industry and much of our heavy manufacturing, including the steel industry. Clearly, those areas with high levels of economic inactivity have substantially affected Wales's relative economic performance. In policy terms, those high levels in certain parts of Wales are tackled with focused policies. For example, the Heads of the Valleys programme, working with the area's five local authorities and other stakeholders, looks at a very long-term programme of economic, social and community regeneration across that area. There are very high levels of economic inactivity in places such as Merthyr Tydfil and Ebbw Vale. Therefore, our policies reflect the difficulties and challenges in those communities.

[187] I will bring officials in on this in a moment. We have considered looking at the analysis of GVA in the context of what has happened in the Welsh economy and at breaking down how GVA is calculated in the context of Wales's relative economic performance. As I said, it would be helpful to explain how the GVA figures are calculated, and how the various components come together, which then reflects why maybe the growth in GVA has not reflected the substantial changes in employment and in average weekly earnings. I do not know whether one of the officials wants to come in on that.

[188] **Mr Price:** On analysis of GVA, quite a lot has been done. There is a lot in 'WAVE' that talks about the balance between output per job and economic inactivity leading to the GVA gap. In 'WAVE', we say that inactivity is around one third of the issue, and that other factors are the other part of the issue. Therefore, inactivity, in and of itself, is a significant issue. Equally, in our policies, and in our business planning, we try to take that into account. Therefore, we appraise literally every activity that we engage in to look at its GVA contribution relative to the amount of money that the Assembly Government puts into it.

[189] However, the problem with that is that, if you just do that on a pure basis, you would risk putting all your investment in the areas of least market failure. So, we then have to take account of different degrees of market failure, in different parts of Wales, to say that we are trying to add relative value. What I mean by that—and I guess that it is fairly obvious—is that, in an area of economic inactivity, bringing someone into the workforce for the first time adds value, but, in terms of overall figures, it might not look particularly good. Bringing someone into the workforce in Cardiff, if they come from a deprived area of Cardiff, could add value, but, for someone who is already in work, and already in a good job, we would want to take them to the next level. Therefore, we try to take account of all that.

[190] Equally, much of the work that is currently under way with the ministerial advisory group is looking significantly at how we can address the output-per-job issue, particularly in the higher-value-adding sectors. However, that must always be done in a balanced way, so that we are not simply concentrating growth in south-east and north-east Wales, and we are thinking about how we can get growth across Wales.

[191] However, in terms of the component parts of GVA, it would probably be best to bring in Julian and Jarlath.

[192] **Mr Revell:** It is easier to split GVA into two components, namely the compensation of employees—in other words, the pay of people in jobs—and the operating profits of businesses, which also includes the income of the self-employed, and various other bits and bobs. If you look at the compensation of employees component of GVA, Wales has seen a small relative improvement per head of population, compared to the UK, over recent years, which is what you would expect to see, given the fact that we have also had a slightly better relative labour market performance in recent years.

[193] On the other part—the operating surplus bit—we have seen a small relative decline relative to the rest of the UK. That is much more difficult to analyse; conceptually, it is a difficult issue. If you think about a big company that operates in different parts of the UK, it might have a manufacturing outfit in one part of the UK, it might have a distribution wing in another, and it might have a marketing bit somewhere else. Trying to attribute that company's profits to different bits of the UK is difficult, conceptually, and there is not a right answer as to how exactly that should be done, because, in a way, it is an artificial process.

[194] Therefore, the way that the statistics are calculated uses a variety of different methods for doing that, and getting to the bottom of why we have seen the movements that we have seen is difficult. We engage with the ONS on these issues every year, and I will be doing so again this year to look into some of the movements that we have seen in recent years.

11.10 a.m.

[195] I am not therefore going to try to offer an explanation of that bit, but we are more confident about what is happening with the compensation of employees part of it, which accounts for about two thirds of the total.

[196] **Christine Gwyther:** On the remaining one third that you were just talking about, are you saying that, if a company's head office is outside Wales, profit could be attributed to the place where its head office is? Putting it crudely, is that what you are saying?

[197] **Mr Jewell:** It should not be in its entirety, but there is an open question as to how you should split up its profits. So, for certain sectors of the economy, the methodology used looks at the number of people working in each different bit of that company and where they are working and what their earnings are. For other sectors, however, profits data are taken from the company and various estimating techniques are applied to split them up across the different bits of the UK. How that is done can also vary from year to year, as can how the company decides to report its profits. I suppose that what I am saying is that you have to look really at the micro-level data to be able to really get a handle on what the movements are about. It is just not a simple issue.

[198] **Andrew Davies:** We have raised the issue before, as have other Members, about companies' transfer payments, and many global companies will do exactly that, Burberry being one of them, so then it is difficult for statisticians to pick that up, certainly at the UK level at ONS, given the fact that these are based on samples.

[199] The other thing, of course, is that Wales would therefore suffer, because we do not have the headquarter functions of many companies. Julian made a point about relative decline, and if we did have headquarter functions, then that would not have happened or would not have happened anywhere near to the same extent because the headquarter functions would be reporting. As I said, we do not have that function in Wales, to a large extent.

[200] **Mr Price:** What is really important to realise is that the figures are an estimate of where the profit is created, and so where the value is being added. They do not account for where that profit may then go, and we do not try to take that into account either.

[201] **Mr Revell:** In terms of the conceptual basis, that is exactly right. However, whether that is actually what you end up getting in the statistics probably varies from sector to sector.

[202] **Mr Price:** So, for multinational companies, that is clearly a big issue.

[203] **Alun Cairns:** I was hoping to avoid a debate in which the Minister goes back to the 1980s and 1990s and the restructuring that took place at the time—

[204] **Leighton Andrews:** Why?

[205] **Alun Cairns:** Because I was hoping for an intelligent debate; but if the Minister wants to go back and debate what happened 20 years ago and highlight 1979, when I was nine years old, then I am more than happy to talk history. However, I prefer to look forward to the future and address statements that have been made relatively recently about what is happening now. I remember asking the now First Minister in the Economic Development Committee about the Cambridge Econometric forecasts and other business strategy forecasts and so on that were presented to us at the time. His answer was quite clear, that those forecasts do not take account of the changes that we are making to the economy, which he expected would influence GVA. As an opposition Member, the best that I could hope for then was to look at forecasts, but now we have hard data, and a judgement needs to be made on the influence that all the changes that the Government was implementing had—they obviously have not succeeded in influencing the GVA figure positively.

[206] We need to recognise that unemployment is much lower. That is a fact, and it is obviously welcome. However, the Minister has said, time and again, that we need to be moving up the value chain, that we need value-added jobs, and even in the Minister's report there are several references to that. I will ask a question of the officials, if I may—through the Minister, of course. Bearing in mind the fact that we are creating a lot of jobs, and a lot of retail jobs, say, they are obviously not contributing to the economy in quite the same way. Is it therefore fair to say, taking it that logical step further, that we are creating an awful lot of jobs that are not really adding to the value of GVA? Is that the logical step, or am I missing something obvious? Our unemployment rate is lower than the national average—which is great and long may it continue—but we are still the poorest part of the United Kingdom. It worries me that the value of our jobs is not as great as they are elsewhere, although the Minister and his predecessors have been talking for many years about the need to move up the value chain and, therefore, our conversation should focus on why we have not done so and on why the policies have not succeeded.

[207] **Andrew Davies:** I will start and the officials can come in afterwards. One advantage for you, Alun, being eight years old in 1979, is that you were probably too young to remember the devastation wreaked on Wales by your party's Government. Those of us who are older have strong and vivid memories of whole communities having the heart ripped out of them, particularly in the mining valleys of south Wales.

[208] The reason why I provided the historical series of GVA and, before that, GDP, was to show that there has been a long-term decline in GVA, which has been halted since devolution. There has been a slight increase in relative GVA over the last year or so. External events such as the oil-price rise in the early 1970s and Government policies, such as Geoffrey Howe's deflation budget in 1981, clearly have had an effect. I would also argue that Government policies, particularly under Conservative Governments, have had a major impact on the Welsh economy and we, as a Government and as a party, are having to deal with that and put in place policies that will address that major structural change in the economy.

[209] On your specific points about jobs and the quality of jobs, I welcome your acceptance that there has been a substantial increase in employment, but it is not true—indeed, it is something of an urban myth—that we have lost highly paid manufacturing jobs and have created or gained low-value-added service jobs. That is not true. If you look at the statistics, we have been very successful in attracting higher paid jobs. In fact, the work that we have done as a Government, and official figures, show that, in terms of the growth of jobs, we have been more successful in attracting higher paid jobs than lower paid jobs. I believe that the figures that we had at Cabinet, which looked at jobs in terms of quartiles, showed that there was an increase of around 3.5 per cent in the higher paid jobs in Wales, as opposed to a 0.5 per cent increase in the lower paid quartile of jobs. Perhaps I could bring in the officials on the more specific points.

[210] **Alun Cairns:** May I ask a technical question in addition to what I asked earlier?

[211] **Christine Gwyther:** Yes, and then the officials can take that as well.

[212] **Alun Cairns:** Can we have a comment on the growth in public sector jobs and any influence that that may or may not have on GVA? Is it merely the redistribution of wealth that already exists?

[213] **Andrew Davies:** Just before the officials answer that, I would like to put on record, and I have said this on many other occasions, that Wales is the only part of the UK where growth in private sector employment has exceeded that in the public sector. Since 1999, it is the only part of the nations and regions of the UK where that is the case.

[214] **Mr Price:** I will start and then Julian will come in with a more detailed explanation on some of the figures. On the issue that you raised about the mixture of jobs that have been created, the evidence is that we are seeing a relative growth in higher occupational earning jobs. So, I do not think that it is true to say that the balance has been towards the low end.

[215] **Alun Cairns:** Is that relative to Wales or is that relative to the UK?

[216] **Mr Revell:** Both Wales and the UK have seen growth. I cannot remember the exact relativity, but if I remember rightly, in the last five years 80 per cent of the increase in employees in Wales is accounted for by the top three occupational groups. That is just an example.

[217] **Mr Price:** On the other issue, looking at the lower value jobs, I think that it is important that everyone understands that any job that is new to Wales and which is bringing someone into Wales, or, more likely, bringing someone out of economic inactivity, adds to GVA, and to GVA per head. It may bring down the GVA per worker, but that is irrelevant to the average individual, and to the individuals concerned, because the point is that someone has a job who did not have a job before.

11.20 a.m.

[218] On the specific figures, I will hand over to Julian.

[219] **Mr Revell:** I do not have much to add to that. On public sector employment, an increase in public sector employment would increase GVA in exactly the same way as an increase in employment in a private sector company.

[220] **Leighton Andrews:** I will not go back to 1979, but I will go back to 1989. It is rather tendentious to imply that history is irrelevant, because it is not. It is highly relevant, and the period from 1989 to the birth of the Assembly, to be blunt, saw a decline in the Welsh GVA as a percentage of the UK GVA of 5.7 per cent, and that is hugely significant. When you look at the period since then, we have seen a marginal decrease of 0.6 per cent, but, broadly speaking, it has been rising for the past three years. You could, quite reasonably, call that stabilisation, and you cannot look at the economy of Wales without having that significant decline in those years fairly central in your mind. It seems to me that there was a significant amount of analytical material on GVA in 'Wales: A Vibrant Economy', and I do not need to go back over that. The figure that concerned me most in that document was the GVA of people in work in Wales relative to that in the UK, because the figure was lower than we would want it to be. That was a significant figure and perhaps a point at which to start.

[221] There is also a myth about the relative income produced by some manufacturing jobs compared to retail jobs. I have looked at the earnings of workers in the Burberry factory, for example, and many of those people are on the minimum wage. That is not an argument in favour of losing those jobs, because those jobs are on people's doorsteps and they can walk to work in many cases, and therefore they do not incur transport costs that they would incur in moving to other jobs. However, the reality is that not all manufacturing jobs in Wales are well paid, and therefore if there is a transfer from manufacturing to retail, in some cases it does not necessarily mean that people are getting lower wages. We should move away from a simplistic notion about that.

[222] On the question of GVA, given the points that have been made about the increase in UK GVA as a whole compared with that of other European countries, it would be useful to see a comparison of Wales versus other regions within EU countries. Broadly speaking, we know that the west Wales and the Valleys area qualifies for convergence funding, therefore we know where it stands in relation to overall GVA, but it would be interesting to see how Wales stands compared with similar-sized regions within other EU countries, given the increase in the UK's GVA compared to that of other countries, and the fact that it is significantly ahead.

[223] I also want to look at gross disposable household income. Ultimately, GDHI is real money in real people's pockets, and is a meaningful figure to think about, particularly given the difficulty of GVA in relation to issues about people not in work and about the difference between where people work and where they live, and so on. The picture is not brilliant in every part of Wales, but there are some quite outstanding changes. The figure of the central values, which has changed from 76 per cent in 1999 to 82 per cent in 2004—a 6 per cent increase—is very significant. You can see that, as with GVA, there were declining figures. The figures that I have for GDHI do not go back as far as 1989—they go back as far as 1995—but, clearly, there were declines going on, which have been halted in many cases and turned around. That is a significant factor and it should not be understated.

[224] **Andrew Davies:** On the first point, we need to look at the whole issue in a historical context. Your point about the manufacturing and service sectors was well made. In the industrial revolution, there was a shift from an agricultural economy to an industrial one. There is now a move from a predominantly manufacturing to a service-led economy. However, as you said, the assumption that we are losing highly paid manufacturing jobs and only gaining low-paid service jobs is not true. You mentioned Burberry, I could also mention Dewhurst and many others, where a lot of the workers had a pay rise when the minimum wage was introduced, so we are not talking about particularly highly paid jobs.

[225] Similarly, in the service sector, there is an urban myth that we are losing highly paid manufacturing jobs. I think that I have heard Members of other parties, including Alun Ffred, say that we are just gaining call-centre jobs. To put it into perspective, the call-centre industry employs around 25,000 people in Wales, which is about the same as the automotive sector. When you consider that we have a workforce of 1,340,000 in Wales, it puts it into perspective. Call centres are a significant but relatively small part of the Welsh economy. In addition, in that sector, you have a wide range of jobs and skills. Many of them are highly paid, technical jobs. For example, in the introduction to my report this morning, I made reference to two new initiatives supported by the Assembly Government: those of Sanken Power Systems (UK) Ltd at Pencoed and the Safe Information Group, which is just across the road at Caspian Point. In the case of the Safe Information Group, these are service sector jobs but they are very high-tech, graduate jobs that are very well paid. That reinforces the point that Julian and James made, namely that we have been successful in creating that type of employment, of which, over time, we will achieve a critical mass and which will feed through into the relative GVA figures.

[226] To come back to your second point about GDHI, because of the well-known deficiencies of GVA at a NUTS 3 level and because it does not reflect commuting patterns, GDHI is a more robust measure at a NUTS 3 level, because it disregards those confusing patterns.

[227] **Christine Gwyther:** Are you content with that clarification, Leighton?

[228] **Leighton Andrews:** Yes, but I do not know whether you have anything on the comparison of Wales versus equivalent-sized regions within member states.

[229] **Mr Revell:** It might be worth waiting a bit, because Eurostat is due to publish its 2004 regional GDP estimates some time this month. So, it would be worth waiting until after they come out.

[230] **Christine Gwyther:** I am sure that we will return to that.

[231] **Alun Ffred Jones:** I do not want to dwell on the bald GVA figures, because I know that there are difficulties there, but it is a fact that Wales has been performing worse than other areas in the UK since 1997. The figures for Wales are 45.7 per cent, while those for the west midlands are 48.4 per cent and so on. Since 1999, it is true that the relative performance has been better, though, again, Wales has not been growing as fast as England and Scotland have. One could very well argue that that proves the point that Plaid Cymru has always argued, namely that an economic strategy for Wales would inevitably improve the performance of the Welsh economy, which was not always the stance taken by other parties here. *[Interruption.]* Well, it is true. If you want to put it in a historical context, it is exactly true. The Labour Party has often argued against an economic strategy for Wales, but we will leave that aside for the moment. I am interested in some of the statements that have been made and I would like answers, but I understand that you may not be able to furnish me with all of them today.

11.30 a.m.

[232] First, on the quality of the jobs that have been produced, as you rightly point out, the employment figures are much better. That is quite true. However, what analysis is there of the quality of the new jobs that have been created, particularly in the west Wales and the Valleys region? It may be that east Wales, and especially Cardiff and the environs, attract very highly paid jobs, but is that generally true throughout Wales? If there are statistics on that, I would like to see them.

[233] Another general point on GVA, looking at the performances of different parts of the UK, is that south-west England seems to be doing particularly well and is growing at quite a substantial rate. There has been all sorts of news recently about the success of that area. Can you give any reasons for that performance? Are there any significant factors that influence the performance of the economy there?

[234] Leighton Andrews's point on the GDHI, or the gross disposable household income, is interesting because it perhaps tells another story in some parts of Wales compared with what GVA can tell us. So, will that now inform the Government's policies? If it is a better indicator of how things are on the ground, you might think that it is a better indicator of how things are going. Will you, therefore, use it to target new funds in the future? As Leighton Andrews indicated, the picture may not be as black in some areas as we thought that they were, while south-west Wales is not performing as well as some people think it is. So, that was a general question to the Minister.

[235] Finally, I have another general question based on what you said on the difficulty of getting information on the performance of companies whose headquarters are mainly outside Wales. To put it crudely, my question is: are Welsh-based companies that have their headquarters in Wales, therefore, better for the Welsh economy as a general rule of thumb?

[236] **Christine Gwyther:** Janet, did you want to contribute to one of Alun Ffred's points before we get the Government's response?

[237] **Janet Davies:** Yes, on his first point, in my view, the success of Objective 1 and convergence funds is down to whether they address the economic problems in the heartlands of the rural areas and the post-industrial areas. That is a major issue. That would then contribute to improved statistics. However, quite a lot of the money is going to areas on the fringes—areas that would not be in west Wales and the Valleys were it not for how local authority and NUTS boundaries are drawn. For example, the Minister just mentioned the very good jobs that are coming to Pencoed, which are obviously very welcome, but those jobs will be located right on the motorway and will still involve considerable commuting along poor-quality roads from the old coal mining areas that I mentioned earlier. In fact, they are probably only around 100 yards off the motorway junction so, although they contribute to the figures for west Wales and the Valleys, they do not solve a lot of the problems of the deprived communities.

[238] **Christine Gwyther:** There were several points there.

[239] **Andrew Davies:** On the last point, the ultimate decision regarding location is a matter for the company. However, in most cases it is not a question of in which part of Wales it wants to locate, but a question of whether it wants to locate in Wales in the first place. I mentioned Sanken Power Systems (UK) Ltd and the decision with that was to keep the company in Wales—the alternative was for the Japanese company to locate the facility in Europe or Japan. I am delighted that, due to my work and that of the local management and my department, we were able to keep the company and it decided to locate in Pencoed. Given people's current travel-to-work patterns, people can get to Pencoed quite easily from quite a wide area. Therefore, it is good news. If Pencoed was not in an assisted area, in the west Wales and the Valleys Objective 1 area, its competitive advantage would be reduced.

[240] On Alun Ffred's question about the quality of jobs, I have felt for a long time that it made no sense for us, as a Government, to pursue policies that were creating only bad jobs, particularly as we have not only narrowed the gap between us and the UK, but, for most of the last four years, our unemployment level has been below that of the UK. There is now an increasing emphasis on the quality of the jobs. There has been quite a deep-seated analysis, which is reflected in 'Wales: A Vibrant Economy', of the development of our economic development policies and there is now an increasing emphasis on the quality of the jobs that are created. That is reflected in the policies of my department and those of other departments.

[241] As I have said to the committee before, we are now developing key performance indicators for my department. The value that we, as a department, add to the economic development process will be part of those key performance indicators. For example, in terms of the internal targets of International Business Wales, which is now part of my department, there has been a shift in emphasis, so that it is not just about the creation of jobs but the value and value added of those jobs, as reflected in the income levels of the jobs created. Therefore, there is an increasing emphasis on the quality of jobs. In your area of north-west Wales, Alun Ffred, there are companies such as Inspired Broadcast Networks that has 190 high-tech, well-paid jobs, which we have attracted to Technium CAST. Brand Sauce is another high-tech company with over 30 jobs. The important point is that we are creating employment opportunities across the income range. Another example from Parc Menai is the Book People, which is a successful inward-investment project from other parts of the UK, again, providing significant employment. Our policies are creating not just employment, but higher-value employment.

[242] On your question about GDHI, we recognise that it is a useful indicator and that is why it is now one of the tracking indicators in 'Wales: A Vibrant Economy'. If you look at GDHI as an indicator, as opposed to GVA, at a NUTS 3 level, the difference between Gwynedd and Anglesey changes quite significantly, because, obviously, GDHI takes into account—

[243] **Alun Ffred Jones:** That is why I asked whether it would influence Government policy.

[244] **Andrew Davies:** It is one of the factors that we will be using as part of our tracking indicators—James and Julian may like to come in on the specifics of that.

[245] On the last one, you mentioned headquarters jobs, and, clearly, if companies have their headquarters in Wales, there are all sorts of factors that will tend to anchor that company in Wales. If we are just a branch of a global company, inevitably, when things become financially and economically difficult for that industry or company, we will always be far more vulnerable to downsizing and redundancies than we would be if the headquarter function were in Wales. Do James or Julian want to comment?

11.40 a.m.

[246] **Mr Price:** Julian will come in on the south-west issue, and I will pick up one point on gross disposable household income. I said that we look at gross value added in every project that we do; we look at it in total, and also at its component parts. We also look at how much of it is in wages and how much of it is in profit, and we take into account where that profit is likely to go. So, although we are using GVA, we are using the component parts of GDHI and taking into account the GDHI issues. We are already doing that and we will look to do that more as we go forward.

[247] **Mr Revell:** I do not have a detailed answer for you, but south-west England definitely has far higher activity rates than Wales has. That must, in part, reflect the fact that it has quite a different industrial history over the past 20 or 30 years, which I am sure has had some impact on that. I do not have anything else to say, really.

[248] **Carl Sargeant:** I think that it is pretty astonishing that my colleague laughs and jokes about the late 1980s, saying that it does not really matter about the history of Wales; that is pretty distasteful, because the higher unemployment rates at that time ripped communities and families apart. That is a fact. We have come a huge way, from having villages with no employment to successfully implementing mass changes in society. Flintshire is a prime example, because we had the largest amount of redundancies in the UK, and now we have the lowest rate of unemployment in the UK. So, there is a marked difference.

[249] I recognise that the GVA figures are very raw data, but I do have some concerns regarding the company profit element and the measurement of that third of GVA, which even the statisticians have trouble identifying where it lies. Although Wales is such a small country in terms of the EU, we have a large proportion of multinational global companies in Wales, such as Airbus, Toyota, and Sony. Therefore, if it is not clear about profit data, and where you align that, it must skew the figures completely on GVA. Similar to Leighton Andrews's question, the Eurostat figures must have a similar difficulty in identifying it, and so what is the margin of error that is built into that process? Are there figures that you can measure against those differences, or do you just take a hit-and-miss approach and hope for the best? For example, for Airbus construction, the value added proportion of the aircraft is in the wing technology, yet the construction of the aircraft is done in Toulouse in France. Therefore, how do we measure that, and how is that reflected in GVA figures for Wales? That is just one example. It would be helpful if you could respond to that.

[250] **Mr Price:** I will start—

[251] **Christine Gwyther:** —and Julian will finish?

[252] **Mr Price:** Julian will kick me, probably. [*Laughter.*] It may be easier for me to comment on some of those issues than it is for Julian, as a national statistician. I do not think that this is as bad as it could be painted, and I do not think that it is hit and miss; however, it is very difficult, because companies play around with profits for all sorts of reasons, such as for taxation reasons, or because they have profit centres and they may want to show that a profit centre in one part of the world is doing better than another. Things also change from year to year. Statisticians have to have a system in place whereby they do the best that they possibly can, based on evidence, to make assumptions about where things happen. However, there is an element of assumption involved, and, to the degree that there is an element of assumption, there could be an element of error. However, I do not think that there is any evidence that it is a systemic error, or that it is pushing in one direction or the other. So, I do not think that we should take the figures apart, but, equally, when we are looking at 0.1 of 1 percentage point changes one way or another, we need to be very careful about overplaying their significance. I hope that I have not—

[253] **Mr Revell:** No, that is fine. Some of these are issues at the UK level as much as at the sub-UK level; for example, when you are dealing with large multinational companies reporting profits, that obviously has an impact at nation-state level as well, and increasingly so. On your technical point about margins of error, there are none for these statistics on Wales, and nor are there any at UK level, mostly because margins of error are easy to include in a set of statistics gathered from a single survey, sample or source; where the set of statistics is drawn from several different sources, it is difficult to construct those types of error margins.

[254] My other point was that, in general, the economy is a big, difficult and fast-moving thing, and so, measuring it is difficult. Therefore, it makes sense to look at a range of measures when you are trying to judge how it is doing. I think that putting all your eggs in one basket is foolish in that circumstance, and you are better off looking at whatever is available to inform you of what is going on. Different metrics, and different statistics, would be more or less appropriate, depending on your purpose.

[255] **Carl Sargeant:** That is helpful, but the point is that there is a range of statistics there that enables people to pick up on an individual element of that overall package. You could look favourably or unfavourably upon the evidence given. Again, on a point made by Leighton, gross disposable household income amounts to money in your pocket that people can spend, and it has increased year on year since 1999. The employment rate in Wales has never been in such good shape. Those are examples of touchy-feely things that impact upon people's everyday lives, and those are the important tags, so we must ensure that that message goes out.

[256] Just to go back to my first point about the historic value of the GVA and GDP figures, I think that if we stop reminding people how things used to be, politically and economically, we could end up there again. I think that that is an important fact that we must not forget.

[257] **Andrew Davies:** I think that the general point about these statistics is that they come with a health warning, whether it is a Government health warning or not; in many cases, they are estimates. A lot of the statements about them have to be treated with some caution, because there are deficiencies in the way in which they are calculated and, as I said, in some cases, they are based on estimates, and in others, on relatively small sample sizes.

[258] **Michael German:** To pick up on the last point, I take a straightforward view of statistics, which is that they tell you what has happened historically, and you have a range of them that you can choose from. I suppose that statistics should tell us whether Government policy is actually making a difference, shifting things in a progressive direction, and meeting the Government's ambitions, and that is the only test that I am looking at today.

[259] My first, fundamental point is that, if it is the Government's ambition that prosperity in Wales matches prosperity in the rest of the UK—at some stage, whenever that may be, but there should be a move towards it—what these statistics show is that, essentially, that ambition is not being achieved, because the figures are very stubborn, whether you look at the figures for gross domestic product, GVA or GDHI. They show a fairly static representation of wealth in Wales relative to England. Whether you look at that in terms of GVA, which is now the same as it was in 2002, or GDHI, which is now is 88 per cent compared with 87 per cent in 1999, it is a fairly static position. If you look at the graphs, you will see that there is relatively little movement. Looking at the forecasts—and I do not know whether Experian and Cambridge Econometrics are the two that we look at—you will see that they also show that gap remaining. If so, on the back of that, we have to ask whether the policies are working.

11.50 a.m.

[260] There are issues that have been raised on GVA this morning, and I have detailed questions about two of those. The first is on economic inactivity, which has always been one of the key areas of significant difference between England and Wales and the rest of the United Kingdom and Wales. What are the figures telling you about economic inactivity in relation to Wales versus the rest of the UK over the period from 1999 to the present day? Secondly, you have talked about operating profits. I am interested to know whether operating profits are related to how much money is required for a company's activity to continue—that is, apart from money in people's pockets, or their pay—or whether it means what used to be called 'superprofits'. The Severn bridges are examples of that; they make an operating profit, but they cannot make superprofits until a certain number of vehicles has crossed the bridges. That is an indicator of what profit might be.

[261] Do you measure operating profits solely from the private sector? Some areas of the public sector had to make operating profits in order to be allowed to continue their activity, and I am thinking of arm's-length companies and the social economy itself, which has a not-for-profit ambition. For example, all of Dwr Cymru's profits are poured back into the company. Are they operating profits or superprofits? What is the distinction between the two? It seems to me—and the Minister may want to comment on this—that we have a flatlining.

[262] Given the additional support that we have had from Europe and the additional support that we want, and given his current policies, at what point would the Minister expect that stubborn lack of movement relative to the rest of the United Kingdom to change? When does he expect the policies to start to make a difference, so that the people of Wales see relative prosperity rise, as is the Government's stated ambition? Underneath all these policies, headline figures are being given, but these are lagging measures, and the problem with lagging measures is that it is some years before you see the response. Is it your hope that, by the time you get the figures for this year, we will have seen the movement forward that is the Government's ambition?

[263] **Andrew Davies:** The first thing to bear in mind is the fact that there has been a long-term decline in relative GVA in Wales. I do not think that those figures for improvement will happen overnight. It is a long-term process for all the reasons that I have given, because of major structural change in the Welsh economy. However, I reject the comment that the figures have been stubbornly resistant. The indicators of employment growth, growth in average weekly earnings, and growth in GDHI all show that there has been substantial progress in Wales.

[264] I have never come across anyone in Wales, including my constituents, who has said to me that, in relative terms, we are worse off than other parts of the United Kingdom. People are interested in jobs, earnings and disposable income. Most people recognise that they are now substantially better off than they were 10 years ago. Their communities are better off, and there has been a very substantial investment in infrastructure services. So, I think that there is a perception in Wales, based on economic reality, that the position in Wales has improved substantially over the past few years, and certainly since the days of mass unemployment in the 1980s. James or Julian will answer the specific questions.

[265] **Mr Price:** I will start, again. A point that we need to make about relative GVA figures—and it is made in the paper—is that, although the picture in the last three sections that we identified is static, with a slight lift upwards towards the end, against a position where the UK has been growing very quickly, and faster than most other parts of the rest of the world. So, that distorts the picture. Added to that is the fact that we are not playing against a stable competitive position in the rest of the UK, where regional development authorities have been created—even London and the south-east has its own RDA, trying to push that area even further forward. So, I do not think that we should understate the fact that staying constant against an economy that has outperformed most of the world, and having indicators suggesting that we are improving against the UK, should be seen as going in the right direction.

[266] Economic inactivity is a significant issue and also needs to be compared to something. We cannot simply say that we have a certain level of economic inactivity and, therefore, we are bad. There has recently been a decline in the level of economic inactivity in Wales, both in absolutes and relative to the UK, but there is still more to do. I will hand over to Julian, who will give you the figures on economic inactivity and deal with the operating profits.

[267] **Mr Revell:** I think that the economic inactivity rate has come down from around 25 per cent to 24 per cent of the working-age population in Wales between 1999 and now. Over that period, the UK—

[268] **Michael German:** I am sorry, did you say 24 per cent?

[269] **Ms Burke:** It is 24.2 per cent.

[270] **Mr Revell:** Thank you. The UK rate has been static at around 21 per cent of the working-age population over that period. So, we have seen a decline in the gap between Wales and the UK. The relative increase in the employment rate is quite a lot bigger, because countering that you have the relative reduction in the unemployment rate. Across the piece with regard to the labour market statistics, we have seen a relative improvement.

[271] On your technical points, if arm's-length public sector companies are commercially active, then, yes, their surpluses will be included in the operating surpluses within GVA or GDP. I do not think that there are many of those left, but the Post Office would still be in there. Things like charities or the social economy are included with households in a 'not-for-profit institutions serving households' sector. I think that, beyond what they pay their employees, any surpluses that they generate would end up in mixed income—I am not absolutely sure about that—but it would be fairly small in the overall figures. Is that all right?

[272] **Christine Gwyther:** That is fine, thank you. Alun has a point of clarification before I wrap this up.

[273] **Alun Cairns:** Following directly from your last answer, I asked a question earlier about the contribution, not the value, of a public sector employee as opposed to a private sector employee in terms of GVA figures. The public sector's objective is not usually financial profit, so the income would have an influence; for example, because a doctor is not aiming at a financial profit, that will not have the same effect as someone earning the same sum of money in manufacturing. Is that fair? The value of a public sector employee is not necessarily the same as a private sector employee, who aims at making a profit.

[274] **Mr Revell:** It is not necessarily the same, but not necessarily higher or lower either, because someone working in the private sector may be in a loss-making outfit, or the profit may not be attributed to Wales. So, it is not quite as simple as that.

[275] **Christine Gwyther:** Okay. I am not sure that we reached a consensus; I do not think that we can do so. Thank you for those detailed questions and the detailed analysis from officials; that was very useful indeed. It sounds a bit esoteric, but it is important that we tackle these issues.

12.00 p.m.

Gwasanaethau Rheilffyrdd Cymru

Rail Services in Wales

[276] **Christine Gwyther:** I invite the presenters to the table for the final item, and thank you for your forbearance. I will introduce the presenters. We have Tony Sadler and Steve Leyland from Virgin West Coast and Stella Mair Thomas and Simon Pickering from Passenger Focus. I will ask Stella to give the first presentation. We have your speaking notes, so please stick to the things that relate to the issues that we are talking about this morning.

[277] **Ms Thomas:** Bore da; good morning to you all. Since my last presentation to this committee, Passenger Focus has, on 29 January, published the latest wave of the national passenger survey. This is the survey that shows what passengers really think of Britain's railways. As you have indicated, Chair, I will concentrate on the performance of Virgin West Coast and Virgin CrossCountry.

[278] Satisfaction levels with Virgin West Coast services were generally similar to the long distance sector as a whole. The survey showed that the proportion of Virgin West Coast passengers satisfied with their overall journey was 86 per cent. This is an improvement of 4 per cent compared with autumn 2005, although it is a 3 per cent fall compared with spring 2006. Eighty six per cent is approximately the same as the satisfaction level for its peer group, although it is higher than the figure for First Great Western, which stands at 77 per cent.

[279] Virgin West Coast's highest rated area is for the upkeep and the repair of the trains, which is 93 per cent, cleanliness of the inside of the train at 88 per cent, and punctuality and reliability at 86 per cent satisfaction. The lowest ratings for passenger satisfaction was for car parking facilities, at 43 per cent, how well Virgin West Coast dealt with delays, which was low again at 48 per cent, and the space that it provided for luggage, at 49 per cent.

[280] Passenger Focus has also received feedback from passengers and other partners, such as our colleagues at Taith, indicating that Virgin West Coast's current performance for its north Wales services is good. Previous problems such as the changing to diesel haulage at Crewe have largely been overcome. Possibly because of this improved performance, there are now signs that capacity on the route is becoming a problem.

[281] Passenger Focus welcomes the timetable changes to be implemented in December 2008, which will give an hourly Virgin service from London to Chester with six trains extending to and from Holyhead or Bangor. However, Taith has made the point that the concentration of services during peak hours will not help the leisure and tourism industry in north Wales. The 2008 changes will bring further challenges for connection between Virgin and Arriva services. These connections already cause difficulties for passengers changing trains at Crewe. The north Wales Arriva trains leave as the London to Liverpool Virgin trains pull into Crewe station. The train operators have promised that this will be improved with the new timetable in December 2008, but that is a long time to wait. Taith has pointed out that connections can be improved at no cost by a slight change to the Arriva timetable, and this could be introduced with the next timetable change. My colleague, Simon, will be discussing this with Arriva.

[282] Turning to Virgin CrossCountry, in addition to the west coast service, Virgin Trains is also the current operator of the cross-country franchise. At present in Wales, this is limited to a few services each day, but a re-mapped franchise will begin on 11 November this year to include the Cardiff to Nottingham hourly service currently provided by Central Trains.

[283] Virgin is one of the four bidders shortlisted by the Department for Transport for the new cross-country franchise. Passenger Focus would like to see the new franchise provide improved services for commuters from Chepstow West to Newport and Cardiff, and north to Gloucester and Cheltenham. We would also like to see the new operator extend services to Swansea and west Wales. We see the renewing of the franchise as the opportunity to improve services for passengers, and Passenger Focus is working closely with the four contenders. Diolch yn fawr.

[284] **Christine Gwyther:** Thank you, Stella. Steve and Tony, I do not know which of you wants to lead.

[285] **Mr Leyland:** I will, Chair. I will give a few updates; the questions will probably be more interesting. First, thank you for the invitation, it is really good to be here and we are looking forward to the questions. Tony Sadler is our head of operational planning, so, basically, our train service belongs to him, and I look after external affairs for the west coast. It has been a busy few years at Virgin Trains, and you are probably all aware of lots of the things that have gone on. Nearly three years ago, the first part of the route upgrade was ready to go live. That brought some fairly big benefits for north Wales: new trains, new routes and shorter journey times. We have been really busy since then, and continue to be busy with our partners to get ready for the final part of the jigsaw, which is 2008, as our colleagues at Passenger Focus mentioned.

[286] The current service sees four trains to and from Holyhead with one to Llandudno at the moment; CrossCountry has a daily service to and from Cardiff. That does not sound like much, but in the last few years we have seen fairly big growth with those services. Overall, on the west coast, we have had growth of around 40 per cent, which has also fed through from north Wales. We have raised our game on punctuality—it has hit 90 per cent for several periods, and has been at or near 90 per cent for a little while now. That drives growth. Better reliability means that people can rely on the trains, so the linkage with other parts of the country becomes more relevant. Customer satisfaction is also a big part of that.

[287] We are all working towards 2008, which will see the next big improvements for north Wales. On the current four trains to and from Holyhead, what now looks like happening—although it is not fixed in concrete yet; I am sure that Tony will develop this theme further—is that we will have six trains to and from north Wales: four for Holyhead and two for Bangor, which will be an improvement, with an hourly service between London and Chester. Chester, of course, is not in north Wales, I appreciate that, but we will regard that as a north Wales service, and, with some operational work with Arriva at Chester, hopefully, that will allow a cross-platform connection of the trains through to north Wales. Currently, changing at Crewe, regardless of the connection time, is not very pleasant, let us say; changing at Chester will be significantly better. So, although it is only a through service to Chester, the benefit to north Wales will be really big.

[288] We will also have a fairly dedicated diesel train fleet with which to run these services—both the Chester trains and the ones through to north Wales. We currently have to stick a diesel engine on to the electric train at Crewe with some trains—which is something that we have been doing in various forms for about 50 years, probably—and that will go. So, that 10-minute delay will disappear. In the longer term, or from 2008, Chester will be about two hours' journey time away from London and Holyhead will be about three hours 40 minutes. That is quite a bit quicker than the situation today.

[289] To take the point about the leisure market, it will be catered for by the Chester service, and there will be lots of good connections to all sorts of leisure destinations. We have focused on the business market, because we have a limited number of trains, and we have to put them where we think we will get the best return, and where the areas that we serve can get the best return. The business market is really important for lots of reasons—not just return for us, but for inward investment and other such things. That is it from us, and we look forward to questions.

[290] **Christine Gwyther:** Tony, do you need to add anything, or will you take questions?

12.10 p.m.

[291] **Mr Sadler:** There are just a few small points of clarification on that. Where it refers to trains to Holyhead, one of those is from Birmingham, so they are not all from London Euston, and of the two Bangor services, one of those goes to Birmingham New Street in the evening and not through to Euston.

[292] **Andrew Davies:** I welcome Virgin's being here along with Passenger Focus. I am very interested in the new timetable proposals and Robin and my team of officials would like to carry on the dialogue with you to take these very interesting proposals forward.

[293] **Christine Gwyther:** We will go straight into questions. Mike, you indicated first.

[294] **Michael German:** I will ask about the Virgin CrossCountry services and the new franchise. Passenger Focus rightly indicated that there is a strong demand locally for increased services on the current Central Trains service, particularly from Chepstow and from Caldicot and Severn Tunnel Junction. Given that, as I understand it, the bid that you will submit in two weeks' time will have to be two separate bids—a baseline bid and an increased capacity bid—do you intend to include additional stops at those stations in both bids?

[295] My second question relates to a query, to which I have not yet been able to find an answer, about the current Virgin service from Cardiff to Newcastle, which is used extensively as a commuter service between south Wales and Bristol on its route to the north. Am I right in saying that the DFT has excluded that service from the new franchise or will that timetable still run? Will there still be a service that goes from Cardiff to Newcastle—I know that it is 7.26 a.m. out of Severn Tunnel Junction, but I cannot remember what the time is from Cardiff in that direction—and a return service in the evening? I understand that Virgin has a single service from Cardiff on its cross-country route because of this Office of Rail Regulation tax, or whatever it is, and how the money is decided. If the financial arrangements are such that it may not be sensible to provide that service next time, then I would be concerned about the loss of that service.

[296] **Mr Leyland:** This will sound as though I am ducking the question, but at this stage in the bid process—the bid has to be submitted in two weeks' time—I am sure that my colleagues on the bid team are looking at a range of options. I am not party to what the bid looks like and it would be silly for us to announce what is in the bid before it goes to the DFT. So, I give my apologies, but I am unable to answer your first question.

[297] On your second question, I not sure whether the current Cardiff to Newcastle train is specified in the new cross-country franchise. It is not something that I have looked at in any great detail.

[298] **Mr Sadler:** I cannot help you with that either, because I have not dealt with the new franchising.

[299] **Michael German:** Does Passenger Focus know the answer?

[300] **Mr Pickering:** I am afraid that I do not know off the top of my head, but I will certainly go back and take a look that that.

[301] **Michael German:** I raise the issue because, as Simon knows very well, there has been a very strong campaign to retain that service, and services from the Severn Tunnel Junction, and that service is probably one of the lead commuter services from that part of south Wales to Bristol.

[302] **Mr Leyland:** This particular train currently runs in fairly marginal time for the unit. It is a very clever and sensible thing for us to do and it provides links from Cardiff to other parts of the country. We have been providing that service at the same times for two or three years now. As to the specifics, I am sorry, but I cannot give you an answer.

[303] **Janet Davies:** First, I will make a general point: given what Passenger Focus says, it seems that Virgin is currently performing better than First Great Western, but could perform better still and, clearly, as Assembly Members, we want to see the best performance possible. However, there is improvement and we would look to see that continue.

[304] I have a couple of questions about stations, and I am not quite sure which stations Virgin has the franchise for, which is a problem, but I will raise them anyway. First, I am really unhappy that there are problems with car parking facilities on the West Coast Main Line because if we are going to move people out of cars for long-distance travel, we need to have adequate car parking so that they can get to the stations. What are you doing to address that in the stations that you are running?

[305] If you run Crewe station, could you tell me why all the catering facilities close by 6 p.m. on a Sunday evening? I find that unacceptable and, personally, I find the vending machines unworkable. Maybe that is because I am old and thick, but it is not a good service.

[306] I would also like to emphasise what I always emphasise: the great importance of Birmingham as a connecting hub—it is almost as important as London for people from Wales, from the north and the south. If you want to travel to many places, you need to get to Birmingham first. The franchise is almost up at the moment, but please bear that in mind in terms of anything that you are doing with the franchise.

[307] Finally, could I ask if the new timetable will take account of overcrowding, which you have said is beginning to happen? Are you looking to the future to ensure that there is not gross overcrowding on your services?

[308] **Mr Leyland:** Car parking facilities is a subject that is very close to our hearts. You asked about them on the West Coast Main Line. First, none of our stations are in Wales. All of the stations that we serve in Wales are run by another train operating company—exclusively Arriva. However, car parking in general is a big challenge. We have had 40 per cent growth overall, as I said earlier, and the pinch-point is car parking. We have been able to extend the car parks at certain stations, such as Lancaster and Oxenholme, and Manchester has had a big car park. At a lot of our stations, such as Crewe and Stafford, and at a range of stations in the south, the car parks fill up early and if you do not get to the station by 8 a.m. you cannot park there. That is a really big challenge. As the railway industry grows, people will come to the station by car, in general, and we accept that.

[309] Following the collapse of Railtrack, quite a few years ago now, and the financial difficulties faced by the industry, our plans for car park extensions were kicked into the long grass and put into cold storage. You may be aware that our franchise was put back onto a conventional footing only two months ago and that now gives us an opportunity, with the DFT, to resurrect the plan and really drive it forward because that is key to our future. We are keen to work with Arriva to get improvements along the north Wales coast. I was involved in a car park extension plan at Bangor, probably seven years ago, and I do not think that we are any further forward now than we were then. These types of schemes can be frustratingly long and drawn out, but we are keen to work with whomever we can to drive them forward.

[310] If Crewe station buffet is closed at 6 p.m. on a Sunday, I am appalled by that—that certainly did not happen when I was station manager. May I investigate that—

[311] **Janet Davies:** The notices say that they stay open until 10 p.m..

[312] **Mr Sadler:** There may be staffing issues.

[313] **Mr Leyland:** It certainly does not sound good for a big station.

[314] **Christine Gwyther:** Perhaps we can have a note on that.

[315] **Mr Leyland:** I will come back to you, Chair, when I have some information on that.

[316] Birmingham is extremely important. It is probably the biggest connection point in the entire country and if you look at where it is in relation to Wales, it is key. While I cannot go into what is in our cross-country bid, the new cross-country network will include the Cardiff to Birmingham services and we would certainly be keen, if awarded the franchise, to develop those and make them much better. So, yes, we are very alive to the fact that Birmingham is hugely important.

[317] Will you comment on overcrowding, Tony?

12.20 p.m.

[318] **Mr Sadler:** Overcrowding is a huge issue for us, with 40 per cent growth. At the moment, we cannot cope, especially at weekends with all the engineering work. So, your comments are well noted and well received, and I am developing a plan for December of this year to introduce more trains on Sundays when we are diverted via Birmingham. We are working towards that with all the other affected operators and Network Rail, but I cannot promise that at the moment.

[319] Our future plans centre on the December 2008 timetable. The first figure is that, without the extra coaches on the Pendalinos, there are an extra 10 million seats available in the timetable. North Wales will receive more services, and we are hoping—it is not confirmed—to reformat the Voyager trains, the diesel units we use. The majority of services to Chester will have six vehicles, instead of the four to five vehicles that we have at the moment. Some services to Holyhead will be up to 10 vehicles, with an attachment and detachment at Chester. During the weekday, Pendalinos will not be going to Holyhead and so the diesel attachment at Crew will not take place. However, overall, there will definitely be more seats available.

[320] **Alun Ffred Jones:** Cyfeirïaf at Ffocws ar Deithwyr i ddechrau. Mae'n ddiddorol—

Alun Ffred Jones: With reference to Passenger Focus first of all. It is interesting—

[321] **Christine Gwyther:** Hang on a second, Ffred, so that the presenters can get hold of their headsets.

[322] **Alun Ffred Jones:** Dechreuaf â Ffocws ar Deithwyr a'r newyddion y bydd y daith o Gaergybi i Lundain, mewn dwy flynedd, yn cymryd tair awr a 40 munud. Anogaf Ffocws ar Deithwyr i siarad ag Arriva, gan gofio bod y daith o Gaergybi i Gaerdydd yn cymryd pump awr ar hyn o bryd. Yr wyf yn siwr bod lle i wella. Nid yw hynny'n ymwneud â Virgin, wrth gwrs, ond mae'n gosod y darlun yn ei gyd-destun.

Alun Ffred Jones: I will begin with Passenger Focus and the news that the journey from Holyhead to London, in two years' time, will take three hours and 40 minutes. I urge Passenger Focus to speak to Arriva, bearing in mind that the journey from Holyhead to Cardiff takes five hours at present. I am sure that there is room for improvement. That has nothing to do with Virgin, of course, but it puts the picture in context.

[323] O ran y gwasanaethau mae Virgin yn bwriadu'u cynnig—a, gyda llaw, mae'r gwaith ar orsaf Bangor yn mynd rhagddo, ac mae'r cynllun wedi dechrau. Bydd mwy o le ar gyfer parcio yno ac mi fydd bysus yn gallu mynd yno—mae cost parcio yn codi mor syfrdanol o gyflym, felly mae'n bwysig bod gwasanaethau bws sydd yn cysylltu. Mae hynny'n digwydd ym Mangor gyda'r cynllun sydd wedi'i greu rhwng y cyngor sir a Llywodraeth y Cynulliad.

With regard to the services that Virgin intends to provide—and, by the way, the work on Bangor station is ongoing and the scheme has commenced. There will be more parking spaces there and buses will be able to stop there—the cost of parking is increasing so staggeringly quickly that it is important that there are connecting bus services. That is happening in Bangor with the scheme that has been created jointly by the county council and the Assembly Government.

[324] Y mae dau neu dri o bethau wedi'u nodi yn eich papur, ac un ohonynt yw'r sefyllfa bresennol gyda'r cyswllt yn Crewe rhwng trenau Virgin sy'n cyrraedd yno a threnau Arriva sy'n gadael yno. Gobeithiaf y gellir gwneud rhywbeth am hynny yn y tymor byr, a byddwn yn pwyso arnoch i ddwyn pwysau ar Arriva i newid neu addasu ei amserlen.

[325] O edrych ymlaen i 2008 ac at y gwasanaethau newydd y bydd Virgin yn rhedeg i Gaer, mae'n hollbwysig unwaith eto y bydd y cyswllt gyda gogledd Cymru a threnau Arriva yn sicrhau gwasanaeth cyflawn i deithwyr. A yw Virgin yn gwybod amserau'r trenau a fydd yn rhedeg i Fangor ac i Gaergybi? Nid wyf yn gofyn am yr union amserau, ond a fyddant yn rhedeg yn y bore, y prynhawn, drwy'r dydd, neu bob dwy awr ac yn y blaen. Mae cyfeiriad eich papur sy'n dweud mai yn ystod yr oriau brig y byddant yn rhedeg, sydd yn gwneud synnwyr, mae'n debyg. Felly, oes modd i chi roi unrhyw awgrym am hynny?

[326] **Mr Sadler:** Your question was concerning the December 2008 timetable, I believe. The Euston to Chester service runs at 10 minutes past the hour from 7.10 a.m. to 8.10 p.m., and some of those services go through to Holyhead: the 9.10 a.m., 5.10 p.m., 6.10 p.m. and 7.10 p.m.. So, in the evening there is a good service to get back to north Wales. There are two trains from Euston to Bangor: the 8.10 a.m. and the 4.10 p.m.. Going from north Wales to London, from Holyhead in the morning, there is a service at 4.47 a.m., 5.50 a.m., 6.50 a.m., 8.50 a.m., and then at 1.50 p.m.; from Bangor to Euston there is the 12.17 p.m. service, and from Chester there are trains every hour from 6.20 a.m. to 5.35 p.m., then there is a gap until 7.35 p.m. and finally there is a train at 9.11 p.m. The last service from Bangor, as I said, goes through to Holyhead.

[327] I take your earlier point about connections. We are definitely working with Arriva. My counterpart at Arriva is John Radcliffe. I am seeing him tomorrow, and we have a meeting next week and this is high on that meeting's agenda. I know that it is recasting its service in December 2008, although I am unable to comment on what it is doing in December 2007. Generally, our service in December 2007 is much the same as it is now.

There are two or three things noted in your paper, and one of them is the current situation regarding the connection at Crewe between arriving Virgin trains and departing Arriva trains. I hope that something can be done about that in the short term, and I would urge you to bring pressure to bear on Arriva to adapt or change its timetable.

Looking forward to 2008 and to the new services that Virgin will be running to Chester, it is again crucial that the connection with north Wales and Arriva trains ensures a full service for passengers. Does Virgin know what the times of the trains running to Bangor and to Holyhead will be? I am not asking for the exact times, but whether they will be running in the morning, in the afternoon, all day, or every two hours and so on. There is a reference in your paper that states that they will be running during peak hours, which makes sense, I suppose. Therefore, can you give us any idea about that?

[328] **Mr Pickering:** I just wanted to come back on Alun Ffred's point about Passenger Focus. First, we will absolutely continue to improve connection times from both north and south Wales, but I must highlight the role that the National Assembly will need to play. Alun Ffred mentioned the difference in journey times between Cardiff and London; quite a bit of that is down to infrastructure, and it will take infrastructure investment to solve the problem. I believe that Professor Stuart Cole from the University of Glamorgan outlined the issues around that relatively recently, estimating that an investment programme of about £120 million is necessary to significantly increase the journey times as required, so that is likely to require investment from the Assembly Government.

[329] I also take this opportunity to emphasise the growth that is taking place in journeys between north and south Wales with the standard pattern timetable that Arriva has introduced; it has seen growth in excess of 10 per cent, so it has highlighted the interest and demand for train travel between north and south Wales when there is a regular and robust service. So there is also a challenge for the National Assembly there—[*Inaudible*].

[330] **Carl Sargeant:** I have one question, really, on the back of Alun Ffred's, regarding the timetabling and the linkage between Virgin Trains and Arriva. I travel frequently by train, as many north Wales Members do, and last week, or the week before, we were told that we were going slowly on the track because there was a train in front of us—I was just glad that it was a train, really. The issue is: if there are more trains whizzing back and forth along the north Wales line, will that have an impact on the Arriva service that currently operates there? You gave a commitment to working together to improve that linkage, but whether it is at Chester—which will suit many people better than Crewe—or Crewe, waiting half an hour to an hour for Arriva linkage trains is just not acceptable. We must get that right, and the timetable must be convenient for all users. I think that that was more of a point than a question.

[331] **Christine Gwyther:** Tony, did you want to respond? Then I will bring Robin in.

[332] **Mr Sadler:** I agree with you, effectively. To answer your first point, there will be an effect on the Arriva services in December 2008 because of our extra services to Chester. We are going from having a handful of trains to having a train every hour. Arriva services are being re-written to take account of that, and the timetable will be more reliable; the sheer number of trains that we are running means that it would have to be.

12.30 p.m.

[333] **Mr Shaw:** On timetables, of course we will be working with Arriva to improve those connections. Sometimes they are not as easy to recast as it would appear because of the implications for the rolling stock or the other places that the trains are going to. It is actually a very complicated process, and if Mr Radcliffe were here, I am sure that he would give us an hour's exposition of it with no problem at all. However, yes, we will have the ability—we expect by 2008—to produce a very comprehensive and integrated package between the west coast service and Arriva Trains Wales. I can see no reason why that cannot be achieved within that timescale.

[334] On the infrastructure challenge, Simon, I have not seen the details of Stuart Cole's proposals. However, we must bear in mind what it cost to bring the West Coast Main Line up to its current running speed of 125 mph or 140 mph. How much was it?

[335] **Mr Pickering:** I think that it was about £8 billion.

[336] **Mr Leyland:** Yes, it was £7.6 billion.

[337] **Mr Shaw:** Therefore, £100 million is not going to go very far. The railway line that runs between Chester and Cardiff is a very different railway in infrastructure terms from the one that runs down into Euston. I think that the maximum running speed on most of that is 90 mph, as it is on the north Wales main line. That makes a huge difference to what you can achieve. In order to make a significant difference to that running time, the investment would have to have several more noughts on it than the £100 million that Simon is suggesting. That does not mean that we will not look at the opportunities, but it is not a simple process of the Welsh Assembly Government's investing £100 million in that part of the network to bring journey times down to the sort of figures that you can achieve on the line to Euston.

[338] **Carl Sargeant:** On the point that Robin raises regarding investment and the new timetabling, I hope that the new timetable will bring benefits to all, rather than creating winners and losers. I do not wish to see the benefits being purely for passengers to London, or vice versa. We need to achieve a better service for everyone through the process of re-timetabling and rescheduling. I hope that there will not be any losers in this process.

[339] **Mr Shaw:** That is what we are trying to achieve, Carl, but the reality is that there will probably be some trade-offs in the process.

[340] **Christine Gwyther:** You have depressed him now in the last gasp of the meeting.

[341] **Carl Sargeant:** That has cheered me up no end.

[342] **Christine Gwyther:** Thank you for your attendance this morning. Stella, do you have a last word?

[343] **Ms Thomas:** No, thank you, Chair.

[344] **Christine Gwyther:** Thank you. I am sorry that you had to compete against the air conditioning that was rumbling away behind you. We heard every word, anyway, and it is all on the public record.

Daeth y cyfarfod i ben am 12.32 p.m.

The meeting ended at 12.32 p.m.