



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Pwyllgor yr Economi, Seilwaith a Sgiliau](#)

[The Economy, Infrastructure and Skills
Committee](#)

27/09/2017

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Hannah Blythyn Bywgraffiad Biography	Llafur Labour
Hefin David Bywgraffiad Biography	Llafur Labour
Russell George Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Vikki Howells Bywgraffiad Biography	Llafur Labour
Mark Isherwood Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Jeremy Miles Bywgraffiad Biography	Llafur Labour
Adam Price Bywgraffiad Biography	Plaid Cymru The Party of Wales
David J. Rowlands Bywgraffiad Biography	UKIP Cymru UKIP Wales

Eraill yn bresennol
Others in attendance

Simon Brindle	Dirprwy Gyfarwyddwr, Trefniadau Pontio Ewropeaidd, Llywodraeth Cymru Deputy Director, European Transition, Welsh Government
Tracey Burke	Cyfarwyddwr Strategaeth, Llywodraeth Cymru Strategy Director, Welsh Government
Ben Cottam	Pennaeth Materion Allanol, Ffederasiwn Busnesau Bach Head of External Affairs, Federation of Small

Businesses

Julie James Bywgraffiad Biography	Aelod Cynulliad, Llafur (Y Gweinidog Sgiliau a Gwyddoniaeth) Assembly Member, Labour (The Minister for Skills and Science)
Simon Jones	Cyfarwyddwr, Trafnidiaeth a Seilwaith, Llywodraeth Cymru Director, Transport and Infrastructure, Welsh Government
Huw Morris	Cyfarwyddwr Sgiliau, Addysg Uwch a Dysgu Gydol Oes, Llywodraeth Cymru Director Skills, Higher Education and Lifelong Learning, Welsh Government
Ken Skates Bywgraffiad Biography	Aelod Cynulliad, Llafur (Ysgrifennydd y Cabinet dros yr Economi a'r Seilwaith) Assembly Member, Labour (The Cabinet Secretary for Economy and Infrastructure)
Yr Athro/Professor Terry Stevens	Stevens & Associates

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

Sian Hughes	Y Gwasanaeth Ymchwil Research Service
Mike Lewis	Dirprwy Glerc Deputy Clerk
Andrew Minnis	Y Gwasanaeth Ymchwil Research Service
Gareth Price	Clerc Clerk

Dechreuodd y cyfarfod am 09:17.
The meeting began at 09:17.

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

[1] **Russell George:** Croeso i'r Pwyllgor Economi, Seilwaith a Sgiliau. [2] **Russell George:** Welcome to the Economy, Infrastructure and Skills Committee.

[3] I'd like to welcome Members and members of the public to committee this morning. I move to item 1. There are no apologies. Are there any declarations of interest? No, there are none.

**Y Gweinidog Sgiliau a Gwyddoniaeth: Craffu Cyffredinol
Minister for Skills and Science: General Scrutiny**

[4] **Russell George:** In that case, I move to item 2. I'd like to welcome the Minister for Skills and Science who is with us this morning. I'd be grateful if you could introduce yourself and your colleagues.

[5] **The Minister for Skills and Science (Julie James):** Good morning. I'm Julie James. I'm the Minister for Skills and Science.

[6] **Mr Jones:** Morning. I'm Simon Jones, director of economic infrastructure.

[7] **Mr Morris:** And I'm Huw Morris, director for skills, higher education and lifelong learning.

[8] **Russell George:** Lovely, thank you. I'll start with the opening questions, if I can, and it will be of no surprise which subject I want to cover this morning. Can you tell me are you satisfied with BT's performance? The deadline has passed, the contract should have finished in June 2017. How have they done?

[9] **Julie James:** They've got a bit of a mountain to climb in the last quarter. As you know, the drop-dead date is 31 December for this year. Because of the verification process that we go through, we're always lagging a little on the actual numbers, but they've got somewhere between 30,000 and 18,000 premises to cover between now and the end of December. I spoke with Kim Mears, who is the head of Openreach, yesterday on the telephone, in advance of coming to the committee, and she gave me her

absolute personal assurance that they will hit the number, which is 690,000, that's in the arrangement between us. I absolutely laid it on the line to her that if they didn't do that, we would enforce all the penalties in the agreement and so on, which are quite onerous and which I won't go into in technical detail here. But I can tell you that she gave me her absolute personal assurance that they were putting every single resource necessary into getting that number over the line before the end of December.

[10] **Russell George:** Did you speak to her about capacity issues at all?

[11] **Julie James:** We did. We talked about the number of engineers that she had out in the field and what they're doing about it. They have some interesting language, in that they have a team that they call the 'fluidity team', which is to keep the bills going when they encounter all of the difficulties that Members will be familiar with—blocked ducts and engineering difficulties and so on. I think they've got quite a mountain to climb, so I'm not in any way complacent about it. I'm meeting with them again Tuesday next week. We're sitting on them very heavily to do this.

[12] **Russell George:** Could you explain, from a technical point of view, why there is a capacity issue? Tell me if I'm wrong: a premise is passed, so it's in the 96 per cent, but the customer can't get superfast broadband.

[13] **Julie James:** Well, the technicalities are that we've got two different ways of connecting up people. We've got fibre to the cabinet and fibre to the premises. Fibre to the cabinet: they enable a cabinet. If you're within a kilometre of that cabinet, you'll be able to get your superfast switched on—you can go to an internet service provider and ask for it and so on. That's not a problem. With fibre to the premises, they put the fibre in the pavement outside your house, and then when you ask for a connection, they connect it into your house, and that takes a little longer. There is some frustration about—we say, 'Okay, you can order it' and then it takes a number of weeks, sometimes rather a long number of weeks, for them to actually connect it into the house. So, that's a frustration, but the infrastructure is there, if you see what I mean. So, the two things are a little bit different.

[14] **Russell George:** The infrastructure's there, but they can't get it.

[15] **Julie James:** They have to have the last bit of the connection between the pipe, if you like, in the road, up into the house.

[16] **Russell George:** So, how long should somebody expect to wait? If they've been told, 'Your neighbour's got it, sorry you can't get it'—

[17] **Julie James:** On fibre to the premises?

[18] **Russell George:** Well, if they're getting a reply that the issue is about capacity, it's a capacity issue—. They've been told it's a capacity issue, how long should they expect to wait?

[19] **Julie James:** Okay, that's a full cabinet. So, the other issue we've got on the cabinets is the amount of capacity in each of the cabinets that goes in. So, if you remember, when this contract started—and culturally, life has changed hugely in the course of this contract—BT estimated that there would be about a 21 per cent take-up in the population of broadband. And we get a gain share after that, because that was their estimate. So, what they do is build the cabinet on the assumption of a particular level of take-up, and if the take-up is more than that, the cabinet can't support that, and they've got to go back to the cabinet and—I'm not even sure this is an English word—'recapacitate' the cabinet, so make it bigger, put more widgets in there, or sometimes even build another cabinet to go beside it. So, I think that's what you're talking about.

[20] **Russell George:** That is exactly what I'm talking about. So, are those premises that can't get superfast broadband because of capacity classed as premises that are passed properties?

[21] **Julie James:** No.

[22] **Russell George:** Okay. So, therein, they are regarded as being in the 4 per cent.

[23] **Julie James:** Yes, so there's a shadow area for that. Simon's going to explain some of the technical widgetry, I think, at this point.

[24] **Mr Jones:** We would say that those premises are passed, I think, because the really difficult-to-build infrastructure has been put in. So, the fibre that comes from the exchange to the cabinet has been laid in the ground. The arrangement that we have with BT is they build a cabinet, up to 20 per cent or 25 per cent, or whatever the number is of take-up, and then they take all the risk after that. So, we're not paying any more money to BT for them to put new cabinets in the road, or new cards, or any of the rest of

that in there. We went through this problem with them at the beginning of the contract, because we've said to them, 'Well, why aren't you putting 100 per cent capacity into those cabinets at the outset?' and they said, 'Well, we can have a lot of equipment sitting there, which you're going to pay for, Welsh Government, which may never get used.' So, we arranged that they would have a process to be able to rapidly expand the cabinets. They assured us at the outset that that process was all automated, so they could see when the cards in the cabinet were beginning to fill up, and they would send engineers out to put new cards in and that they would start a process to build new cabinets.

[25] **Russell George:** And that's not happened.

[26] **Mr Jones:** That process isn't going as well as—

[27] **Julie James:** it's slower than we would like.

[28] **Russell George:** So, what are you doing about it, because, effectively, you've got properties that want superfast broadband but can't get it because of connectivity that are being classed as premises passed, so they're in the 96 per cent—

[29] **Julie James:** It's not as straightforward as that, so—.

[30] **Russell George:** Well, that's certainly what Simon just said. So, just clarify that point.

[31] **Mr Jones:** So, they are a premises passed because the cabinet has been built.

[32] **Russell George:** That's right.

[33] **Mr Jones:** But that problem is with BT. So, that's a problem for us to continue to push BT on to deliver the ability to expand those cabinets more rapidly.

[34] **Julie James:** So, part of the conversation I'm having with them all the time is what capacity they put on the ground and what exactly they're doing. We go into the most ridiculous amount of detail now in our meetings about where those problems are and what they're doing about it and how many teams they've got on the ground and how long it will take to do that. So,

there are two different problems: the one I'd started to talk to you about—I hadn't understood what you were asking me, sorry, Chair. So, we've got the issue about how long it takes to connect people to fibre, so the little bit up to their house, so that's a problem, and then the capacity problem for the cabinets. So, they've got to do three things: they've got to continue to build out the infrastructure to places where it isn't yet; they've also got to recapacitate—I've made up a new word, I think—the cabinets; and they've got to speed up the connection for people who've got it in the pavement outside and need to get it into their house. So, they've got those three things to do, which is why I'm saying—. They're assuring me they'll do it. What I'm saying is—I think we're really sitting on them now because there's quite a way—

[35] **Russell George:** I'm sorry if it was me not understanding, but can I just ask: if premises cannot get superfast broadband because of a capacity issue, is that particular property classed as 'premises passed'—'yes' or 'no'?

[36] **Julie James:** We don't check all premises like that.

[37] **Russell George:** So, you don't know.

[38] **Julie James:** It's a random check.

[39] **Russell George:** This is my concern, because if you've got a target of 96 per cent, you're potentially going to have properties that are saying, 'Yes, this has passed', but actually it's not passed at all.

[40] **Julie James:** That's true.

[41] **Russell George:** Okay, that's fine.

[42] **Mr Jones:** Can I just add to the point, though? They've got a finite pool of labour and at the moment, we're pushing them really hard on passing premises. So, they're working now 24 hours a day, seven days a week as a result of the pressure that we're putting on them to get the premises pass target. That same labour are the people who have got to build these additional cabinets. So, they've got a resourcing issue, frankly, which they've struggled with for some time.

[43] **Russell George:** But you should be putting that pressure on them because they've told you they could do that in the first place.

[44] **Julie James:** Yes, and that's the point, isn't it?

[45] **Russell George:** And if they don't do that, what will happen then?

[46] **Julie James:** And also we're paying for the infrastructure build-out, so we're not paying for the recapacitation, in the sense that it's their commercial problem as well.

[47] **Russell George:** It is a commercial problem.

[48] **Julie James:** But we're determined that the actual infrastructure build-out, which is what we're paying for—that they put the labour into that. So, that's the conversation that I have with them all the time: where are the structures being built? Where is it going out to?

[49] **Russell George:** And if it is an issue of capacity, do you expect any property that is not able to get superfast broadband, because of this capacity issue, to be enabled by the end of this year?

[50] **Julie James:** No, not necessarily. So, BT will continue to do that work outside of our contract afterwards.

[51] **Russell George:** Right, but then those will be the properties that are in the 96 per cent that can't get superfast broadband.

[52] **Julie James:** Well, no, they won't—. That's even more complicated. That would take up another 15 minutes—

[53] **Russell George:** Okay. Simon with the last point and then I'll move on.

[54] **Mr Jones:** Just to add to the point there, it's in BT's absolute commercial interest to add the capacity to those cabinets because there are customers who are prepared to pay the money to use that and it's a relatively low capital outlay for them to increase that capacity—

[55] **Russell George:** Because they've put the infrastructure in.

[56] **Mr Jones:** Because they've done all the expensive stuff. This is fairly cheap for them, so it's in their commercial interests to be able to serve those customers.

[57] **Russell George:** Thank you.

[58] **Julie James:** We would expect them to keep doing that after the end of the contract. So, that's the point, but that's not as a result of our money.

[59] **Russell George:** Well, it doesn't seem satisfactory to me and it sounds like it's not satisfactory to you either. So, we'll move on from there. Hefin.

[60] **Hefin David:** I've met at length with BT and Openreach about these issues with regard to my constituency, but another issue that has been raised has been business parks. At a previous evidence session, we heard that Airband were filling the gaps where Openreach were not able to upgrade. Where are we now with the role that Airband are playing with business parks?

[61] **Julie James:** Airband have completed their build and all of the places that Airband went to should be now functioning, as far I'm aware anyway.

[62] **Hefin David:** Okay, so if I take a tour around the business parks in my constituency, they—

[63] **Julie James:** If they were covered by the Airband contract; not all business parks were covered by it. Some of the parks in your constituency suffer from the problem that the commercial operator said they would go there, so they weren't included in the original open-market reviews. We've just done another open-market review to try and sweep up the areas where we still had commercial operators saying they would go and they didn't. So, it may well be that some of them have been swept up into that.

[64] Also, on Openreach, in my conversation with the head of Openreach yesterday, she told me that they'd done another 11,000 business premises in the last cache of premises passed. So, we don't specify that, but she told me that just as a piece of information. So, they are picking some of those up, but until I have the postcode of a particular address, we wouldn't be able to say. Hopefully, they will have been picked up in the last open-market review, if they're not currently in the intervention area. The Airband contract doesn't cover all business parks in Wales—only specific ones.

[65] **Hefin David:** No, okay—I understood that. Thank you.

[66] **Russell George:** Hannah Blythyn.

[67] **Hannah Blythyn:** Thanks, Chair. Turning to the new employability plan and in particular, the Working Wales programme, I was wondering if you could expand on how that will—. I think perhaps one of the criticisms of Jobs Growth Wales, however it's been successful, is perhaps it doesn't maybe reach some of those hard-to-reach young people, and I know that you, in this, in your paper, say about the youth engagement programme. So, how will that reach out and support and help those young people perhaps furthest away from the labour market?

09:30

[68] **Julie James:** So, what we're trying to do is smooth the edges of some of the programmes. The Working Wales thing is the title for when we put the whole new programme into place. In the meantime, we have a number of programmes that are funded, say, for example, through European social fund, and they have very rigid rules. So, the Jobs Growth Wales one's a classic example where, if you're 24 years, 392 days and you find a suitable vacancy, that's fine, but if you're 25 years, one day, that's not so fine. So, what we're trying to do is—. That's a nonsense, obviously, that the edges are really rigid and sharp. So, what we're trying to do is use Welsh Government money to smooth the edges to allow people to access those programmes, even if they don't fit some of the rigid criteria, with a view to designing the eventual programme so that the person who's benefiting from one of our programmes won't see the wiring, effectively. So, we will arrange how we claim the money back and which programme it goes to and so on, and the person in front of us won't have to worry about that.

[69] We'll have three specific things that we're looking at. We continue to target young people coming straight out of education to make sure that they don't drop, so that we have youth engagement programmes to get those into employability programmes as fast as possible. We'll have a programme for young people closer to the market, so the same sort of thing that Jobs Growth Wales is doing—young people who have the skills, perhaps, but don't have any work experience, don't have any way of getting that vital first rung on the ladder. But we also have an older person's programme that specifically looks at that. Those are targeted programmes inside a wider programme, where we hope that there'll be a pathway where people can find themselves on that programme and access suitable support.

[70] **Hannah Blythyn:** And the older person's programme, that's all-age.

[71] **Julie James:** Yes, so 'older person' is one of these—. We can't find quite the language we want, Chair—'people who aren't "younger"'.
[*Laughter.*]

[72] **Hannah Blythyn:** It's basically everybody in this room, then.

[73] **Julie James:** Everybody who isn't younger, yes, absolutely.

[74] **Hannah Blythyn:** How do you envisage the new programmes will actually perhaps better involve perhaps smaller employers and microbusinesses that perhaps might not have felt they were in a position or had enough information to access what is available through Working Wales?

[75] **Julie James:** So, if I just run through what we're actually doing at the moment, at the moment we're trying to corral all the Welsh Government programmes from right across the Government into a single employability piece. They all exist at the moment, but they haven't been regarded in that way. So, for example, support for employability for people with mental health issues might have been sponsored by the Minister for social services. Some of the community—. Parents Childcare and Employment, for example, was sponsored by the Minister for communities. Some of the straight employability programmes are sponsored by myself, and so on, and we felt that some of the edges overlapped, or there might be gaps in between those programmes, where—. I always use the analogy, I'm afraid, of a jigsaw. So, if you start putting the pieces on the table, they don't quite interlock.

[76] So, the first piece of work for us is to make sure our own programmes interlock, and that's the employability board that I talk about in my paper. We have a cross-Government ministerial board and a cross-Government officials board that are trying to pull all that together. Then, we'll have a stakeholder engagement, which will do the bit that you're talking about, Hannah, where we start to talk about our partners outside, both delivery and, for apprenticeship purposes, employers and our provider network and our colleges and so on, and pull those into it as well, with the idea of getting a far more seamless offer to people. So, if you think, all of you have a local authority programme in your area. You might have Bridges into Work, for example. We have to get those to mash together. We're also in conversation with the Department for Work and Pensions about bringing their programmes so that we have a much more seamless offer.

[77] And also we're aware of examples where somebody does one of our programmes very successfully, completes it, but doesn't go into employment. They might move further along that pathway, and then they drop. So, they don't have a programme for a while and of course they go backwards, and then we have to pick them up again. So, we're trying to get a path for people so that they continue on that journey and that they get the various bits of support that they need alongside that. But employability isn't just about skills. It's also about access to transport and access to work experience and employment, and so on. So, we're trying to get a much more seamless programme that pulls all of those pieces together.

[78] **Hannah Blythyn:** On the work experience there, and I'm sure other colleagues will have questions on Careers Wales, but how will, perhaps, better advice be available? You talked about involving colleges, but schools as well, and how will that link into the whole programme?

[79] **Julie James:** I can talk about what we're doing with Careers Wales—
[*Interruption.*] Do you want me to not do that now?

[80] **Russell George:** I know another Member wants to ask a question about that, so perhaps just hold fire on that for a moment.

[81] **Julie James:** Okay, well if I just say, then, Careers Wales will have a pivotal role in that. We're working with them on their new vision document to make sure that they deliver a service that fits both our new curriculum and our Working Wales programme.

[82] **Russell George:** Hefin.

[83] **Hefin David:** I'm really pleased with the things you've said about connecting Government and connecting the various different programmes together. The three things that are looming on the horizon, as far as I can see, are the Cardiff capital region deal, in my area anyway, and the deals across Wales, the ministerial taskforce and the report, which I understand is a report to the Government not of the Government, and the forthcoming economic plan. Where does Working Wales fit into that bigger picture and how does it integrate with that?

[84] **Julie James:** We've redone some of the structures for that to happen. We've got a thing called the Wales employment and skills board, which has just been reconstituted. It was previously chaired by Scott Waddington from

Brains, and I'll actually take this opportunity to say thank you to Scott because he did a fantastic job for us—he was the UK Commission for Employment and Skills commissioner for Wales as well, but he's come to the end of his term and we've reconstituted the board. It feeds into the council for economic development, newly reconstituted also, and the idea of that is to get all of those programmes to report to Government together so that we can make a better, seamless offer.

[85] I would say that my programmes underpin all of those. They run across all of the other offers. If you take the Valleys taskforce, for example, a large number of the piloting that we're doing for the employability programmes is being done in the Valleys. The Better Jobs, Closer to Home programme, for example, has been piloted in the Valleys, deliberately so because it's part of looking to see what we can do with the Valleys taskforce. But it also acts as a pilot for rolling it out across the rest of Wales. We have to pilot them somewhere, so we're trying to marry the two things together.

[86] Our regional skills boards feed into that system as well. So, we have three regional skills boards, all chaired by employers. They're tasked with getting labour market intelligence from their areas and coming up with a skills plan. I launched the north Wales skills plan the week before last, the south-east skills plan the beginning of—the end of last week; I've lost where I am. And the south-west plan is being launched next Thursday. These plans all feed into that structure as well, so—

[87] **Hefin David:** I'd imagine it's very straightforward for you to have dialogue with the Minister for Lifelong Learning and Welsh Language with regard to the Valleys taskforce. Have you had any dialogue with the Cardiff capital region?

[88] **Julie James:** Yes. So, the skills process, the idea is that we don't create new structures. So, the skills process for the south-east Wales learning, skills and innovation partnership feeds into the capital region as well. So, yes, we have of dialogue with them. Again, we're trying to make this seamless whole, we're not trying to overlay programmes.

[89] **Hefin David:** And are you satisfied that that connectivity is being achieved?

[90] **Julie James:** We're in the process of—this is a set of new structures for the new Assembly, so we're in the process of setting it up. The WESB is

meeting tomorrow, I think it is, is it?

[91] **Mr Morris:** Yes.

[92] **Julie James:** So, that's the second meeting of the new Wales employment and skills board, for example. So, I wouldn't say it's a done deal, but it's certainly coming along nicely.

[93] **Hefin David:** Okay, thank you.

[94] **Russell George:** I've got Jeremy and Mark waiting and then we'll move onto a new section with David Rowlands. So, Jeremy first.

[95] **Jeremy Miles:** Can I just develop that exchange a little bit? You mentioned the piloting of various initiatives in the Valleys footprint, if you like. When the piloting's done and the analysis is there, from an employability policy perspective, will the level or nature of intervention in the Valleys area be different from anywhere else in Wales, or will it just have been piloted there?

[96] **Julie James:** I don't know the answer to that, because it depends what the pilots say. So, one of things we look for in a pilot is whether it's efficacious just in general—does it allow people to move closer to employment or indeed into employment and so on? But one of the other things we'll be looking at is: is it scalable? Is it something of its place—because we're looking at place-based economic policy—or is it something that can be picked up and put somewhere else? A lot of that evaluation will need to be done on the piloting to see what else we can do. And, just to be clear, that doesn't mean we're not doing anything else anywhere else in Wales, it's just we're piloting some new approaches in the Valleys. Sorry, I just realised I started to say that we weren't doing employability anywhere else, but that's not true, we're just piloting some of the new approaches.

[97] **Jeremy Miles:** Secondly, Hefin mentioned the city deal in his region. In our region, I suppose, what's your view of the level of focus on skills as part of that?

[98] **Julie James:** That's in the Swansea city deal. That's also one of the main pillars, yes. It's one of the five pillars. Again, the south-west Wales regional partnership—. Just to fox poor Ministers such as myself, they've all carefully called themselves something slightly different, so it's a big memory

exercise for me to remember which one's called what. But the south-west Wales regional skills partnership is on the same footprint as that. But we are having a conversation with the Growing Mid Wales partnership as well, because they're part of the skills policy down there, but they're not part of the city deal. So, how they're properly reflected is an issue as well.

[99] **Jeremy Miles:** Thank you.

[100] **Russell George:** Mark Isherwood.

[101] **Mark Isherwood:** Thank you. You mentioned the dialogue with the DWP. What assurance can you provide—what evidence can you provide—that your programmes won't overlap with the Work and Health programme, given that—

[102] **Julie James:** I—

[103] **Mark Isherwood:** Should I do only one, or—?

[104] **Julie James:** Yes, go on. [*Laughter.*]

[105] **Mark Isherwood:** Given that that programme's down to three shortlisted finalists—we expect an announcement sometime before Christmas—and one will be successful in delivering on one of the previous three categories of the UK Work Programme, to kick in next year, what will be happening in the interim? With your scheme delayed until 2019, there's going to be that programme operating in Wales in 2018, without the new Welsh Government programme, and then your programme starting next year. So, how's that being managed?

[106] **Julie James:** We are in constant dialogue with the DWP on a number of issues. The chief official for the DWP sits on the Valleys taskforce, for example, and also attends quite a few of the working group meetings around that, with a view to making sure that we join the programmes up as much as possible. You'll know, Mark, that we've had a lot of problems in the past around black-box contracting and so on, and so we've been working very hard with them to make sure that, as far as possible, we can get some seamless provision.

[107] The DWP also front up some of our communities programmes. So, Communities for Work and—what's the other one called—PaCE both run

through the DWP as the first point of contact, for example. So, we do work very closely with them. I have no indication at the moment that we'll have any problem with doing that into the future. Fiona, the official, sits on all the taskforces and meets with us very regularly.

[108] **Mark Isherwood:** In terms of sustainability, we know, with only one of the three bidders to the UK programme going to be successful, it's likely that's going to be left in Wales with the critical mass to manage significant programmes. What thought have you given, therefore, to partners that you're going to need to work with, with your new programmes, either to sustain those who are unsuccessful or to build critical mass in the one that remains?

[109] **Julie James:** So, that will be the next phase of what we're looking at. As I explained, what we're doing is sorting out our Welsh Government programmes first, and then we'll do the stakeholder engagement. So, part of that will be a very a large number—. The DWP is obviously a major partner in this, but a very large number of other organisations deliver employability programmes right across Wales, including local government partners but also including quite a lot of third-sector partners. So, we work very closely with all of those, and the idea is to try and make sure that we eliminate, as far as possible, overlaps and fill in the gaps, so that people have this path that I am talking about.

[110] My understanding about the new programme from the DWP is that you'd have to be quite long-term unemployed before you are picked up by it. Our programmes kick in a lot earlier along than that. So, my own view is that it will work out fairly well. We haven't any indication differently yet.

[111] **Mark Isherwood:** The Shaw Trust, Remploy, Working Links—two of them won't be—

[112] **Julie James:** Yes, I'm meeting Remploy in the next week or so to discuss the programme. I have a programme of meeting all of our third-sector partners, or certainly all the major ones, and we'll be doing a lot of stakeholder engagement once we announce where we are in our programme later on this year.

[113] **Mark Isherwood:** But if they're not successful, for example—. Remploy may be successful, but, if Remploy is not successful, they will either wither on the vine in Wales, to a very local small-scale provider, or they'll need to be doing something significant with you. Is that part of the dialogue?

[114] **Julie James:** Yes, we will be discussing—. As I say, once we've sorted our own house out, we will be discussing that with a range of providers, Remploy being one of them.

[115] **Russell George:** Okay. David Rowlands.

[116] **David J. Rowlands:** A rather different subject: with regard to research and development and innovation, have the levels of research and development in Wales improved since the publication of 'Innovation Wales', in that 'Innovation Wales' stated that it was nowhere near as high as it should be? And what are the future challenges for R&D?

[117] **Julie James:** Right, well, there are a series of issues there. We've got a review going on, chaired by Professor Graeme Reid, at the moment into innovation, research and skills—I can't remember what it's called: science, research and innovation in Wales. He's about halfway through his work, so we will be waiting with interest to see what he's got to say about it. This is also very much affected by the reorganisation at UK level of science policy, and the way that UKRI—research and innovation—works. I can't say that we're not disquieted by the arrival of something called 'Research England' in that make-up.

09:45

[118] So, this is a pan-UK arrangement that pulls all the science councils together, but then has a 'just England' bit stuck on the side of it, which we're a bit concerned about. So, we've had some meetings with them about how that will work, and that's an ongoing process. It's also tied up with the fact that our chief scientific adviser has left, and we're in the process of appointing another, because that person will be very instrumental in putting Wales's best foot forward in the new negotiations. And we're very concerned, obviously, about the whole Brexit process and what that might do to research and development funding, and, at the same time, the UK Government has completely changed the way that it does the QR stuff, so—. A lot of the technical detail of that is extremely widgety, so if you want me to go into a lot of detail, I'm going to get Huw to do it.

[119] **David J. Rowlands:** Can we just move on just slightly? Are there any plans to update your innovation priorities with regard to the adjustments to the policy of the SMART specification that's in the strategy?

[120] **Julie James:** So, that will be very much tied up with what Professor Graeme Reid says and what his feedback to us is, and that's kind of the point of the review. It's tied up with a number of other things, so we're also going to refresh 'Science for Wales' as well, because that needs refreshing after four years, I think it is, since we issued it last, and they're tied together, really. So, he's due to report in December, is it?

[121] **Mr Morris:** Yes.

[122] **Julie James:** In December.

[123] **David J. Rowlands:** That was my next question, actually. With regard to the Reid review, could you update us on that?

[124] **Julie James:** He's interviewing everybody, and my understanding is that he's had several meetings with staff from the chief scientific adviser's office, for example, about reality checking some of the finding that the team have made, and we're expecting a report towards the end of this year.

[125] **David J. Rowlands:** Thank you very much.

[126] **Russell George:** Adam Price.

[127] **Adam Price:** Just to return to the question that David Rowlands began with, in terms of the different indicators for innovation—so, business expenditure on R&D, HE expenditure on R&D—where are we compared to 2012, when you published 'Innovation Wales'?

[128] **Julie James:** Have you seen the graph that's been put out recently where you can see that there's a sort of standard gap between QR and research council funding for Wales, and then it narrows towards the end? My understanding of that—and I'm going to get Huw to tell you the technical stuff behind it—is that they've changed the way that some of that is accounted for. So, the gap probably still exists, but it doesn't look like it on the graph. One of the reasons we've got Graeme Reid to look at where we are is we don't entirely, I think, understand quite what the relationship between QR funding, research council funding, and some of the other investment, actually is. So, when you go—

[129] **Adam Price:** My question was actually a broader one, really, which is

where we are in terms of the state of innovation, if you like, in Wales, which is much broader than just the question of the quality of research in universities. So, it's about business innovation, it's also about innovation in the public sector. So, where are we? There are set indicators, you do publish them, but where are we now compared to where we were five years ago? Do we know?

[130] **Mr Morris:** I think lying behind your question is the level of Government expenditure versus the level of business expenditure on research and development, in terms of driving the innovation process. In Wales, there is a gap. I think that, from memory, was revealed in the report that you referred to. Business expenditure on R&D in Wales is somewhere behind the level of comparable Government expenditure. A key focus of the Reid review is how we can use the tools at our disposal to try to narrow that gap to get business more engaged with university-based research, taking up the results of that research, but also having a role in encouraging particular types of research. There have been significant successes in that regard in recent years and months, not least with the compound semiconductor Catapult centre with IQE and Cardiff University and Welsh Government involvement. So, we expect that Graeme Reid will outline proposals in that area, mindful that the Brexit process raises the prospect that some of the key sources of funding for this type of activity, funding like the European regional development fund, will potentially be open to question. Clearly, the Welsh Government's position, outlined in 'Securing Wales' Future', is that those funds should be replaced and the level of funding coming to Wales from UK Government should be uplifted to take account of that.

[131] **Adam Price:** I have a couple of supplementaries. I'll be brief, which is against my nature, and I'll ask you to be the same. The Reid review on innovation. I'm slightly confused, because the Cabinet Secretary for Education has already announced a proposal that innovation will go to this new tertiary education authority and there will be an innovation sub-committee—a perfect Welsh solution. So, is Professor Reid bound by that proposal, or could he, actually, in his review say, 'No, I don't agree with that; I think that's a stupid idea'?

[132] **Mr Morris:** The Hazelkorn recommendations, which outlined that there should be a research and innovation component to what's become known as the tertiary education research council for Wales, are out for consultation at the moment. From memory, that consultation process finishes at the end of October. There will then be an analysis of that. Our intention is to bring

together the recommendations that come from the Reid review with that.

[133] **Adam Price:** My question is very simple—

[134] **Julie James:** No. The answer is ‘No, he’s not bound by it.’

[135] **Adam Price:** All right, okay. Good, good—great. In terms of the situation with science, as well, I understand you’re advertising now for a new chief science adviser. There is a Science Advisory Council for Wales; there is an Innovation Advisory Council for Wales—I used to co-chair it. Where are we on the review of the alphabet soup of 48 different bodies, including those two?

[136] **Julie James:** Well, can I say that’s the Cabinet Secretary’s remit, not mine? I think we’re straying away from what I should be properly answering the committee on, and I think you do need to ask Ken, my colleague, on that.

[137] **Russell George:** We’ll see him later.

[138] **Adam Price:** Right, okay. Just because we were on science and innovation, I thought I’d ask that, but—.

[139] **Julie James:** Let me just—. So, that’s quite a complex thing, but as the Minister for science, I only have a small part of that, and that review is comprehensive across the piece, so I think you’d be better to look at the whole thing rather than just the science bits. The review does cover the science bits of that as well, but we’re doing it as a thing across the piece, if you like.

[140] **Adam Price:** Now I’m thoroughly confused, but I’m sure it will all become clear in due course. I have no further questions.

[141] **Julie James:** For example, I could talk to you specifically about what we’re doing on the renewal of the life sciences hub, for example, and the specifics of that, but that is part of the wider review. If you want to talk about the wider review, you’d have to ask the Cabinet Secretary.

[142] **Adam Price:** On the life sciences hub, there’s still quite a lot of empty space in that building, as I understand it.

[143] **Julie James:** We’ve just refreshed the entire board for the life sciences

hub, and we've put an interim chief executive in there. It's been—I seem to be making up English words today—repurposed. I'm not sure if that's a real word either. The whole point of it is to draw it closer to the NHS, in fact, because we've identified a very serious issue, where a large number of companies that we give innovation and business funding to struggle when they hit the NHS procurement wall. We think that there's a lot more that we could do to make sure that companies are prepared for the NHS procurement wall when they're researching life sciences in Wales, in order to smooth their passage into the NHS where that's appropriate. That's not to say that that would be the only criteria that we would use for a life sciences company. Obviously some things are very innovative indeed and the NHS wouldn't be cognisant of them, but there is definitely a lot we can do to smooth that passage through. The life sciences hub will be repurposed to make sure that we have all of those lined up when we make the investments we do, and it will continue to be an incubator space, as well, for life sciences companies.

[144] **Adam Price:** How full is it at the moment?

[145] **Julie James:** It's not very full, and that's why we're running through the repurposing. The new chair has only just been announced, and they're in the process of putting the new board members in. I think the first meeting of the new board is in a couple of weeks' time, which I'll be attending. We're in the process of redoing it. I completely agree it could be fuller.

[146] **Russell George:** Okay, Vikki Howells.

[147] **Vikki Howells:** Thank you, Chair. I've got a range of questions regarding Careers Wales. Firstly, I noticed that they've been moved over recently into your portfolio. Does that represent, then, a change of focus for Careers Wales?

[148] **Julie James:** Yes. We're in the process of reviewing both Careers Wales and Business Wales, with a view to seeing whether they could be working much better together, and indeed with a view to seeing whether they ought to be a single organisation. Nothing's been taken off the table in that review; it's completely open. And, so, the whole of the business structure for both Careers Wales and Business Wales will be reviewed as part of that, because it seems obvious—although I don't want to prejudge the review—that when we're giving business advice to companies, and a large part of that is around skills shortages and how they can fill up their skills shortages, that they ought to be linked to Careers Wales, giving advice to people who are looking

for that careers advice around linking them with the companies that have got the shortages. It's as simple as that, really. But what the best structure for that is, I have no view yet, and we're waiting on the review group to come back to us on that.

[149] **Vikki Howells:** Okay, thank you. And do you think Careers Wales has the capacity and resources that it needs to undertake all of the work currently required of it?

[150] **Julie James:** They've just put out a new vision document, which I hope the committee's seen, and we're in discussion with them about how they can best deliver that and be part of our programmes. There's no doubt that they will have to realign some of their resources. We've also agreed a capital grant for them to help them digitalise a lot of their services as well, and if you have a look at their new vision document, they do talk a great deal—. Well, it's a very refreshing document, in my view. It does show that they've turned their face towards the future very much and that they will need to align with the roll-out of the new curriculum and the new area of learning experience around the world of work, and they will need to seamlessly join up with that, but they will also be pivotal in, for example, front-line delivery for our Working Wales programme and a number of other programmes. So, they need to realign their priorities, and that document goes a long way towards that. The new chair of Careers Wales and the current acting chief executive and I have had several meetings around that, and I'm very happy that the strategic direction is the right one for them.

[151] **Vikki Howells:** Okay. And just a few weeks ago, there was an Estyn report that was very critical, really, of Careers Wales's performance in terms of the delivery of careers advice in schools. Do you foresee any changes to Careers Wales's work arising out of that inspection? I'm particularly interested in what you said about the possibility of them working closer with Business Wales. Could that actually be something that could pull them further away from that really important relationship with schools?

[152] **Julie James:** No, I think that they accept that, and the document shows that they understand where they are with that. I think, to be fair to them, they've had a lot of competing priorities given to them over the years, and the document really refocuses the primary function of the organisation. But I don't think it will pull them further away, no. I think a large part of this is to do with understanding real, live labour market intelligence in Wales, so that it's not theoretical, so that you get much more practical examples of aligning

businesses up with schools and so on. Bear in mind, though, that Careers Wales also gives advice to adults; it's not just for schoolchildren. So, we do need to do exactly as I said: align them up better with the new curriculum, refocus them and make sure that they can hold to their vision. So, I do think the new chair and the acting chief executive at the moment are very well-focused on that.

[153] **Vikki Howells:** Thank you.

[154] **Russell George:** Am I right in thinking that what you're saying is that Careers Wales is not working well now?

[155] **Julie James:** Well, I think it's had a lot of difficulties. To be fair, they've had a lot of budget cuts and they've had some competing priorities, and we've had the Estyn inspection and so on. So, I think you would struggle to say that they were the best organisation ever. What I'm saying is that I think it's very understandable that they've got to where they are, that they've met that challenge head on, and that their new vision document is very good. One of the reasons for the change in portfolio is to give them that renewed association with business and the economy that we all want, and that's been deliberately done, but that doesn't mean that they won't be instrumental in making sure that schools give the right careers advice. Bear in mind that Careers Wales itself doesn't give advice in schools; they assist the schools to do it, rather than delivering it direct. So, their input into the curriculum as it rolls out, and their utilisation of resources such as Hwb will be absolutely instrumental in them being able to do that.

[156] **Russell George:** So, it's not an organisation that is working well now, because they've had challenges, but you believe that it can be an organisation that will work well.

[157] **Julie James:** Yes, I wouldn't—. I mean, you're trying to put words into my mouth. I wouldn't characterise it like that. I would say they've had a lot of challenges and that those are very understandable challenges; they've had a shrinking budget; they've had a lot of demands on them; we've put a lot of competing demands on them. I think the new management team at the top have really risen to that challenge, their new document is excellent, and what we need to do now is support them in that and make sure that the review goes through smoothly and seamlessly, so that they can be established on a much firmer platform, really.

[158] **Russell George:** Okay, thank you. Mark Isherwood.

[159] **Mark Isherwood:** The particular issue regarding schools raised with me was that Careers Wales were no longer allowed to support work experience placements in places of work. Will the link-up you're referring to with Business Wales address that and enable that to go forward again? And secondly and finally, this journey for Careers Wales started when they were six social enterprises. How are you ensuring, under the current and proposed structures, that we still have a regional voice and regional imprint?

10:00

[160] **Julie James:** So, starting with your last question first, that's part of the review, how will they do that, and Business Wales also has a big regional base as well, so is there a synergy in that, and, as I say, I haven't got any preconceived ideas about that: the review could come back and say there isn't a synergy. But it seems to me—my gut feeling is—that there probably is one. But everything's on the table. So, they're going to report back to me about what they've found doing the review together, the two organisations together.

[161] In terms of work experience, I think the new chair of Careers Wales has a very firm idea of the importance of work experience to youngsters and has a very clear vision in the document about what that should look like. So, I'm not saying that they'll reinstate the way they used to do it, but I think that they will have a focus on work experience, going forward.

[162] **Russell George:** Jeremy Miles.

[163] **Jeremy Miles:** Thank you. Can I just pick up on—? You mentioned in passing that Careers Wales also provides advice to adults, and you've described, obviously, the alignment of business support and employability and skills, which makes good sense. If I am an adult who wants careers advice but doesn't fit into an employability support programme, what level of support will I get from Careers Wales, do you feel, in future?

[164] **Julie James:** At the moment, you wouldn't get very much support if you were just wanting a career change and so on. You'd get some pointers towards digital resources and so on. One of the things they've got—. They have a lot of competing resources, and, for us, it's not going to be possible to provide a service to absolutely everybody in Wales who fancies a career

change, to be quite honest. So, one of the reasons that we've helped them with the capital to realign their digital offer is to make that more accessible to people, really. But I would be lying if I said that they're going to be able to offer a drop-in service for any adult who passes who thinks that they are in the wrong career, because they're just not resourced to do that.

[165] **Jeremy Miles:** Okay. Can I just move on to skills policy more broadly now? We all face two challenges. One is the consequence of Brexit, and, in your particular portfolio, there are issues around the alignment of skills and apprenticeships policy across the different devolved and non-devolved parts of the UK. Looking at Brexit initially, how are you tackling the potential challenges that are going to arise as a result of that? What's going on in your department to address those?

[166] **Julie James:** So, a large part of what we are doing on the employability programme is around trying to figure out what to do when the money runs out, if you like. And, as Huw just said to you, we are expecting the UK Government to make good its promise that they will make up the shortfall. We have to make sure that those programmes are viable. So, one of the reasons that we are doing this review is to ensure that we know what we are spending our own money on, what we are spending European money on, and to realign the priorities. So, that's an ongoing piece of work.

[167] **Jeremy Miles:** Can I just stop you there? Is the expectation that what the UK Government is describing as the shared prosperity fund as an alternative to regional funding—is that something that you expect to be a source of skills funding in future?

[168] **Julie James:** Who knows what the UK Government are going to do with their shared prosperity fund. We like to keep politics out of these committee meetings, but it's a source of worry to us, where that money might come from. It funds a very large part of our skills programmes, European funding, so, without it, we would have to shrink those programmes very substantially or find another source of funding, and there's no getting away from that. At the moment, we're trying to maximise spend on our European funds to make sure we make the most of them while we've got them. The reason that Working Wales starts when it does is because that's at the end of the ESF programmes, and so we will be starting up again with whatever funding we've got at that stage. As I say, we firmly expect the UK Government to make good the shortfall out of whatever fund it thinks is appropriate at that point.

[169] **Jeremy Miles:** And, on the devolution question, the divergence of skills policy across different parts of the UK—what’s your assessment of where we are?

[170] **Julie James:** Well, that’s an interesting point as well. My own view is that our apprenticeship policy for example, is a better offer at the moment than you would encounter in England. There are lots of problems with the apprenticeship levy rollout. I’m sure you’ve all read in the press about some of the difficulties. We continue to struggle with that. We’ve engaged, for example, with all of our big employers—the cross-border employers, in particular, are exercised by the difference—and we’ve changed some of our programmes accordingly. But I’m absolutely wedded to maintaining the quality standards that we have in our flagship apprenticeship programmes and not watering them down in order to play a numbers game.

[171] **Jeremy Miles:** Okay. Last time you were here, we talked a little bit about degree apprenticeships. Can I ask you to re-elaborate on how you see the scale of the opportunity there, and what the Government’s doing to maximise that opportunity?

[172] **Julie James:** So, we’ve put about £10 million into starting off degree apprenticeships, and, because of the amount of money that that is, we’re looking at pilot phases and we’re looking at targeting particular skills shortages in the economy. So, in our first pilot phase, our key priorities will be ICT, advanced manufacturing, and engineering. So, we’re trying to get the degree programmes going on that. It’s an expensive thing to do, obviously. It’s a three-year programme for most apprentices, and that costs money. We’ll be rolling that out to see how we get on, and we’ll be looking at various funding mechanisms to do that—so, if you think about the complexity of how to fund that. We’re looking at on-the-job training, day release to universities, or there might be part-time arrangements for that, which might extend the programme. There are a number of options on the table. We’re in a lot of conversation with our HE/FE colleagues about the structure for some of that. Then, we’ll be having two further pilot phases with key priorities, as brought up by our regional skills partnerships. So, basically, matching the skills needs identified by our regional skills partnerships and taking that forward. Then, of course, in the end, we are expecting the proposed tertiary council to be in place so we can have a conversation with them around some of the funding options, as the last stage of the three-stage pilot.

[173] **Jeremy Miles:** When do you envisage degree apprenticeships being available more broadly, more generally?

[174] **Julie James:** Well, we're going to have to get to the end of the pilot programme, and we're going to have to see what the expense of it is as well. So, it's a balance, isn't it, between not wanting to take away from the foundation apprenticeships—. It's all the same pot of money, remember. We don't want to undermine the foundation economy apprenticeship programme, but my ambition is to make sure that people who go into the apprenticeship programme at level 2, level 3, can make it all the way up to level 7. So, we would be eventually looking to make sure that we had routes for all apprentices, so we'd have the frameworks in place for people to be able to climb that ladder. But we do have to look carefully at how to fund the student experience part of that.

[175] **Jeremy Miles:** Thank you.

[176] **Russell George:** Mark Isherwood.

[177] **Mark Isherwood:** Thank you. When you've attended the committee previously to give evidence on apprenticeships and the apprenticeships levy, we've raised concerns raised with us by retailers and police forces about their inability to access the levy at a devolved level. In both cases, you told us previously that you were in dialogue, constructive dialogue, with both organisations. Could you tell us where that dialogue has taken you? What's the result?

[178] **Julie James:** So, with the levy payers across Wales, we've been working very hard with them to make sure we understand what their requirements are, and that our apprenticeship programme can meet at least some of those requirements. I'm due to meet with the retail association shortly. Do you remember when it is?

[179] **Mr Morris:** Yes. I met with them yesterday, and I think you're meeting with them in a week or two.

[180] **Julie James:** In a week or two. I don't know if you want to say what your meeting was about yesterday, Huw.

[181] **Mr Morris:** Well, we spoke to them yesterday about the policy and how it was working. It was interesting to note that, in Wales, as we distribute the

money directly in line with the priorities, we're on target to meet the Government's commitment to 100,000 apprenticeships in those key areas. We noted—and the retailers expressed their concern—that, in England, 75 per cent of the funding raised through the levy has yet to be distributed back to employers, and that was giving rise to concern amongst their membership. Over the border, we talked about how we can work together to map out a path for that industry over the next five, 10, or more years, and what that would mean for skills as that industry deals with an increasingly digitised way of dealing with customers. So, that's the type of dialogue that we're increasingly having with different sector representative organisations to make sure that it's not just about the volume and the funding, it's also about the nature of what's being provided and aligning it to the strategic needs of their service or business.

[182] **Julie James:** What I always say is that the problem we have with the apprenticeship levy is that it should be called the work-based learning levy, at the very least, because it's not just about apprenticeships; it's about on-the-job training in a number of different guises. So, we're very anxious not to turn other work-based learning into 'apprenticeships', because that isn't what it is. That's not to say it's not worth while having, but it isn't an apprenticeship. So, there are lots of work-based learning programmes that we run, which need funding, that aren't apprenticeships, which are very valuable. So, we run, for example, the trade union learning fund, which puts essential skills into the workplace. That's not an apprenticeship, but it's an extremely valuable programme. So, it is a bit of a problem that the focus on apprenticeships takes away from some of the other skills areas. So, it's an ongoing dialogue around meeting the skills needs of employers—levy-paying and otherwise, I might say, and that's not always an apprenticeship. Although, having said that, we would like more employers to be offering apprenticeships in Wales. The percentage of employers in Wales that offer apprenticeships at the moment is pretty low.

[183] **Mark Isherwood:** Well, clearly you can't get to level 3 unless you've got to level 2.

[184] **Julie James:** Yes, so you need the pathway into it—traineeships or other pathways into an apprenticeship, for example.

[185] **Mark Isherwood:** And dialogue with the police—you told the committee earlier this year that you were in dialogue with the Welsh police forces.

[186] **Julie James:** Well, the police are in a very difficult position, it seems to me. It's not a devolved function, and the apprenticeship levy for police forces in England is paying for their apprenticeship programme. We don't get any money from the apprenticeship levy. The net result of the way that it was Barnettised is more or less zero for us. We take, I'm afraid, the very robust view that policing isn't devolved, and that the apprenticeship levy funds in England need to be made available to Welsh police forces to get that paid for. We're not in the business of paying for non-devolved functions, I'm afraid.

[187] **Mark Isherwood:** The police themselves in Wales stated that the money they pay in comes to the Welsh Government within the block that you receive in consequence of the levy, and they're not able to access that.

[188] **Julie James:** Well, that's a dispute, I have to say. That's not our view. Because of the way that the Barnett formula worked, they gave us £90 million with one hand and took it away with the other hand. So, all you've done is substitute block grant for a specific employment tax in Wales, and then all of the public service bodies in Wales have to pay the apprenticeship levy. So, by the time you take into account the money they then pay back to Westminster, we get to zero. So, it's not a great—. I'm not making a big point out of it, but it's not a great place to be, and I'm afraid our view is that policing isn't devolved, and the training isn't devolved. If they want to devolve it to us, great, and, if they don't want to, well then that's not our problem. I appreciate the police have a problem with that, but the UK Government needs to sort that out. We're in dialogue with the Ministers on this point. This is a point we've made extremely clear right across the Welsh Government, so it's not a surprise to anybody.

[189] **Russell George:** Can I come back to some digital infrastructure questions, Minister? In regard to funding, what are your funding plans for the next SuperfastCymru successor scheme?

[190] **Julie James:** So, we've got about £80 million, which is the result of various pots of money—some European funding, some funding from us, some funding from the UK Government and the gain share funding. We've just completed an open market review over the summer and a consultation, and now we're in the process of having a look at where we are with that and making some decisions about how to roll it out further.

[191] **Russell George:** On the funding issue, is there some public funding in

there—some private match funding in there as well?

[192] **Julie James:** Well, we will be expecting—. Depending on how we procure it, we will be expecting whoever gets the procurement to match fund some part of that in the same way as the previous programme worked, and it kind of depends what we do—if we do some of that via community infrastructure schemes, for example, then we won't expect the same level of match funding as if we do it as an extension of a big infrastructure project. So, that's very much on the table at the moment, and part of the decisions we'll have to be making. I will say, Chair, that we will be asking AMs who've got specific interest in this, and you're clearly one of them, to feed back to us very specifically about what they'd like to see in their areas as well.

[193] **Russell George:** And you just mentioned about EU funding. Can you just expand on that? Is there some uncertainty about whether you might be able to get that funding, depending on at what point you submit your application?

[194] **Julie James:** No, I don't think so. It's—.

[195] **Mr Jones:** We're going through the process. It's in the wider WEFO programme they submitted at the start of the—

[196] **Julie James:** So, it's part of the current envelope of funding.

[197] **Mr Jones:** Yes.

[198] **Russell George:** Also, to what extent has there been a change in the volume or success rate of applications since you made changes to the ultrafast connectivity voucher scheme? Because last time—

[199] **Julie James:** I don't know the answer to that—do you know the answer to that?

[200] **Russell George:** The take up was low, wasn't it, at one point, and you made some changes.

[201] **Mr Jones:** We've made some changes. We've dropped the highest qualifying speed, so it's—. I'll hunt through my notes.

[202] **Julie James:** I don't think we know the answer to that. I'll write to you

and let you know the answer to that specific question. We did that as a result of various representations made by various AMs—Hefin David was one of them; you were one of them—that the speed that we were requiring people to get to wasn't always appropriate. So, we've attempted to change the programme to make it more accessible, but I'm afraid I don't have off the top of my head the numbers. But I'm more than happy to write. Have you found them?

[203] **Mr Jones:** I have found it in the notes. So, we provided funding through the revised scheme to 22 businesses.

[204] **Russell George:** Okay. Twenty-two businesses.

[205] **Julie James:** And that's since when?

[206] **Mr Jones:** That's on the ultrafast. Since the change, which—. I'm sorry, I don't know the—

[207] **Julie James:** I'll write to you and set out when the change was made, and how many businesses since when.

[208] **Russell George:** Okay. And if the rate is low—

[209] **Julie James:** You want to know how many applications against what the success rate is.

[210] **Russell George:** You haven't got the figures—

[211] **Julie James:** I haven't got them here, sorry.

[212] **Russell George:** —which is fine, but what is your—? Last time, the concern was that the take-up was very low. Has take-up increased? I mean, you haven't got the figures, but has it increased?

10:15

[213] **Julie James:** I don't think we know.

[214] **Russell George:** No, that's fine. I won't push you. That's fine. And, I know you've written to me on this question, but just for the record for the committee, when can we expect to see the mobile action plan?

[215] **Julie James:** In the next couple of weeks.

[216] **Russell George:** In the next two weeks.

[217] **Julie James:** Certainly before the half term recess.

[218] **Russell George:** Okay, that's great. Thank you. Are there any other closing comments you want to make, Minister? Anything you want to apprise the committee of before you go?

[219] **Julie James:** No. I think we've had a good session. Apologies for not having that last answer, I'll get it to you as soon as possible.

[220] **Russell George:** That's fine.

[221] **Julie James:** Thank you very much.

[222] **Russell George:** Thank you, Minister, and I thank your officials for their attendance also. Thank you very much. We'll take a short break and we'll be back just after 10.25 a.m.

*Gohiriwyd y cyfarfod rhwng 10:15 a 10:30.
The meeting adjourned between 10:15 and 10:30.*

**Panel Sector Masnach—Gwerthu Cymru i'r Byd
Trade Sector Panel—Selling Wales to the World**

[223] **Russell George:** Good morning. We move to item 3 this morning. We'd like to welcome our two witnesses in regard to our inquiry on selling Wales to the world. I'd be very grateful if you could introduce yourselves for the record.

[224] **Mr Cottam:** Good morning, everybody. My name's Ben Cottam. I'm the head of external affairs at the Federation of Small Businesses in Wales.

[225] **Yr Athro Stevens:** Diolch am y **Professor Stevens:** Thank you for the croeso a diolch am y gwahoddiad. welcome and thank you for the invitation.

[226] My name is Terry Stevens. I'm the founder and managing director of

Stevens & Associates, which is an award-winning tourism consultancy. We've currently worked in 55 countries advising on policy and marketing.

[227] **Russell George:** And I understand you may have a declaration of interest you just want to place on the record.

[228] **Mr Cottam:** Yes. I should declare that I'm on the strategic board of Business Wales.

[229] **Professor Stevens:** And my daughter is Mari Stevens who is Welsh Government's director of marketing [correction: Director of Marketing—Tourism and Business].

[230] **Russell George:** There we are. Thank you. Well, can I start with the first question? The Welsh Government strategy, 'Prosperity for All': what do you think about it?

[231] **Mr Cottam:** I think from our perspective there are some encouraging direction in there. Obviously, we're waiting for some detail about maybe some of the elements of tasking the economy particularly. I think as an overview of the direction of travel, though, the FSB has welcomed it. There are some suggestions there of things that we've been looking for, such as a change of emphasis on the development of the indigenous economy, and I think that's very encouraging from our perspective. For quite some time now, the FSB has been of the opinion that there is an opportunity to better capitalise on indigenous business. That's not to the exclusion of inward investment, but I think it does seem to us, at least for now, that the Welsh Government has listened to some of that, and we wait for some clarity as to more detailed plans for the economy.

[232] **Russell George:** And if I ask you, Terry, just perhaps the same question but to expand, perhaps, in your answer with regards to trade and the inward investment aspects of the strategy.

[233] **Professor Stevens:** Well, I think the first thing to say is that we agree entirely with the FSB. As a company, we're not a member of the Federation of Small Businesses, but we agree with that perspective. I think one of the key things that needs to drive us is the ability within the strategy to express greater confidence in what we have and what we are as a country and as a nation, and that is expressed through the type of indigenous businesses that we have, but to actually go out there and talk to the world with the semantics

of confidence. Very often, I think, our web provision and indeed the way in which we go about articulating ourselves is very often hedged with a degree of diffidence and ambiguity. I think this clarity in the strategy is badly needed, but I think, generally, we need to be much more confident in the expression of what we have and what we're able to do and contribute to the wider world.

[234] **Russell George:** If I can ask Ben: I can see in your evidence that you've said

[235] 'Welsh Government should develop a Trade and Investment Strategy to sit under the forthcoming economic development strategy.'

[236] Can you expand a bit on that?

[237] **Mr Cottam:** Yes, indeed. I mean, it's our perspective that there is a need for something that binds in a lot of the trade investment activity, a lot of the branding activity. I think this is done, at the moment, in a rather disparate way. I'm not sure that my members, for instance, feel bought into a sense of where the Welsh Government is going in terms of its trade and investment focus. So, I think there's an opportunity, particularly with one eye on Brexit and the need for us to be maybe more competitive. And, on that point, I'd say that we are going to be regionally more competitive. Wales is going to be competing against city regions in the rest of the UK that are already projecting themselves internationally much more effectively, arguably, than we are. So, I think there is a need for a strategy that binds together all this and purposes the resources that we have, whether they be resources overseas, such as the international offices, or indeed the resource we have for attracting inward investment and, by that, generating supply chains here in Wales. So, I think there is a benefit now to use that to project ourselves post Brexit, because it's very difficult to see what those opportunities will be, but one of the opportunities is there before us right now to start that now. We don't need Brexit to happen; we don't need to wait for 29 March 2019 to get going on this work, but I think it does need to be pulled together in a way that businesses can understand and in a way that we can bring in all sorts of other partners.

[238] **Professor Stevens:** Can I just build on that? I think, for the first time in a long time, we have a number of very good foundations and platforms. I think much as it is about kind of integrating them, it's about refining and finessing what we have established now in order to make them more

effective and efficient. I don't think there's any point in reinventing anything. I think for the first time for a long, long time we have the platforms to go forward. It is about fine tuning.

[239] **Mr Cottam:** Can I just come in?

[240] **Russell George:** Yes.

[241] **Mr Cottam:** We have, obviously, the 'great' brand—the Great Britain brand—which the Department for International Trade takes forward on behalf of the UK Government. There is significant resource behind that, and I think there is certainly a focus that the UK Government has brought around driving that strategy abroad. There is, however, a need to distinguish what the Wales brand is within that. Necessarily, the Wales brand won't be carried by the 'great' brand. We have to understand who owns the Welsh brand. My members, particularly those—but not exclusively those—within maybe food, who want to sell products or promote products overseas, will feel a great sense of place, if you like. That, I don't think, is properly represented within the 'great' brand. So, a strategy could properly identify what we mean by the Wales brand, bring all the partners in, and project that over and above the benefits of the 'great' brand.

[242] **Russell George:** What do you think that the Welsh brand is? What's our USP, in your opinion?

[243] **Mr Cottam:** As an export brand, or as a national brand, I think it's something quite similar to Scotland. I was going to mention it later, but I'm very struck by the notion of 'A Smart, Successful Scotland'. I think that is something that certainly our members buy into up in Scotland. And this notion of being an agile nation. Yes, we are well aware of the asset of history and the way in which we can use that to create a proposition, but nevertheless there are innovative businesses here, and we need to give them a platform to project themselves. I think the notion of being small and agile is going to be very, very positive, but I'm not quite sure we capitalise that as well as we possibly should.

[244] **Professor Stevens:** I think it's all about the agility and integration. You've mentioned integration in the sense of your businesses wanting to be part of this and share the brand, and the roll-out of the brand, if you like, and the inclusivity of people being able to use the brand. I think that's fundamental. Part of that has got to be adopted within the departments of

the Welsh Government. You can't have a brand that's only applied to certain aspects of the work of government. So, I would like to see that expanded and rolled out.

[245] In terms of where the brand's at—it will be of no surprise to you, given my conflict-of-interest statement—but I think it's a bold, clear, confident brand that expresses the ability for Wales to respect local, respect the *milltir sgwâr* and, at the same time, be able to develop a global presence. Where I think we need to be stronger is, if you look at some of our competitor nations, then they're playing a much stronger diplomatic and symbolic role in the wider world and playing out a responsible place on a wider global stage. I think we need to, as a country, become much more involved in creating what we would call that sort of diplomatic and symbolic aspect of a meaningful contribution to the wider world. I think we're doing that in part, but I think what we have—the opportunity with the brand—is to actually now step up to the plate and present ourselves as a maturing nation that has a global role to play.

[246] **Russell George:** There we are. Adam Price.

[247] **Adam Price:** I noted the comments you made about the signs, possibly, of a decisive shift away from inward investment to indigenous business in reading the runes of what we know currently about the economic action plan. The Welsh Government said that last time, of course, in the last economic strategy. But since then, it seems to me that the yardstick of economic success for the Welsh Government has still been inward investment numbers. I'm quoting the Cabinet Secretary here, saying that they are

[248] 'proof of Wales' growing reputation as a great place to do business and evidence that our approach is paying dividends'.

[249] Do you think that Wales's record on inward investment and job creation is that impressive, and is it the right yardstick?

[250] **Mr Cottam:** It's certainly improved as a proportion of the investment that is available to the UK. What I would say, though, is that there is a danger in playing that competition. If all we're doing is trying to be the most competitive region in the UK, that hides some of the maybe more meaningful statistics about the sustainability of job creation, the capitalisation of supply chains. So, I'd give as an example—the Welsh Government gave £4.5 million-worth of business finance to Aldi to set up a distribution centre here in

Cardiff, or on the edge of Cardiff. Now, I would argue that that, as an investment opportunity, doesn't have as much benefit as maybe the support that they gave to the facility in Newport for the retention of jobs. There is a benefit there on innovation, there is a benefit there on manufacturing, and it has a much more significant supply chain. So, when we look at inward investment, it isn't just about the headline figure of jobs created, it's about, I would say, the legacy of that investment, and that's often lost. So, it isn't about an either/or of inward investment, it's about the quality of inward investment. I think that often gets lost.

[251] **Adam Price:** I was quite struck in the evidence that you gave, because when you break down—. The figures that are often quoted by the Welsh Government and that you're alluding to are actually about the number of projects. But if you look at the number of jobs—a very low level of new jobs created. The lion's share are safeguarded, so, effectively, a defensive strategy. Actually, when you look at the net position, because, obviously, some of those foreign-owned firms leave Wales during the same period, there's no net gain at all from that foreign-owned sector.

[252] **Mr Cottam:** No, and between 2003 and 2016, 10,000 additional jobs were created among SMEs, and, inherently, jobs within those businesses aren't mobile. These businesses aren't mobile; they're grounded within their communities. Again, it is glamorous to cite inward investment. I get that; I get the political benefit of that. But I think there is an additional benefit of a focus on the creation of jobs within indigenous businesses, which is often lost when we talk about inward investment.

[253] But where inward investment is a priority, I think we would go for quality, not quantity. I would say, Aston Martin—I think there is a tangible benefit there in growing indigenous supply chains that can, therefore, move on to other opportunities. There is a tangible benefit in the creation of skills academies. That isn't going to be present for any number of distribution centres along the M4 that people might want.

[254] **Adam Price:** The point that you make in the evidence as well is that we should be smart and strategic in choosing selectively those inward investment projects that actually add something to our areas of competitive advantage.

[255] **Mr Cottam:** Absolutely.

[256] **Adam Price:** Terry.

[257] **Professor Stevens:** Could I add to that? Again, it comes to the point of joining up the dots. So, I absolutely can understand the vanity of the headline and the seduction of the inward investment figures, but I think where we miss a trick and have a wonderful opportunity is that you take something like an Aston Martin investment, and, actually, Wales excels in the craftsmanship behind much of the automobile, beyond the engines and the gearboxes. Within 100m of here, 500m of here, is one of the finest restorers of Mercedes cars in the world. We have wonderful craftsmanship that can extend and elevate the indigenous industries if we bring in the right type of inward investment that is synergistic with and is capable of leveraging the indigenous skills. So, I think the two together is the strategy, rather than just, if you like, the headline act that rolls up when the circus comes to town.

[258] **Adam Price:** As part of that more strategic trade and investment strategy, the FSB—you're suggesting that there is a role for an arm's-length body. Could you say a little bit about the rationale for that?

[259] **Mr Cottam:** I think we are suggesting that there needs to be consideration of that. I'm well aware that this proposition will raise eyebrows. The Welsh Development Agency has become what I would term the Voldemort question, in that no-one dare speak its name. However, in 2017, and with Brexit knocking at the door and posing very new challenges to us, I think it is sensible for Welsh Government and for us as a business community to have a conversation as to whether there is a benefit for a more commercially driven arm's-length agency or body to drive forward the Welsh brand. There will always be a limitation on the Welsh Government officials and their ability to act in a commercial manner, but I think now, in terms of the projection of the Welsh brand, it is worth considering again whether there is an option, whether there is a need for such a body. Now, we have not yet come to the conclusion as to absolutely that that should be the case and how that should look, but I think there needs to be a public conversation concerning that. What I would say is that the legacy and baggage of the WDA and maybe the fact that it is a difficult subject politically obscures that conversation. I'm not quite sure that that's a very sensible situation, given that we are in an increasingly competitive environment internationally.

10:45

[260] **Adam Price:** Yes, and you mentioned your Scottish members. The

decision there was to retain an arm's-length body. Would the Scottish members agree that that was the right decision to make? Do they see some value in that?

[261] **Mr Cottam:** I think they see the value in the agency. I'm not sure my Scottish members are quite across the bonfire of the quangos in Wales, to be honest, but I think they see a benefit in the agency. They see a benefit in the agency's ability to project the Scottish brand, and we pointed to Enterprise Ireland as well as something that, yes, can be tasked by Government strategy but is commercially nimble enough to point itself in the directions that market opportunities might lead it. And, indeed, as we develop the development bank for Wales, for instance, that is an arm's-length agency that is tasked with growing the economy, so it's not that much of a step from that. I think all we're saying is that we need to have a conversation as to whether in 2017, with Brexit on the horizon, that could be a vehicle that can benefit Wales.

[262] **Russell George:** Terry.

[263] **Professor Stevens:** I think with all of the conversations so far we've been talking about structures and organisations, and at the heart of us being successful in everything you're talking about is people. You look at some of the skills partnership reports that are coming out about the skills needs for Wales—they're at a great distance from the skill development and the human resource development we're talking about that is needed for the development of our future economy in the future world. And I think we have to address in this whole exercise the human resource aspect of Wales—building capacity, building mechanisms to encourage innovation and creativity and, if you like, allowing disciplines to collide, because that's where the innovation really happens.

[264] So, in addition to the structural side of organisations and institutions, I would like to see us flow that down and permeate that down to what is it we have to do in terms of the skill set of our young people and the development of our human capacity in order to allow us to deliver whatever the structural and institutional things we have in place. And I think there's a big gap there that we need to have a really serious debate about. It applies in my world in tourism and I see it happening in terms of, particularly, the capacity of the small businesses to be able to have the confidence to grow into making this wider contribution.

[265] And it's not helped by the procurement aspects of Welsh Government. As a small business we go on Sell2Wales and to win a tender for, say, £30,000 to do a piece of work in Wales, you have to fill in the same forms as if you're building the third Severn crossing. And it literally is putting off the small businesses from being able to compete, and without that ability to compete and grow turnover and grow earnings, we're not going to enable those indigenous businesses to either have the resource or the competence to be able to go and do bigger things. So, all of these things are a connected chain; it's not about dealing with just one aspect of it.

[266] **Russell George:** Mark Isherwood.

[267] **Mark Isherwood:** Before we leave this section, I just wanted to ask a question about the inward investment figures that you discussed a few moments ago. My understanding is that the Department for International Trade UK figures show that in 2015–16, 97 of the 103 inward investment projects into Wales had UK Department for International Trade involvement. How, therefore, could Wales be better represented in the UK's international diplomatic estate—its embassies, its consulates et cetera—alongside the trade work, either through an arm's-length body or through Welsh trade ambassadors or some other vehicle?

[268] **Mr Cottam:** I think from our perspective, transactionally there seems to be good linkage between the Welsh Government and DIT resource. So, if you look at the websites that businesses will go to, they do reference across to each other relatively well. I do feel, though, that we need to resolve this question as to who owns the Wales brand and whether DIT is actually a part of the ownership of that brand. I'm not entirely sure that they see that; they see themselves as projecting the 'great' brand. I think there is a huge resource in the Department for International Trade. They have 100 plus, or however many offices they have, throughout the world, so that's a huge resource for the Welsh Government, if indeed we can reconcile this notion of who owns the Wales brand, and being very, very clear about what the Welsh Government's strategy and ambition for trade and investment is. If that is not understood and projected to our businesses here in Wales, that is not going to be understood and projected to the Department for International Trade, and therefore they can't help us, effectively. I don't think I bring any enlightenment as to the inner workings of the relationship between the Department for International Trade and Welsh Government. I think, from our perspective, it seems transactionally to be effective, but I think we shouldn't ignore the benefit of the 'great' brand and the resource of the DIT.

[269] **Russell George:** Vikki Howells.

[270] **Vikki Howells:** Thank you, Chair. You said that there's an increasingly competitive market internationally and I completely agree with that. Drawing together some of the contributions that both of you have made so far, in a nutshell, do you think the Welsh Government currently devotes sufficient resource to supporting Welsh exporters?

[271] **Mr Cottam:** I think, from our perspective again, a lot of it comes under the need for a trade and investment strategy. That would task the resource. I think that there is—. The Welsh Government, in fairness to them, have made some good progress in their trade missions, and from our perspective, we would like to see more SMEs included in those trade missions, but also visibility of those trade missions to allow businesses, whether large or small, to put up their hand and say, 'We want to be a part of this.' I think that activity has increased over recent years. I think it is not, probably, at the level that we would need it to be to project ourselves internationally, not exclusively in the post-Brexit environment, but even to the level that we would want now. Through Business Wales and through the support infrastructure, there is pretty good support and guidance for small businesses from our perspective, but I think without a trade and investment strategy, we're not entirely sure as to what the Government's ambition is as to where best to aim that. We need to be very clear about what markets we're propositioning for, and I think we all have a role to be more effective salespeople internationally, but, clearly, this effort is led by Government.

[272] **Vikki Howells:** Without straying too much into post Brexit, because I know there are other Members who want to question you on that, if I could just focus on the fact that the FSB has said that it would like to see the Welsh Government play a role in informing any future free trade agreements negotiated by the UK Government—firstly, how likely do you think that that actually is, based on the dialogue that we see currently between UK Government and Welsh Government with regard to Brexit? Is that something that is really feasible, and then, if it is, could you expand on the kind of role that you would like to see the Welsh Government play there?

[273] **Mr Cottam:** Yes, I think it's very sensible that the Welsh Government should have a key role in informing those trade deals. Again, without wanting to reference the strategy, the strategy will both inform and respond to those trade deals. I think, from our perspective, and it is a concern at the moment,

it is the visibility of the structures that allow for that conversation to happen. At the moment, the Joint Ministerial Committee hasn't met for some time. Now, that is about the negotiation over Brexit, but we need to see that that works to be sure that Welsh Government's perspective is heard when we come to negotiating trade deals.

[274] I need to be able to go back to my members within Wales and say that we are confident that those perspectives are heard. At the moment, I can understand that the UK Government wants to keep control of that conversation, but I think the Welsh Government, the Scottish Government, and indeed the Northern Ireland Government, have a beneficial role to play in projecting their own priorities and actually marking our own countries. I think we're missing a trick if we don't include the perspectives of Welsh Government and the National Assembly and the desires of Welsh business within these trade deals. We're missing an opportunity to really make those trade deals as successful as they could possibly be.

[275] **Vikki Howells:** To play devil's advocate, I know some people would say, 'Well, the interests of Wales are the same as the interests of the UK.' Could you give us some examples of areas of the economy where you think that Wales does have unique issues that really need that Welsh Government input?

[276] **Professor Stevens:** Can I pick up on your first two points and then go on to the third point? Yes, of course we need more resourcing into everything we're doing, but everybody would say that, wouldn't they? And every one of our competitors will always have more—they'll have more resource to put on the table, more people to back the resource. So, we have to be cleverer, smarter, perhaps more focused. I think it's perfectly reasonable and sensible and feasible for you to be part of the debate about the ongoing future. I think it's essential and it's also part of the confidence that small businesses would want to see in terms of the leadership that you perform taking part.

[277] In terms of where we're special, where we're different, I think it is the dominance of small businesses and microbusinesses—I think the European definition of a small/medium enterprise doesn't really reflect the nature of the microbusiness scale in Wales. Those people need a voice and, with all due respect, that voice isn't always represented by the organisation. So, I think we need to look at that.

[278] I think we have to look at the way in which other nations perceive us. I

would advocate much more benchmarking. One of the things we don't do very well is international benchmarking. What are our competitors doing? What are they finding to be effective? And perhaps reviewing what we reflect upon as being success. That was something that Adam raised earlier. How will we measure success in the next 20 years? Well, it might be more about the number of networks we create and the effectiveness of those networks than it is actually pounds, shillings, and pence. Because that's more sustainable, it might be more innovative, more creative.

[279] So, I think there's recognition that we are looked upon as a peripheral country, many of our businesses are at the edge, there's liminality that is involved, and I think those things need us to be looking at nations that are similar geographically, similar in terms of their economy, and let's do some benchmarking. I think there are very often statistics bandied around that country X spends this amount on inward investment. Actually, let's have a look at what Finland's doing, Slovenia's doing, Denmark's doing, and actually be a little bit more robust before we start actually saying it's just about pounds, shillings, and pence. I'm convinced it's about more coherence, being smarter, and being more focused.

[280] **Vikki Howells:** Thank you.

[281] **Russell George:** Ben, can I just pick up on the one point? You mentioned that you would like to see more SMEs on trade missions. Have you got examples of members that have requested to go on trade missions but have not been able to take part?

[282] **Mr Cottam:** We hear from members who say, 'Had I known about the opportunity, I could have pitched myself into that market'. So, it's about the visibility of those opportunities. We've got examples of businesses that are very successful at being part—Tiny Rebel, for instance. Tiny Rebel brewery in Newport went over recently to Japan and I think off their own bat, actually, undertook some work in the US. So, there is no shortage of internationally ambitious businesses, but it's unclear as to how the Government prospects businesses for those trade missions.

[283] We, for instance, as an organisation, won't normally get a call from Welsh Government saying, 'Do you know of a business? Do you know business X, Y and Z who might be interested?' So, we don't get the opportunity to be a vehicle for that conversation. Now, if the networks that businesses trust, such as FSB, aren't able to be a part of that conversation,

then I do question the visibility of those opportunities. I don't doubt that the Welsh Government will give you some counsel on businesses and organisations they would wish to take abroad, but I think we need to be taking the A team, and that might not always be the case.

[284] **Professor Stevens:** But the A team can vary according to the target.

[285] **Mr Cottam:** Absolutely.

[286] **Russell George:** Hannah Blythyn.

[287] **Hannah Blythyn:** Thank you, Chair. The FSB, in your written evidence, says that the

[288] 'Welsh Government's overseas offices do not seem to have a tangible effect on export performance.'

[289] Do you think there is a role for the Welsh Government's overseas offices and what should that purpose be?

[290] **Mr Cottam:** I think there's certainly a role. We're not suggesting that the offices shouldn't be there. In fact, I think there is an evidence-based case for looking at whether they should be in alternative markets or whether actually we should be expanding that portfolio. It's interesting that, in 'Prosperity for All', the Welsh Government hints at that. I think what we're saying is that we need to be very clear about what those offices are there to do, and it may well be that the Welsh Government doesn't see them there principally as driving export performances. One of the things, in looking at this, that we considered is that the Department for International Trade, for all its offices around the world, probably couldn't even themselves point to an increase in export performance in each of those. But I think again, it is unclear as to—. Certainly, we think that increasing export performance should be part of the function of that, but it needs to be clear as to what those are.

11:00

[291] I'll give you an example: a member of mine phoned up about three weeks ago and said, 'Does the Welsh Government have a presence in the EU? Okay, how do I make that contact?' Now, for that enquiry, and I'd rather not go into the detail of that enquiry, but it was unclear to me as to whether I

should be going to that office, because I was a bit unclear as to what the functions of that office should be. So, there needs to be transparency as to what we want those offices there to do, and, again, I think that is something that can be tasked under a strategy, because it allows us to aim the resource in the best possible place. And it may well be that those places where we have offices at the moment in the future aren't the growth markets for Wales. I'm not suggesting that that's the case; I'm suggesting there needs to be an analysis. The fact, though, that the vast majority of those that export—those small businesses that export—export to the EU, and that's going to, likely, continue to be the case, and yet we don't have offices in France and Germany—I think that's something worthy of consideration.

[292] **Professor Stevens:** Absolutely. Could I pick up on what might appear to be a really small point, but is fundamental, particularly in the SME/microbusiness area? In order to be able to export, a business has got to be able to have the support of its bank. It's a very straightforward statement. In 35 years of having a business, we've found that, consistently, our banks—and we've changed banks twice—do not understand the need to support a small business in the export world. A classic example: HSBC—global bank, thinks locally. Three of its local branches couldn't do an international exchange between banks. Total frustration. We were unable to complete a contract simply because the local bank staff didn't understand the mechanisms of working internationally. If that's replicated across Wales, then that's going to be a barrier to growth.

[293] There are ways of overcoming it. Austria, for example, has created the Austrian bank of tourism investment, a collaboration between three Austrian banks, with specialist services dealing with that particular sector. And I think we need to have a look at the provisions of support infrastructure in Wales that are going to enable us to achieve these goals, rather than just looking at, 'Have we got the right structures in other countries around the world?' If I can't do a bank transaction in Swansea because of a bank clerk, then that completely throws my ability to export. It's as simple and as basic as that.

[294] **Russell George:** Jeremy Miles.

[295] **Jeremy Miles:** Thank you. Can I just ask, on the question of overseas offices—? I thought your evidence, the written evidence, on this was interesting and important, if I may say. You've identified a correlation between 2013 and 2016, that window, effectively, which, in the territories you've identified, the existence of an overseas office is a positive disbenefit,

if you like. Now, that may not be your argument, but that's what the correlation suggests. I'm interested in what would the figures show if you looked at Scotland and Ireland for that window. Would the pattern be the same in those markets, or would it be different?

[296] **Mr Cottam:** I can't say. I don't know, to be honest. It would be interesting to go back and do that. I think, within that, we're not suggesting that they are a disbenefit; we are suggesting that there isn't a tangible impact. So, we're suggesting they are not a benefit, or they're not demonstrably driving up export performance, and so it's the lack of clarity as to the role of those offices that probably isn't particularly helpful. I certainly think that—. I think Scotland has 24 sites around the world. It would be interesting, in further analysis, to go and see whether they have been driving export performance and, if so, what is the activity they are undertaking that is allowing that to happen. Now, necessarily, they will be sites that are linked to Scottish Enterprise and the GlobalScot initiative, for instance, which I think is pretty well understood and pretty well developed. So, it may well be that, within that notion of an arm's-length body, were you to have those facilities, they would be able to focus on the things that could bring the greatest benefits, rather than being, maybe, sort of diplomatic centres.

[297] **Jeremy Miles:** Right.

[298] **Professor Stevens:** Sorry, can I just add to that?

[299] **Jeremy Miles:** Sure.

[300] **Professor Stevens:** I think this GlobalScot notion is important. The distribution of an awful lot of the Irish and Scottish overseas offices directly correlates to the diaspora. Both have got very significant diasporas. We haven't got that scale of diaspora. Where we've got a diaspora, we need to exploit it more, and what both the Scots and the Irish do is leverage the entrepreneurial activity of the diaspora.

[301] **Jeremy Miles:** Sorry, can I just elaborate on that? Would they have offices in countries where—and I'm sure this isn't the case—? Would they have a specific presence in countries where the UK's presence might not be particularly obvious or dominant? I'm trying to get the difference between a Scottish presence, for example, and a UK presence in a territory where there's a particular diaspora advantage, if you like. What would that look like?

[302] **Professor Stevens:** I don't think it's as easy as that. I think the ability of tying things together becomes very significant. So, there is a very strong network of Burns societies. It might sound very small, but that brings together a very strong diaspora, and based upon those sorts of networks within another country, the Scottish Government, through GlobalScot, sees fit to embed something that can nurture and grow that existing interest in a Scottish brand.

[303] **Jeremy Miles:** Right. So, it's a sub-set, obviously, of the UK's presence, in some sense.

[304] **Professor Stevens:** Absolutely.

[305] **Jeremy Miles:** Okay. So, your suggestion would be that Wales should, subject to the different nature of its diaspora, take a similar approach in relation to presence for its overseas offices. Is that what you're saying?

[306] **Professor Stevens:** Yes. I think that's the kind of thing one needs to look at, and where Scotland hits hard is that they'll find an entrepreneur operating in Scotland—an indigenous business—and actually start pairing them with entrepreneurs from another country.

[307] **Jeremy Miles:** It sounds like that aspect is worthy of further consideration, reflecting your point earlier. I'm just interested generally in what your expectation would be. A number of factors obviously affect the capacity of any country to export—we've talked about some of them already—and you've identified Germany and France, where there isn't an office, where there are much higher exports, but that's for reasons that probably are not to do with the existence of an office, which are perhaps obvious. So, what would your expectation be about the role of an overseas office as part of the mix of support and mix of capacity for firms to export? Is it ever going to be a significant contributor to that or is it going to be marginal? What's your instinct about that, your hypothesis?

[308] **Mr Cottam:** I think there's an opportunity for a local office to galvanise the networks around it, the business networks around it, which then create an opportunity for us to project the Welsh brand and, therefore, opportunity. Now, I don't doubt that it is the case that, where trade missions are planned to territories where we have a Welsh office and they are central to the planning of that, I do see them as a facilitator for businesses, such as my member who made that enquiry, and they may well do that, but they don't

project themselves as having that role, I have to say. And, again, for us as a business organisation, we wouldn't have contact with the network of those offices for members who might be interested in introducing themselves into those territories, but we would expect that they do have a role to play in that.

[309] Just to touch on that point about, I guess, the cultural benefits and the benefit of the identification of the Welsh brand, and to pick up on the point about Burns societies, what strikes me—my wife's from Ohio in the States, and that's the state that claims the second-highest level of Welsh descendancy, after Pennsylvania—when I'm over there, and I've started to look at this, is the number of very small but very active Welsh societies that are absolutely fascinated by their heritage. That, at least, if nothing else, creates a bedrock of recognition of Wales as a nation, of our culture and, therefore, if we're a bit more savvy about it, of our brand. But it's interesting that that activity doesn't seem to be there, and we don't capitalise our diaspora in the same way. We know that our diaspora is much smaller than Scotland and Ireland. Nevertheless, it is there, and I know that Welsh Government has undertaken some work on diaspora, but I think we need to redouble efforts because these are net promoters out there in these markets, and they are our best ambassadors and best spokespeople.

[310] **Jeremy Miles:** Thank you.

[311] **Russell George:** Can I ask: what are your views on Business Wales?

[312] **Mr Cottam:** Do you want to—?

[313] **Professor Stevens:** I wouldn't wish to make a comment on that.

[314] **Mr Cottam:** With the caveat that obviously I sit on the strategic board of Business Wales—mainly the one-stop shop element of it—I think it, as a facility, has managed to knit together the varied areas of advice and support available for business. So, it has done—. If I think, many moons ago, we had 500 different streams of funding and support available to small businesses, it has served definitely to bring those together. As a shopfront for businesses hoping to prospect in Wales, and maybe businesses seeking opportunities abroad, I think it is positive. Certainly, the feedback from our members is generally positive, but I think, again, there is an opportunity for it to project itself more commercially and more effectively. But it will necessarily be limited to the fact that it is not a commercial entity; it is the Welsh Government administering that. I think that comes back to the point of

whether or not that function could better be performed, certainly in terms of the projection of brand and opportunities, by an arm's-length agency, but I think it's generally well connected.

[315] **Russell George:** Terry.

[316] **Professor Stevens:** One of the more generic comments I would have liked to have heralded, I suppose, is the whole point of, we need to be much more international; international in our outlook; international in our networks; international with things we are members of. And I think, within that, there are a number of relatively low-hanging fruits sort of thing, that—. You know, World Tourism Organization: the UK Government's not a member, therefore Wales isn't a member, but we could become an affiliate member; we don't have to go through normal structures. Being part of the United Nations World Tourism Organization would bring us many internationalisation benefits. In Wales, we have a whole range of consulates. They're informal; they're voluntary, but these are people who, in some instances, for 20 years have known other countries and know Wales. And are we connecting those people and exploiting those opportunities in line with wherever we may have offices, or—

[317] **Russell George:** So, are you suggesting that these consuls could be—that their roles could be extended?

[318] **Professor Stevens:** Well, I know two honorary consuls, and they're very wise people, they're very connected people, yet they're kind of used as the other country connecting to Wales. Do we use them enough to connect to the country that they represent?

[319] **Russell George:** Do we?

[320] **Professor Stevens:** In my view, no.

[321] **Russell George:** Okay. That's interesting. Can I also ask, separately, about enterprise zones as well? Have you got views on Wales's enterprise zones—how well they're performing and how many jobs they're creating?

[322] **Mr Cottam:** We've not undertaken analysis of the jobs created yet.

[323] **Professor Stevens:** Not yet.

[324] **Mr Cottam:** I think there are those, such as the Deeside enterprise zone, that are performing very well. They do seem to be—. I was up there recently, and there does seem to be a sort of capitalisation of the businesses around that, and there is a sense of them performing to that end. I would say that perhaps the results of others are variable.

[325] **Russell George:** Okay. I'm interested in your point on honorary consuls, I think that's absolutely—

[326] **Professor Stevens:** On what, sorry?

[327] **Russell George:** Honorary consuls. I think you're suggesting that those roles could be expanded to have, perhaps, a more trade element to them. So, that's interesting. Hefin David.

[328] **Hefin David:** I'd like to pick up on some evidence we had with regard to tourism, last week from the—. I can see Professor Stevens's eyes lighting up there. I was looking at your website and some of the research you've done, and I'm interested in some of that stuff, so perhaps we can come to that in a minute.

[329] **Professor Stevens:** You mean a website that hasn't been updated since 2008. [*Laughter.*]

[330] **Hefin David:** Oh, I see. Right, okay. Perhaps the research is up to date. The European Tourism Association: Tom Jenkins gave some evidence last week—he's the chief executive officer—and he said, with regard to large-scale events, and we're talking the likes of the Ryder Cup, the NATO summit, Champions League—this is quoting him:

[331] 'The bigger the event, the greater the political stake there is in making it clear that this is wonderful, and the bigger disruption there is to the tourism pattern of demand....What you do when you hold a large event is you very publicly tell all your normal customers that you are closed for business. The repercussions of closing yourself for business play out month after month and, in some cases, year after year, until you reestablish some kind of equilibrium. So, I would be very cautious about holding large events, and if you do, remember to contain them very carefully and try and maintain that your regular business is unaffected by such an event. Bigger event: bigger disruption, bigger problem.'

[332] They're the words of the European Tourism Association. Can you give us your views—and FSB as well—but give us your views on that?

[333] **Professor Stevens:** Yes. I mean, I wouldn't use the language of ETA in that respect. Having an events programme for a country is all about balance. There will always be a place for the large, peripatetic bought event. You know, Ryder Cup, UEFA—there will always be a place for that. It's good for international profile, it's good for civic pride and, handled properly, it's good for some aspects of legacy. Aspects of legacy have been disappointing in the past, Ryder Cup has been extremely disappointing in terms of the promised legacies from that, but I would always look at an events programme for a country as being a balanced portfolio.

11:15

[334] There will be the vanity, egotistical headline act, and we kind of need those. In the future, I think we need to be more selective and confident about ensuring that those major events that we buy in are closer to our brand and are reflective of our brand, rather than just, you know, they're a passing ship that we pull into our port on a particular occasion. And if we continue only to write cheques, another country will write a bigger cheque. It's a bidding war.

[335] **Hefin David:** And what about this view that it focuses on local markets, such as Cardiff—a very, very local market: Cardiff around the Millennium Stadium with the Champions League—and causes disruption to that immediate area and doesn't do much for anywhere else?

[336] **Professor Stevens:** But I think that's part of the balance. One can afford to have, perhaps, two events like that in the course of the year. Ironman in Tenby arguably did the same in Tenby, but one wouldn't question the fact that it was good on a number of different criteria. Where we need to be moving in the future is in this balanced portfolio. So, perhaps we've gone too much for sport in the last few years. Where are our international cultural programmes? Where is the dispersal of events across Wales? What's the relationship between spectator-based events and mass participation events? So, Ironman in Tenby, mass participation; UEFA Cup, spectator value and billions watching on television.

[337] We need to find a good fit. The balanced programme is the one we need to advocate, but we really need to start building indigenous events that are owned, curated and delivered, and which maybe Wales could sell to the

world. Maybe that's an export opportunity. But we have to be mindful that there is a balance and a range and a continuum of events, and existing events that we could call our own are not performing hard enough. Artes Mundi doesn't perform enough. Cardiff Singer of the World has the potential to do more. So, I think we need to think about our indigenous events and leveraging them in the same way and delivering the same type of benefits as the peripatetic, bought-in events.

[338] **Hefin David:** Just before I move to the FSB, can I also ask what research has been done into the economic impact of these big events compared to the economic impact of indigenous micro-firm, farmers' markets and connectivity across Wales?

[339] **Professor Stevens:** Okay, fair question. Lots and lots of international research and case studies and benchmarking. I think it all comes down to: what is the objective of a particular event? If the objective of an event is about filling beds, because its primary focus is about tourism, then you need an event x, y and z, and a farmers' market is unlikely to deliver that, but a farmers' market in Ruthin or Narberth will deliver good day visitation primarily serving a local market. So, it's perfectly valid and legitimate to have a raft of events that are here and, you know, think of the apex: there will be some headline acts. At present, our headline acts are dominated by the bought in—the Volvo Ocean Race. They're perfectly good events, they will do Wales a lot of good in a number of dimensions, but we also need to balance them with more cultural programmes and more indigenously developed, internationally significant events.

[340] **Hefin David:** Okay. So, if I take your question about balance and ask the Federation of Small Businesses: how balanced is our portfolio?

[341] **Mr Cottam:** I think we'd say that there is a preoccupation with events based in south Wales. I wouldn't though go so far as to say that they're of no value to the rest of Wales. I think there is an opportunity—. If you take something like the Champions League and the focus on Wales that that brought, we could have better benefited from that had we been undertaking a campaign for small businesses as to how they could capitalise on the attention—

[342] **Hefin David:** So, small businesses didn't understand how they could—

[343] **Mr Cottam:** Yes. I think small businesses would have been aware it was

happening. Whether they were sort of looking at the opportunities that came from that attention, some will have been, among the more savvy, but perhaps there is a role then to direct business support and prospect to those businesses and say, 'You need to be thinking about the opportunities that this can bring you.' The disruption's an absolute factor of any event. I think you would think that, for something like the Champions League, our phone would be ringing red-hot with Cardiff businesses complaining about the disruption. That's not the case. That's not to say that there aren't those who aren't affected and adversely affected, but I think people are pretty pragmatic and see it as a greater good. They see the benefit. I would absolutely agree with Terry's point about legacy, though. There is a fire-and-forget mentality around big events in Wales. Yes, we get a warm feeling from the exposure that gives us, but the legacy of that exposure needs to be better. We need to better exploit that. If, for instance, with the Champions League, there is exposure from one particular market, then there's an opportunity to guide our businesses to making links with that market. I think we're missing a trick in not doing that more effectively than we are at the moment.

[344] **Russell George:** Okay—

[345] **Professor Stevens:** Sorry; just a couple of things on that. Coming back to my point about great platforms—let's be positive—the major events unit, in the global scene of things, is doing a good job. It's well respected, and I think it does have the eye on that continuum of opportunity. I think, all too often, politics get in the way of the strategic approach that we could be deploying, and I think the media have an awful lot to carry in terms of the negativity of the flow. Going back to interviews of your members after the UEFA Champions League, two business people in Cardiff said it did no good to them. One of those persons we rang up and said, 'Can you host an event?'; 'No, no. Don't want to know'. So, you know, let's take—

[346] **Hefin David:** This is the research I'm talking about. What research is there in Wales to say that this has this benefit and not? I can't see where that research is. There's international research, but it's not Wales based.

[347] **Professor Stevens:** Yes. I think that's fair enough, but I think it's been partial. I think the Cardiff centre looking at the economics of—. They do tourism satellite accounts and the economic impact of events. So, they've looked at what's been happening at the Millennium Stadium and events in Cardiff. So, I think there's a raft of activity, but it's probably a requirement of the event organisers that their event is evaluated, rather than a requirement

of the strategy of Wales to have the event evaluated. So, UEFA will have insisted on that evaluation. Volvo will insist on evaluation.

[348] **Hefin David:** Right. Okay. So, the Government could drive some of this stuff perhaps.

[349] **Professor Stevens:** The Government?

[350] **Hefin David:** The Government could drive to gather that information in order to drive strategy, and I'm getting the impression that doesn't quite happen. You've got a series of approaches to big, medium, small events and big, medium, small tourism, but there isn't a drive in research to connect all those things together.

[351] **Professor Stevens:** Yes, and I think that's why collaboration—the opportunity for universities to work together in Wales, for example. I would also like to make this point: as you know, what's a big event in Cardiff might be a small event in Pwllheli, but the impact in Pwllheli is as strong. And internationally, the right type of event in Pwllheli can be as significant in certain markets as the UEFA Champions League in Cardiff. So, it all comes back to a strategic approach with a balanced portfolio.

[352] **Russell George:** Jeremy Miles.

[353] **Jeremy Miles:** Can I just extend that? I'm going to ask you, in a second, about the impact of Brexit on what we've been talking about, and the two or three things that we should be doing differently as a consequence. Terry, can I just ask you to develop the thought you gave in answer to Hefin's question about the indigenous events? So, in short, why aren't there as many as there should be, and whose job is it to develop them?

[354] **Professor Stevens:** Well, I think there's a view—and it's not only a view that takes place in Wales—that an event is a one or two-day thing. Edinburgh is a classic example of where a series of festivals come together under one umbrella so you have four months of artistic activity, with something now like 35 festivals all under one umbrella. That's about collaboration on brand, working together to create a coherent experience. So, you'd have literature for five or six days, then humour seems to permeate across the patch. I think it's about us being clever and collaborative in putting together a number of things that might exist already.

[355] **Jeremy Miles:** Who should lead on that work?

[356] **Professor Stevens:** Well, it really should be the destinations.

[357] **Jeremy Miles:** The city, essentially, or the region?

[358] **Professor Stevens:** Whatever is the tourism destination.

[359] **Jeremy Miles:** Okay.

[360] **Professor Stevens:** There's no need for the Welsh Government to be getting into the detail of leading that. It should be encouraging those destinations to come forward with a sustainable strategic proposition and then backing that. So, rather than, let's say, 10 different sailing events taking place in Pwllheli over the course of nine months, tell them to try to coalesce, and then you present a critical mass that's understandable, coherent, and you're capable of going to a global audience and saying, 'Here's something meaningful.'

[361] **Jeremy Miles:** Thank you. On the other question, if there were two or three things that you think we should be doing differently in light of Brexit, then what would they be for you?

[362] **Mr Cottam:** I think one of them is to look to—. Clearly, we are going to need to proposition for new markets. As I said, the dependency on EU markets will remain, but there is an opportunity, I guess, to proposition for different markets. Now, that will be guided, to some extent, as to what trade deals are undertaken, but I think it does necessarily demand that we cast our net wider. I think Welsh Government needs to be thinking now about some of the markets that we probably haven't got a presence in, but are emerging and therefore provide an opportunity for Welsh business.

[363] I mentioned before that there is an opportunity to use a strategy to guide that work. The lead time to get that up and running would, I would suggest, map the time between now and our exit. But I think it is in the absence of certainty now to project a positivity and a positive view of Wales, but also to be on the front foot in creating the opportunities for business to prospect overseas, and dare I say, yes, to prove the case for Wales as a destination for investment.

[364] I think it isn't just Brexit. I mentioned earlier that the emergence of

city regions around the UK means that we're going to be internally very competitive. So, we are going to be competing within the UK as we never have before for investment from other areas of the UK. So, I'm not quite sure how well tooled up we are as yet, as city regions, to do that, but that's probably something we need to organise ourselves around.

[365] **Jeremy Miles:** So, on that, if you were to say, 'Actually, it's this city region that I feel is really leading the way on this, or doing some really innovative, interesting stuff', which would come at the top of the list for you?

[366] **Mr Cottam:** Well, necessarily, I look to the Northern Powerhouse as probably the biggest area and the best organised area, and I'm quite impressed with the way they organise themselves and the way that they organise the business community around that effort. I think there's a real opportunity for the three identified—so far identified—city regions in Wales to distinguish their own USP. There is no point in saying that every region of Wales can be everything to everyone, so we need to be very clear about what each other's regions offer, whether it be internationally or here within the UK. We've stated many times that we have concerns about the absence of mid Wales and rural Wales from this thinking, because, necessarily, there is an opportunity, particularly within rural Wales, to better understand the role of tourism within those economies.

[367] So, there is a job of work to do, and, clearly, within the Brexit landscape, it remains to be seen as to what the impact will be on rural economies. However, tourism is a key part of ensuring the resilience of those economies. So, I think it is tooling up, and, yes, there is an absence of certainty as to what that environment will look like, but that shouldn't preclude us from having that conversation and gathering together the networks that can project us more effectively.

[368] **Jeremy Miles:** Thanks.

[369] **Professor Stevens:** Could I—?

[370] **Russell George:** Yes, just briefly, because I don't want to dig in too much to our time with the Cabinet Secretary at 11.30 a.m. So, just briefly, and I've got David Rowlands to come in as well. But if you could just answer briefly and I'll come to David Rowlands.

[371] **Professor Stevens:** Yes, very briefly. Look, in terms of social markets,

we're consumed by geography. The world's going to change, and I think one of the ways we could be cleverer is to start looking at networks that sit above geographies and territories. And maybe it's not about thinking of offices in countries, but offices within networks. Life sciences is a classic example. The people who come together for life sciences don't worry about geographic boundaries, and I think maybe part of our different approach is to start thinking of interventions that sit outside of geographic territories. And, it comes back to the—

[372] **Russell George:** Terry, I'm really sorry, but I'm going to have to ask David Rowlands, because the last person always gets the short straw, otherwise. David Rowlands.

[373] **David J. Rowlands:** Okay. Actually, you've touched upon this earlier with regard to what can Wales learn from other countries. Ben, can you expand on the fact that you've suggested, obviously, that Scotland and Ireland are doing far better than us, or have been, historically? Could you expand on the potential benefits of Wales perhaps adopting the approaches with regard to supporting trade and inward investment that both Scotland and Ireland seem to have done?

11:30

[374] **Mr Cottam:** Yes. Necessarily, they're bigger economies, so that's the caveat that I would give. However, I think the capitalisation of the brand, the recognition and the buy-in that businesses have to the brand—and I mentioned that, in Scotland, I think there is a united purpose around that, with businesses recognising what are the national economic USPs of Scotland and accepting that, yes, they will have the stereotypes, but they won't be ashamed of the stereotypes, they'll market the stereotypes. I would argue that perhaps we were a little bit unsure as to what to do with the stereotypes that exist about Wales, whether they be rugby, whether they be daffodils or castles. We tend to be a little bit inhibited by them, and I would suggest, 'Well, market them; they become an asset.' However, I think what is notable about Wales and Scotland is that they are inherently outward-facing, and they have agency to allow them to do that and to think commercially in the way that they project their brand and, of course, the capitalisation of the diaspora, which is, in both cases, very impressive in the way that they go about that. They realise the value of that to the national brand and to economic development.

[375] **David J. Rowlands:** Terry, are there any other countries that perhaps we could look at?

[376] **Professor Stevens:** From a territory point of view, it continually impresses me, and it might not impress others, but I think Denmark has an interesting model, Finland, Slovenia, and Ontario is particularly interesting in Canada, I think.

[377] **Russell George:** Can we thank you both for your time this morning? If there are points that you want to make that you haven't managed to put across to us this morning, we're very happy for you to drop us a note, and that will be taken equally as the evidence taken this morning. So, can I thank you for your time? We're very grateful, because we know you're both busy people.

[378] **Mr Cottam:** Thank you very much.

[379] **Professor Stevens:** Thank you.

11:33

**Ysgrifennydd y Cabinet dros yr Economi a'r Seilwaith—Craffu
Cyffredinol
Cabinet Secretary for Economy and Infrastructure—General Scrutiny**

[380] **Russell George:** I move to item 4, and I'd like to welcome the Cabinet Secretary for Economy and Infrastructure, who is with us this morning. I wonder if you could introduce yourself and your officials.

[381] **The Cabinet Secretary for Economy and Infrastructure (Ken Skates):** Thank you. I'm Cabinet Secretary for Economy and Infrastructure, and from my left, I have Simon Brindle, business, Brexit, trade, Simon Jones, infrastructure, transport, and Tracey Burke, policy and strategy.

[382] **Russell George:** Thank you. If I could ask the first question: have you assessed the impact of the European Union (Withdrawal) Bill on your portfolio, and, if so, what conclusions have you reached?

[383] **Ken Skates:** Yes, we have reviewed EU regulations and directives that are relevant to the portfolio. I should say that I share the concerns that have been expressed across Government, across ministerial portfolios, with regard

to the Bill. We don't want to frustrate the process of leaving the EU, but we do wish to see devolution respected and honoured. That's the purpose of laying down the amendments that the First Minister and the Cabinet Secretary for Finance and Local Government have outlined. We've conducted that assessment across the EU directives and regulations. We've found that most concern non-devolved areas, but do have an impact on devolved areas of delivery, for example, in terms of vehicle licensing, aviation, and other forms of travel.

[384] **Russell George:** So, can I ask how much subordinate legislation do you think you will need to bring forward as a result of any Welsh EU-derived domestic legislation?

[385] **Ken Skates:** No significant amendments have been identified as of yet. Simon can probably give an outline of the process that we've followed to date and the work that is still required.

[386] **Mr Brindle:** Thank you. Specifically around subordinate legislation that might be required, it's highly uncertain, depending on the nature of the withdrawal Bill, which is about to start its committee stages and could take significant variations. The Welsh Government's done a trawl across all departments identifying quite a range of areas where secondary legislation and statutory instruments may be required to change. But it does very much largely depend on the nature of the Bill as it comes through. But across all of Government it's in the hundreds, and there are contingencies and discussions going on about how that volume of work could be progressed. But in the particular policy areas that the Minister outlined it is not the largest aspect that's affected.

[387] **Russell George:** And how is your department engaging with the UK Government to ensure that Welsh interests are protected and represented?

[388] **Ken Skates:** That continues, both in terms of the officials within my department, with UK Government, and through the EU transition team Welsh Government has set up and which the First Minister and the Cabinet Secretary for Finance and Local Government lead. My other concern, though, with this is that any subordinate legislation that is required to go through the Assembly could lead to Assembly business being packed and other areas of Government priorities being crowded out. That's a significant danger, I think, and a risk, and I think it's been highlighted, probably, by many others. It's a risk also in Parliament.

[389] **Russell George:** Okay. Thank you. Hannah Blythyn.

[390] **Hannah Blythyn:** Thanks, Chair. Still on the subject of the implications of Brexit and on more to the potential financial implications for us here in Wales, particularly the benefits we currently get from funding streams such as the European regional development fund and the European social fund—has any assessment been made of the impact and how we can mitigate that?

[391] **Ken Skates:** I should just reinforce the message that's been given consistently by Welsh Government. We expect every penny to be made good for all of the policy and service delivery areas that we'd expect to draw down EU funding for. That's at the heart of 'Securing Wales' Future' and we would also expect, at the point of exit, for the block grant to be readjusted to take account of historical underfunding and the money that we would reasonably expect to get from the EU. The bulk of the funding from the EU amounts to approximately £680 million annually at the moment, and goes through the common agricultural policy and structural funds, with other funding allocated to areas of activity that have significant economic development benefits, such as Creative Europe and Horizon 2020. But we would expect all of the funding that we would reasonably expect to receive to be made good, as was promised during the referendum campaign. If it's not, then potentially any project is at risk. We know, for example, that structural funds pay for significant urban connectivity projects, such as the metro, and so it's essential that every penny that we would expect to get in the future is channelled through to Wales by UK Government.

[392] **Hannah Blythyn:** In your previous answer to the Chair, you did touch on the conversations or the ongoing dialogue between UK Government and Welsh Government in terms of Brexit legislation and the impact on devolved areas. But what sort of dialogue has there been in terms of actually making sure they do make good on making sure we have the levels that we need in Wales still?

[393] **Ken Skates:** Absolutely. We've been very forceful, both in terms of the leadership from the First Minister down—very forceful in our demand that we get the funds that we would expect. In terms of individual meetings with ministerial equivalents at Westminster, I've done the same in engagement with Ministers in international trade, in transport, in the Department for Business, Energy and Industrial Strategy, in the Department for Digital, Culture, Media and Sport. The message is very clear, that Wales should not

lose out as a consequence of leaving the EU.

[394] I think as well in terms of joint working moving forward—and Simon perhaps can outline what we would expect in terms of Brexit and devolution—there needs to be re-established a new governance process that sees joint working taking place, as it hasn't been taking place of late.

[395] **Mr Brindle:** Thank you. There are several related issues to your question. The first is the immediate issue of the current round of EU funding, which is due, in the funding framework, up to 2020. The UK Treasury gave a guarantee that existing commitments taken through normal business would be honoured, and there's detailed work at official level on what does that mean. The usual course of business would allow for three years of follow-through on those programmes, so the N plus three arrangements, which would mean that some projects under the current funding wave that we have access to, structural funds, would be accessible until 2023. There's uncertainty about what will come next. There's also uncertainty at this stage about what the UK would have received if it had stayed in the European Union for the next financial wave, because the EU budgets have not yet been set. But those discussions are happening across all departments, and centrally those discussions are happening with the Treasury about what those settlements look like.

[396] The Minister touched on the governance and operational requirements there, because as we step away from the European Union, some of those directives that operate at EU level are going to require enhanced governance and oversight and co-ordination at a UK level, where there seems to be mutual interest. That could be arranged on a whole range of issues where you could establish frameworks in areas that are quite specific—on something like, say, food labelling, right through to the way that state aid and other issues would operate. And some of those would have significant financial implications about how you operate across the UK.

[397] **Hannah Blythyn:** Thanks. Cabinet Secretary, you touched on the need for new governance arrangements and I think, Simon, you just said about co-ordinating in areas of mutual interest. I was just wondering, looking at it from a slightly different perspective, has there been any thought or any engagement with metro mayors, particularly in those areas that run along the border of Wales?

[398] **Ken Skates:** Yes, there has been, and that co-ordination and co-

operation will be intensified during the autumn and the winter. I've already met with some metro mayors. There are further meetings that are being arranged with others, including the metro mayors for the west Midlands and the west of England. I think it's essential, especially in terms of the UK Government's aspirations through the industrial strategy, to better share wealth-growing opportunities across the UK, and that we work where there is common cause with those regions as metro mayors, those growth areas, for mutual benefit.

[399] I also feel that there is still a poor degree of information that is being shared with us by UK Government concerning Brexit, and that was not what was promised shortly after the referendum. We were assured that there would be collaborative working and that information would be shared comprehensively in a timely manner. That's not happened; it needs to improve.

[400] **Russell George:** A brief question from Mark Isherwood before I come on to a new subject from Adam Price. Mark Isherwood.

[401] **Mark Isherwood:** Thank you. You referred to EU funding and, of course, Wales only gets it because of the GVA prosperity gap in terms of the value of goods and services produced per head of population. And if that gap is closed and we continued within the EU, clearly, we'd cease to get it. What consideration have you given to an alternative formula that would apply in terms of UK funding for the future?

[402] **Ken Skates:** An alternative funding mechanism to that which is operated for receipt of EU funds, or Barnett—?

[403] **Mark Isherwood:** Would you seek to maintain an equivalent measure, but at a UK level, or would you be seeking an alternative measure, below which nations and regions of the UK would not qualify for funding because the prosperity gap had been closed?

[404] **Ken Skates:** Okay. Quite honestly, I'd like a funding mechanism that reflects the historic underfunding of Wales from the UK Government, but which also reflects the existing funds that we draw down from the EU, and I would expect whatever the funding mechanism is to deliver no less than that amount; indeed, a funding mechanism that addresses the underfunding that we've received through the Barnett formula.

[405] **Mark Isherwood:** So, would you therefore continue—

[406] **Ken Skates:** And in all fairness, this is actually a matter that the Cabinet Secretary for Finance and Local Government is responsible for.

11:45

[407] **Mark Isherwood:** Would you anticipate, therefore, continuing to apply, whatever measure the EU then applies to its member states and nations and regions, a formula that would apply within the UK single market in the future?

[408] **Ken Skates:** Well, it would make sense to do just that. Tracy, are you able to outline our position?

[409] **Ms Burke:** Yes. I was just actually going to refer to Simon on this, because I think from a cross-government point of view, Simon will have—

[410] **Mr Brindle:** The External Affairs and Additional Legislation Committee produced a report about the future of regional policy, which was a very comprehensive, in-depth look at some of these issues, and there's a Plenary debate on that tomorrow. I think the conclusions there were that, actually, the needs-based element of European funding is an issue. Those needs are still going to continue with or without Brexit, so there are going to be requirements there. I think one aspect that we're considering is that what would happen in a UK-wide system is that some of the distinction between European-funded and domestically funded projects is not necessarily required in terms of European policy set in Brussels about what things should be spent on, specific geography, which are assisted areas. That's constrained by the nature of the European funding. But there are lots of synergies between those issues that are currently receiving EU funding and domestic-funded issues. And I think, as we consider options for doing this together, it's about aligning domestic and current European funding stream priorities, and integrating those systems to actually take out some of the EU bureaucracy. But, actually, the needs don't go away.

[411] So, the analysis and conclusions we have is that Wales continues to have that need, the low GVA, and those projects where the money gets spent, so apprenticeships or some of the infrastructure, are still going to be required, and, actually, a system that reduced those levels of funding, and spent it elsewhere in the UK would mean tens of thousands of

apprenticeships not funded, or hundreds of miles not built because of those changes.

[412] **Russell George:** Mark, has that answered your questions?

[413] **Mark Isherwood:** I think so. I think Tracy Burke gave a very helpful, straight answer on that. But you would anticipate, notwithstanding unknowns—and there have been very many—that at this point in time, whatever EU formula might be is likely to be the sort of measure you might seek to apply.

[414] **Russell George:** There we are. For the record, Tracy is nodding to that analysis, I think. We'll move on to a new subject area—Adam Price.

[415] **Adam Price:** I'd like to broaden it out, Cabinet Secretary, if I can, to the wider economic landscape. It seems that there hasn't been a time, probably, when so many of our anchor companies have some significant question marks over their future. Some of it is Brexit related, some of it not. But you're thinking of concerns, obviously, with Tata and the merger there, Ford, Toyota—we were reading recently—Airbus et cetera. Do you have a contingency plan for a sort of worse-case scenario where, in two to three years' time, we could be looking at a whole series of foreign-owned companies announcing very, very significant job losses? And are you in constant contact with people in leadership roles in those organisations?

[416] **Ken Skates:** Yes. I've met with the top 10 internationally owned companies in Wales to discuss Brexit, to discuss investment opportunities. We have round-table discussions with anchor companies, with regionally important companies. The work that's taken place so far, as a consequence of those round-table discussions, includes two 90-day action plans for delivery in regard to Brexit. We've had extensive engagement right across the business community, not just with anchor companies and RICs, but also with SMEs as well, primary through the Business Wales network, which has contact with 90,000 businesses in Wales. What's clear is that the main risk that looms is the potential for an economic downturn as a consequence of a bad deal being reached, and then continued strain on the economy due to potential skills shortages and limits on the number of migrants available for the Welsh workplace.

[417] So, discussions have taken place at length. The key message from businesses large and small, but particularly from anchor companies, is that

we need to maintain free and unfettered access to the single market. That's still clear. I do welcome the Prime Minister's Florence speech, which I think follows the lead of the First Minister here in Wales on several fronts. A transition arrangement is certainly required. We cannot have a cliff edge being reached in March 2019, and transitional arrangements should maintain free and unfettered access to the single market.

[418] Many of the largest investors from abroad come to Wales and come to the UK because of the market of 500 million people within the EU. That's one of the primary purposes for investing in the UK. Upon exiting the EU, we need a transition and then ultimately a deal that maintains that free and unfettered access, as an absolute certainty.

[419] In terms of alternatives and the consequences of not reaching that, you may be aware that the Confederation of British Industry has just produced—I think today—an interesting and pretty bleak analysis of the consequence of having no deal. We're working with the anchor companies and RICs to further assess what mitigating procedures we can put in place as a Government, both in isolation, but also with the UK Government, should a deal be reached that does not meet the expectations and the needs of businesses.

[420] **Adam Price:** Presumably, your new economic action plan will cover some of this ground. Could you just clear up a little bit of the confusion? Because I think a number of us were expecting that to be published last week and Hefin David gave a speech at a business breakfast heralding the unveiling, and, indeed, Lee Waters et cetera wrote an article in the *Western Mail*. Can you clarify why it's not going to be an economic strategy now? We were promised it in the spring and now it's an action plan. What went wrong with the communication there, Ken?

[421] **Ken Skates:** Okay. We now have a national strategy. I take responsibility for coming out of the blocks quite quickly last year and saying that I wanted a new economic strategy. Following extensive work that's taken place, we've published the national strategy, 'Prosperity for All', which has identified five key priorities for Government right across all departments and a series of objectives for the Government, which touch, again, a significant number of areas of responsibility within my portfolio. This demonstrates a new way of working across Government, in collaboration. It also, I think, meets the objectives of the Well-being of Future Generations (Wales) Act 2015. But from 'Prosperity for All', a small number of action plans for

delivery will be published, of which prosperity and security—a prosperous and secure Wales—will be one of them, aligning with the pillar of ‘prosperous and secure’ within the national strategy. That will be published this autumn. You’re right, it will reflect the work that’s been undertaken so far concerning Brexit, but it will also assess and address the regional inequalities across Wales; it will address the move towards industry 4.0, the convergence of traditional sectors and also the need to ensure that we get the best possible results from every penny that we spend in terms of business development and in terms of infrastructure development as well.

[422] **Adam Price:** So, basically, your Cabinet colleagues hijacked your bright idea and decided they wanted a strategy. Can I just ask, in terms of the autumn, just to be clear—because we have been waiting with baited breath for this economic policy statement—I’m always confused as to when winter begins, but is that October, Cabinet Secretary, basically?

[423] **Ken Skates:** It’ll be before Christmas. It’ll have to go through Cabinet. I am arranging a series of bilaterals with Cabinet colleagues to ensure that, in the spirit of cross-Government work, it has the approval of all Cabinet colleagues and Ministers. My work wasn’t hijacked by any of my colleagues. I think it’s essential that the work that stems from one department reflects the priorities of the whole of Government. And, again, in my eagerness to develop a new strategy, I accept responsibility for not working as I should have done in that cross-Government spirit. That’s been addressed, and I’m pleased that we are taking forward ‘Prosperity for All’ as a national strategy that crosses subject boundaries and crosses departments as well.

[424] **Adam Price:** I’ve just got a few bullet points based on what’s in ‘Prosperity for All’. I know that other colleagues want to come in, so I’ll do them all and then other—

[425] **Russell George:** [*Inaudible.*]

[426] **Hefin David:** Can I just interject at that point? Adam Price didn’t actually attend my breakfast briefing, and I did mention him in very, very good terms, and one of the things that he would know if he had attended was that I had a bullet point of things that we would like to see from the strategy at the end, and all of the things that you’ve mentioned bar one were in the national strategy, and I’m pleased to say you’ve outlined those again. The one thing that I would like to ask a question about, with your permission, is—. The one issue that I’d like more expansion on is the

foundational economy. Can you just expand on that? I know you mentioned it in your Deloitte speech, and I think that some more expansion would be useful there, but I'd also defend myself and say that what I predicted, and what I wanted to see, was actually in the majority of what you delivered.

[427] **Russell George:** If I can say—well, what Hefin said is on the record. Perhaps if we come back to Adam's questions and then perhaps the Cabinet Secretary can answer the questions on the foundational economy, if that's all right?

[428] **Ken Skates:** Okay, yes.

[429] **Adam Price:** I'll just—[*Inaudible.*]—I entirely support Hefin's suggestions. I'm a strong supporter of the foundational economy as well so it would be good to know that that's in there. The review of bodies—economic and other advisory bodies—started around this time last year. Will we have the result of that?

[430] **Ken Skates:** That's a component of it, yes.

[431] **Adam Price:** The FSB, earlier, reading the runes of what we see in 'Prosperity for All', detect a shift from an emphasis on inward investment to indigenous businesses. Is that a fair assessment of where your thinking is? The move towards a smaller number of sectors: do you have a number that you can share with us? It was six in 2010, it went up to nine—

[432] **Ken Skates:** To nine, yes.

[433] **Adam Price:** Was that a mistake? Is it going back down? And finally, on the infrastructure projects, there's a reference to the tidal lagoon. I note in the First Minister's comments recently that he doesn't think that's going ahead. We're not sure about Wylfa. We're not going to get the Circuit of Wales, so, you know, what other large-scale infrastructure projects can the Cabinet Secretary point to?

[434] **Ken Skates:** Well, certainly the M4 is one. I announced another yesterday, a very significant one: the A55/A494 Flintshire corridor. I'm also progressing work on the third Menai crossing. In addition, I think the metro is a major piece of infrastructure that will be progressed. I'm keen to make sure, in aligning our work with the national strategy, that we deliver infrastructure projects that ensure that Wales is a more united, more

connected, more ambitious country that is more secure as well. So, investment will continue in terms of digital connectivity as well.

[435] There were six sectors originally; they did increase to nine. My feeling is that through digitalisation and automation, we're seeing the convergence of some of the existing sectors and I simply don't believe anymore that sectors can operate in isolation. If we look at life sciences, creative industries, advanced manufacturing materials—all three, to some degree, are converging, and digital has become the common factor. So, in partnership with Industry Wales, we're looking at what those industries of the future will be, where Wales already has a strong specialist base, and where there is high growth potential as well.

12:00

[436] I'll give a couple of examples, if I may, Chair. There are—and Simon Gibson has highlighted this in speeches—two areas where I think we can say Wales leads the world. One is in compound semiconductors and another is in online insurance platforms. Both can be developed further, but there are also opportunities and threats, particularly for online insurance. Last week, I said that we were going to move ahead with a task-and-finish piece of work, and I'd like to see a move away from traditional sector panel work—this will be part of the action plan—towards short, sharp pieces of task-and-finish work that can identify challenges and opportunities. So, the first will be a piece of work looking at opportunities and threats to fintech and how the industry in Wales can adapt to and take advantage of fast-changing trends in terms of insurance availability, how it's accessed and, indeed, whether car insurance will be required in the future, or what other forms of insurance might be required in the future. And so, as an example, by drilling into the industries of the future, rather than relying on nine siloed sectors, it's my hope that we will be able to futureproof the economy as well for the age of digitisation and automation.

[437] Therefore, that will result in fewer national priority sectors. Nine will be reduced to, in all likelihood, three. However, I've also talked about how the regions need to be strengthened and how we need to identify across the regions the sub-sectoral specialisms that all of us can invest in, identify with and have a shared vision for. So, for example, it might be that, within the Cardiff capital region, compound semiconductors and fintech become an area where we are able to support the city region in growing and expanding. Yet, in the Swansea bay area, it will be different sub-sectoral specialisms,

and, again, it will be different in north and mid Wales—the aim being to identify where the key strengths are in our regions but also where the common factors are. As we move towards industry 4.0, the Welsh Government needs to be able to offer support in the transition process.

[438] But I'm going to link in now to the foundation economy because I think this is very relevant now. In terms of the foundation economy, if we don't fix the foundations of the Welsh economy, which still suffers structural problems, then we won't be able to offer opportunities for all people in those sectors where we know there is significant growth but which at the moment are concentrated in certain areas. It strikes me that there are a number of societal challenges that are coming down the tracks that we need to address, which relate to the foundation economy as well. Care is one of them, and of course care runs through the national strategy now. It's my view that we have to find a way of delivering more sustainable models for social care and also ensure that we are able to deliver on the most ambitious childcare offer in the UK, not just for the purpose of meeting Government objectives, but also for the purpose of being able to demonstrate that Wales can be a leader in the foundation economy as well. I'd like to be able to say in years to come that Wales is the most secure place in which to grow old, and Wales is the most secure place in which to grow up, so a focus on that particular element of the foundation economy, I think, will be very important.

[439] **Hefin David:** That means care being delivered locally, and indigenous businesses delivering it.

[440] **Ken Skates:** Yes, and this is where I think the regional approach will be crucially important as well, because whilst delivered locally, it will require in many respects a regional strategic approach, and I'm keen to make sure that it's based on the footprint of the regional model of working for local government.

[441] So, there are other areas of the foundation economy I think we need to address as well and support—energy, for example. Energy is an area of activity that touches every home, every community, every business, but we also have some huge potential energy projects that, again, could be game changing in terms of Wales's reputation and in terms of the employment that could be created. So, I'd like to focus on energy as well.

[442] I've not had a chance to see the FSB's evidence, but what I am keen to do is to ensure that businesses of all sizes get Government support that

enables them to futureproof themselves against threats that digitisation and automation pose, but also that enables them to capture the opportunities that they offer, that ensures that, wherever and whenever possible, employers are delivering fair work practices, that businesses of all sizes are working with Government to deliver apprenticeships and to raise skills levels, and this will be captured within a new economic contract between business and Government. I think that's perhaps where the FSB see a renewed focus in terms of supporting indigenous companies. We will still be seeking, as an outward-looking country, investors from overseas. That won't end, but we are determined to make sure that we address—I think the FSB recently produced an excellent report—the missing middle. We can only do that by ensuring that companies are given the support to grow in a way that enables them to take advantage of new and emerging technologies, but which also aligns them with the local economy, and which enables them to take advantage of supply chain opportunities to tier 1 companies right across Wales. So, in the context of Brexit, this could be very valuable, for example, in the automotive sector, where we're working with a number of tier 1 companies to identify how more local content from small and medium-sized enterprises could feed through to some of the original equipment manufacturers. And, as an example, Vauxhall, when it was sold by GM, and purchased by the French, the Vauxhall Astra only contained about 20 per cent of components from within the UK. We're working to identify how SMEs within Wales can take advantage of opportunities that will come with GM selling the company and, in all likelihood, parts potentially being sourced from within the UK. Sorry, if I carried on for a bit longer.

[443] **Russell George:** No, no, I appreciate your detailed answers, but we're reaching a point where we've got questions that we're not going to get through. So, are you happy, Cabinet Secretary, if Members interrupt if they don't think that we are quite hitting the points that are needed?

[444] **Ken Skates:** Yes. Sorry.

[445] **Russell George:** Thank you. I'm grateful for that. Before I go to Hannah Blythyn, to lead on a new section of questions, can I just ask you a few brief questions on enterprise zones, and I just want some very brief answers. How successful do you think enterprise zones have been?

[446] **Ken Skates:** There's been varied success. I'd say overall they've been successful. Some have been phenomenally successful. Cardiff central, with a particular focus on financial and professional services, has—

[447] **Russell George:** Which ones haven't been successful?

[448] **Ken Skates:** I don't think it would be fair to say that some have not been successful. Some have faced greater challenges, but I do think that in ensuring that we learn the lessons of those that have been most successful, we can, in parts, renew emphasis on the areas of delivery and the support that enables enterprise zones to be successful in those areas where we haven't seen such jobs growth. But, certainly, I'd identify Cardiff and Deeside as having been particularly successful. I think it's been more challenging in some areas because of the longer term investment projects that are being supported by the enterprise zones. So, for example, Anglesey and Snowdonia have longer term objectives. So, I wouldn't necessarily expect immediate job creation because they're working towards—

[449] **Russell George:** How many jobs have been created so far from the enterprise zones across Wales?

[450] **Ken Skates:** In the aggregate, we can get you all of the detail—

[451] **Ms Burke:** We can provide a note on that.

[452] **Ken Skates:** Yes. I've already published that data, but I can provide it to you.

[453] **Russell George:** Okay. It would be useful if we can have: how many jobs have been created—

[454] **Ken Skates:** Absolutely.

[455] **Russell George:** —for each individual enterprise zone?

[456] **Ken Skates:** I can do that.

[457] **Russell George:** I've seen some previous information you've provided: it talks about jobs created, jobs safeguarded and jobs assisted. What does 'jobs assisted' mean? What's the definition of 'jobs assisted'?

[458] **Ms Burke:** So, a 'job assisted' is a job that's been created but not directly through financial support from the Welsh Government. So, it's been created through other forms of support that we might have provided, so

help, perhaps, with winning a new contract or other types of ways that we've supported a company. So, it's not a direct grant-aided job.

[459] **Ken Skates:** If I can give an example: we operate many trade missions, and we offer support for those companies that come with us on trade missions, and often companies will secure significant orders that enable them to grow and expand, and so that would be considered assistance.

[460] **Russell George:** So, when you provide that data to us, can you break it down to each enterprise zone, and also break it down between a job created, a job safeguarded and a job assisted? Is that information available?

[461] **Ken Skates:** I believe we can—

[462] **Ms Burke:** I'll check all of that and we'll provide a note.

[463] **Russell George:** I'd be grateful. And also can you provide how much public investment has been put into each individual enterprise zone?

[464] **Ms Burke:** We definitely have that information, so we can do that.

[465] **Ken Skates:** I think, Chair, it might be available publicly at the moment—

[466] **Ms Burke:** It is, but we will provide a note.

[467] **Ken Skates:** —but we will send a note.

[468] **Russell George:** Okay, thank you. Hannah Blythyn.

[469] **Hannah Blythyn:** I think you're mixing up the women on the committee because it's Vikki.

[470] **Russell George:** Vikki Howells.

[471] **Vikki Howells:** Thank you, Chair. I'd like to gain some clarity around the Wales transport strategy. So, I know this is something that was born out of the 'One Wales' agreement and it's now a statutory document, but could you provide some information for us on the purpose of the Wales transport strategy and particularly how, in practice, it influences policy development?

[472] **Ken Skates:** Okay, so the purpose of the strategy—and you're right to say that it's a statutory requirement—it sets out the Welsh Government's policies in terms of transport, and, in practice, all local authorities must consider it when developing their own local transport plans.

[473] **Vikki Howells:** Thank you. So, the last Welsh Government reprioritised the 2010 national transport plan following the 2011 Assembly election to reflect the changed priorities of the new Government, but the strategy wasn't reviewed at that point, so does that suggest that the current strategy hasn't actually had much practical impact in guiding policy?

[474] **Ken Skates:** No. We felt that it was robust enough to be able to withstand changes in political priorities. However, I've already said that there will be a review, and that review will take account—it's driven in part by new legislation, but it will also take account of the additional powers that the Welsh Government will gain through the Wales Bill. In terms of the legislation, I think it's timely to be able to review it in light of the Well-being of Future Generations (Wales) Act 2015 and also the Environment (Wales) Act 2016.

[475] **Vikki Howells:** How do you think that that planned review will improve the effectiveness of the strategy, then?

[476] **Ken Skates:** Okay, I think it will—. So far, the work that's been carried out in identifying some of the issues will demonstrate that it will align more closely with the objectives of the well-being of future generations Act in particular. Publication is going to take place in late 2018, with a programme for delivery being put together at this moment. But, in terms of the early issues that have been identified as part of the review, Simon, are you able to cover some of them? I know that some will cover, for example, the suitability of transport provision at the moment and in the future for access to tourism sites, the need to ensure that transport planning meets our targets and our aspirations in terms of moving to a decarbonised economy, and there are several other issues that have been drawn out early on.

[477] **Mr Jones:** So, things like using transport corridors for improving superfast broadband access, noise and air quality issues, the whole climate change debate: there are a range of things that have come out of the review already, which will need to be fed into the next iteration of the strategy.

[478] **Vikki Howells:** Okay, thank you.

[479] **Ken Skates:** Also, it's worth saying as well, I think, we're looking at how we can ensure that that strategy aligns with 'Prosperity for All'. So, for example, how the transport strategy can deliver affordable transport provision for education in order to meet the national priorities of improving early years, improving well-being and mental health, reducing stress levels and anxiety through enabling people to be better connected, in a more accessible, lower cost way.

[480] **Russell George:** Jeremy Miles.

[481] **Jeremy Miles:** We're about half way through the first delivery period of the national transport finance plan. I'm interested in your thoughts about how happy you are with delivery against the plan and the impact that the plan is having.

[482] **Ken Skates:** Okay. Well, we're going to be publishing a revised transport finance plan this autumn. It will be a publication that will capture all of the progress that we've made since 2015, and I am quite confident that the progress that's been made meets the aspirations of the plan and the identified projects within it.

[483] **Jeremy Miles:** When did you say that was intended to be published?

[484] **Ken Skates:** This autumn.

[485] **Jeremy Miles:** During this first half of this term, or second half of this term?

[486] **Mr Jones:** I think it'll be towards the end of the second half of the term.

[487] **Jeremy Miles:** Okay. And that will show, essentially, per project, the current state of execution, as it were—

[488] **Ken Skates:** Exactly—the progress in delivering each of the projects, yes.

12:15

[489] **Jeremy Miles:** And, if there's been any slippage, it'll say what it's been

and why, essentially.

[490] **Ken Skates:** That's right, yes.

[491] **Jeremy Miles:** Okay. Now, the original intention was to review that plan periodically. What do you think is a sensible set of intervals at which to review and publish and update the plan?

[492] **Ken Skates:** I think every other year is certainly desirable. Annually would be ideal, but a number of factors came into play that led to it not being reviewed last year, including Brexit, the election, but I think certainly an annual review would make sense.

[493] **Jeremy Miles:** So, going forward, that is something that the Government would be prepared to do.

[494] **Mr Jones:** Well, I think it's probably just worth reflecting, as well, that, because of the nature of the projects, the gestation period for these projects—. If you think about something like the M4, which has been talked about for a long time, actually they are a slow burn, a lot of these projects. The M4 is perhaps not the best example, but they are a slow burn, so I think a balance between a year and two years, potentially, is where the sweet spot is.

[495] **Jeremy Miles:** I guess it's helpful, even if it is—. There'll be some projects that are a faster turnaround and some that are longer, and it's really about transparency, in a sense, isn't it? There might be very, very valid reasons why things are over schedule, for example. It's just a question of knowing that, essentially.

[496] **Ken Skates:** I'd be more than happy to take the committee's view on the period that it should be reviewed. As I say, one year would be ideal. Two years, I think, is sufficient.

[497] **Jeremy Miles:** Okay, thank you very much.

[498] **Russell George:** David Rowlands.

[499] **David J. Rowlands:** Can I turn to a subject that I know must be very close to your heart and probably takes up a disproportionate amount of time of your staff, and that's the Welsh rail infrastructure? Obviously, how do you

feel, with the announcement that the electrification between Cardiff and Swansea will not proceed? What impact will this have on Wales?

[500] **Ken Skates:** There are only 41 miles between Cardiff and Swansea, yet it takes an hour to travel between the two biggest cities in our country. I don't think that's acceptable and I doubt anybody around this table would consider it acceptable. I was therefore deeply disappointed that the project was cancelled. However, we now await further detail of the alternative works that will take place along the line to improve journey times. I think the Welsh Affairs Select Committee is conducting an inquiry into this. I'd certainly urge this committee to liaise with the Welsh Affairs Select Committee, because I think the findings would be very relevant to your work going forward as well. So, we're going to await further details of the alternative programme that's going to be initiated, but I would expect that the time savings that could be generated through electrification would be carried through to the alternative investment project.

[501] **David J. Rowlands:** As a matter of interest, were you aware that this decision had been made before it was actually announced, from discussions that you'd had—?

[502] **Ken Skates:** Unfortunately not. Unfortunately not, no. I learned the decision, I think, probably around about the same time as Members around the table, through the *Western Mail*. I have had a conversation with the Secretary of State for Transport. We had a candid but very constructive discussion.

[503] **David J. Rowlands:** Right. At the same time, or sometime, the Secretary of State also announced investment in the north Wales main line, and Cardiff Central station. Does the Cabinet Secretary consider the planned investments would be sufficient to address the issues in both locations, and, following on from the Swansea to Cardiff decision, is he confident that they will still be going ahead?

[504] **Ken Skates:** I was pleased, during the discussions that I had with the Secretary of State, that he raised the issue himself, before I could, about the investment that's required at Cardiff Central and on the north Wales main line, but I think we need to recognise that what has happened to date is that he's asked Network Rail to build up a set of options for investment in those two potential projects, and we won't really be able to appraise whether they are sufficient until those options have been worked up and preferred options

have been identified. I would hope that the investment in those two particular projects will reflect the historic underfunding in Wales's rail infrastructure.

[505] **David J. Rowlands:** Thank you.

[506] **Russell George:** Hannah Blythyn.

[507] **Hannah Blythyn:** Just very briefly, as my colleague, David, was asking about the investment in the north Wales main line, enhancing our connectivity between north Wales and the rest of the UK, I was wondering, while you're here, if you'd be able to provide, again, just a brief update of where we are in respect of HS2, and particularly the Crewe hub?

[508] **Ken Skates:** Yes, absolutely. HS2 has the potential to deliver great economic benefit to Wales, but it also, if the Crewe hub is not our preferred option, has the potential to make Wales far less competitive vis-à-vis some of the other regions of England, and, therefore, I've repeatedly called for option 20 plus to be approved. The consultation on the Crewe hub is still taking place. I think I might have raised this at a previous committee meeting, urging Members to write in support of option 20 plus. It has widespread support across the north of Wales, including within the North Wales economic ambition board, and in mid Wales as well. And needless to say it also has support along the English border areas. The consultation will end, I believe, on 12 October, and a decision will then be reached thereafter. But it is absolutely essential that option 20 plus is approved by the Government.

[509] **Russell George:** And can I ask as well, Cabinet Secretary, in regards to the core Valleys lines, is it still your intention that those will be electrified?

[510] **Ken Skates:** This is a piece of work that Simon's been carrying out at length, so—.

[511] **Mr Jones:** We're in the procurement process. The tender documents are poised to be issued. What we've challenged the bidders with is we want to modernise the railway. We've set aside an amount of money for that modernisation. We've incentivised the bidders to maximise the amount of decarbonisation activity that takes place to improve journey time reliability and reduce overall end-to-end journey times. It's for the bidders to put forward technical solutions that meet all of our requirements. They are

incentivised to maximise the spread of electrification through the programme, and it's for them to come up with technical solutions that will balance things like overhead electrification with batteries on trains and other technologies. So, we've set out the parameters that we want the bidders to operate in, and it's for them to deliver the technical solutions that meet those parameters in the best way.

[512] **Russell George:** Am I right in saying, then, that we don't know whether the core lines will be electrified yet or not?

[513] **Mr Jones:** No, they will be electrified. The question is the extent to which—

[514] **Russell George:** The extent they'll be electrified.

[515] **Mr Jones:** —you'll see wires over the top of them.

[516] **Russell George:** Okay, understood. Hefin David.

[517] **Hefin David:** In 2014, the Secretary of State for Transport wrote to your predecessor to say that reasonable protection would be provided for the impact of regulatory reviews of track and station access charges. Evidence to our predecessor committee was given by the Department for Transport civil servants who said:

[518] 'We've also agreed to provide reasonable protection to the Welsh Government against the impact of regulatory reviews and track and station access charges.'

[519] You gave evidence to us on 6 April 2017, where you said you believed that:

[520] 'The block grant will be unaffected and reasonably protected from the impact of track access charges.'

[521] And then there's this infamous letter from the Secretary of State for Transport, Chris Grayling, on 8 August that said that that's no longer the case. What happened between April and August that changed things?

[522] **Ken Skates:** We still feel that an agreement that was reached in 2014 has not been honoured. I feel that it was very clear, the agreement that was

reached by my predecessor. Issues over track access charges emerged after my appearance at the committee that you've just mentioned and were brought to my attention during—I think it was—June or July, where officials were liaising with Department for Transport officials. It's always been my belief that the block grant should be unaffected, as the agreement states, and yet it would appear that the view had changed at a UK level. It's not a view that I agree with, but which the Secretary of State maintains his belief in.

[523] In terms of the discussions that then took place over the summer, I think many were very public. It was an intense period of activity and it resulted in a meeting on 7 September between myself and the Secretary of State. Tomorrow, we will be going out to invite final tenders for the franchise and it's our intention to ensure that the franchise operates on time from the autumn of next year, delivering improved services to people right across Wales. But I think this, again, demonstrates the imperfect nature of the devolution settlement once again. And—

[524] **Hefin David:** Have you been given a reason for the Secretary of State's change of view?

[525] **Ken Skates:** He does not agree that the agreement in 2014 includes the rebate of the track access charges, so—

[526] **Hefin David:** But it's absolutely clear; it's in black and white. It was said by a civil servant, it was said by Patrick McLoughlin, his predecessor, and it's been said to the predecessor of this committee.

[527] **Ken Skates:** That's correct.

[528] **Hefin David:** He must've given you a reason for why he's changed his view.

[529] **Ken Skates:** I think he simply does not agree with that view.

[530] **Hefin David:** It's fairly extraordinary. So, you've managed now to separate the procurement process from the funding dispute. Can you be certain that that won't have an impact on the procurement process and when will the funding dispute be resolved?

[531] **Ken Skates:** Okay. So, the procurement process, in terms of the time frame, as I say, we'll be going out to invite final tenders tomorrow. We had

actually built in flexibility into the time frame, so the franchise will commence in October next year. In terms of the options for discussions moving forward, I think I should just raise that the historic growth costs have been a significant concern of ours and will continue to be a significant concern that must be addressed and will be addressed through discussions with UK Treasury, with the assistance of the Department for Transport as well. Simon, do you want to outline the process that we'll now follow?

[532] **Mr Jones:** Tenders issued tomorrow and returned before Christmas, and then the award of tenders in March–April time is the intention. So, between now and tender award, we need to firm up the funding position to be clear about what money is coming from the DfT.

[533] **Hefin David:** Okay. And, you can't be certain that this issue's going to be resolved to your satisfaction. What contingency measures are you introducing into the programme to account for that?

[534] **Ken Skates:** Okay, well, there are some mitigating projects that we probably cannot disclose at the moment, because they are based, in some part, on what the bidders come back with. There are other areas of work that we are looking at at the moment, for example, the potential purchase of rolling stock, which would then reduce ongoing revenue costs. Simon, is there anything you'd like to add?

[535] **Mr Jones:** Yes, as the Cabinet Secretary says, there are a variety of levers at our disposal that we want to work through, but we need to talk to the Treasury first, because we don't want to talk about what those mitigations are.

[536] **Hefin David:** Yes. I imagine that dialogue is probably quite sensitive as well, I would've thought.

[537] **Ken Skates:** We need to be really clear that the franchise—. We have to make sure that this franchise happens and that it operates from the autumn of next year, because—

[538] **Hefin David:** Are you confident that the financial implications won't materially affect the quality of the franchise?

[539] **Ken Skates:** So—

[540] **Mr Jones:** Can I answer that?

[541] **Ken Skates:** Yes.

[542] **Mr Jones:** We've been clear with the bidders from the start of the project that there will be a financial envelope, inside which they've got to—. That is it; that is all the money that's available to them, year on year. There's a finite envelope of capital for the improvements to the core Valleys lines. Those numbers haven't changed and it's not the intention to change those. We don't want to send the bidders running for the hills by changing those numbers. The challenge is for us to deal with how we mitigate the costs.

[543] **Hefin David:** To resolve within Welsh Government budget.

[544] **Mr Jones:** Yes. I think the other point that's just worth emphasising here is that the decision to proceed is a balance of risks. So, had we chosen not to proceed and to wait to try and resolve this issue, actually, we might've seen a failure of the procurement process, or at the very least, we might've seen bidders fall away, and then potential claims against us for running a failed procurement process.

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[545] **Ken Skates:** And then, even worse, we would've potentially faced the prospect of a somewhat vanilla service being operated.

[546] **Hefin David:** But you've now protected that funding.

[547] **Mr Jones:** We're balancing that risk. We're proceeding with the tender process, so the money that's being invested by us and the bidders is protected and we can go ahead and award, and we've got time now to try and deal with this long-term funding shortfall by talking directly to Treasury.

[548] **Ken Skates:** I think it's worth saying that discussions have been pretty intense over the summer and before, between ourselves and DfT, and it'll come as no surprise that there have been tensions between myself and members of the UK Government. But discussions have been more constructive of late, and my view is that, in order to go on improving co-operation and collaboration between ourselves and the UK Government, it may well be helpful for this committee to take an interest in UK Government matters insofar as rail is concerned.

[549] **Russell George:** I think that would be the intention of our committee. Hefin with the last question, then we've got four quick-fire questions.

[550] **Hefin David:** Thank you. When will you be able to report back on negotiations with the Treasury with regard to track access charges?

[551] **Mr Jones:** I think that'll be part of a continuum between now and the time of award of contract.

[552] **Russell George:** I've got four questions: two from me, one from Adam and one from Jeremy. So, quick-fire questions and answers please. Jeremy.

[553] **Jeremy Miles:** I don't know if you said this in your answer: when do you expect the powers to be devolved?

[554] **Ken Skates:** Okay, so it's 2017 they're going to be laying and the functions still, I believe—

[555] **Mr Jones:** Yes. Actually, it's interesting; if you look at the DfT website, it says that those powers will be transferred by the end of this year. Our discussions with the officials are suggesting that that might actually run into next year. So, we're going out to tender on the back of an agency agreement that Ministers have signed between here and Westminster. So, actually, this tender is on behalf of the Secretary of State for Transport. Depending on how rapidly they turn those powers around, we may even end up with an agency agreement to award the contract as well.

[556] **Russell George:** Adam.

[557] **Adam Price:** This phrase that Hefin referred to in some of the documentation about an agreement to provide reasonable protection to the Welsh Government against the impact of track and station access charges. It is a little bit opaque. Is there anywhere where you made it clear, explicitly, that what you believed that meant was that you would receive an annualised rebate that, if you tot it up, comes to a certain figure? So, did you provide a note, explicitly, that said, 'We believe that means this'?

[558] **Mr Jones:** If I could take that. The view that has been taken is that, actually, that letter is quite clear, because it goes on to say the block grant will be unaffected. I think the language is pretty plain and pretty robust. So,

that was the planning assumption that we made going in to this process.

[559] **Ken Skates:** Furthermore, when the current franchise ends, there will be no mechanism to take back the rebate in the new franchise.

[560] **Russell George:** Okay.

[561] **Adam Price:** But there is no other language other than that. Okay.

[562] **Russell George:** Two questions from me. Can you provide a copy of the 2014 agreement between the Welsh Government and the Department for Transport? The written agreement.

[563] **Ken Skates:** Yes.

[564] **Russell George:** And my last question is: what are your views on the Uber ban and what that means for Cardiff and Wales?

[565] **Ken Skates:** I'll be answering a topical question on this very subject this afternoon.

[566] **Russell George:** Right, okay. We'll wait for that with interest. Thank you. In that case, can I thank the Cabinet Secretary and your officials for joining us this morning? That brings our meeting to an end this morning.

Daeth y cyfarfod i ben am 12:34.

The meeting ended at 12:34.