



**Cynulliad Cenedlaethol Cymru
Y Pwyllgor Menter, Arloesi a Rhwydweithiau**

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

**Dydd Mercher, 5 Gorffennaf 2006
Wednesday, 5 July 2006**

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

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau o'r Cynulliad yn bresennol: Christine Gwyther (Cadeirydd), Leighton Andrews, Eleanor Burnham, Alun Cairns, Andrew Davies (y Gweinidog dros Fenter, Arloesi a Rhwydweithiau), Janet Davies, Alun Ffred Jones, Carl Sargeant.

Swyddogion yn bresennol: Tracey Burke, Cyfarwyddwr, Strategaeth ac Adolygu, Polisi a Strategaeth; O. Gwyn Griffiths, Cynghorydd Cyfreithiol i'r Pwyllgor; Rob Halford, Prif Ddadansoddwr Polisi, Polisi Busnes, Polisi a Strategaeth; Gareth Hall, Pennaeth y Grŵp, Yr Adran Menter, Arloesi a Rhwydweithiau; Jonathan Jones, Cyfarwyddwr, Twristiaeth a Marchnata; Eleanor Knight, Prif Ddadansoddwr, Cynllunio Strategol ac Adolygu, Polisi a Strategaeth; Bob Macey, Prif Weithredwr, Swyddfa Cyllid Ewropeaidd Cymru; Cathy Presland, Pennaeth Cangen Polisi, Swyddfa Cyllid Ewropeaidd Cymru; Robin J. Shaw, Prif Weithredwr, Trafnidiaeth Cymru; Steve Webb, Pennaeth Polisi Busnes, Polisi a Strategaeth.

Gwasanaeth Pwyllgor: Claire Morris, Clerc; Leanne Hatcher, Dirprwy Glerc.

Assembly Members in attendance: Christine Gwyther (Chair), Leighton Andrews, Eleanor Burnham, Alun Cairns, Andrew Davies (the Minister for Enterprise, Innovation and Networks), Janet Davies, Alun Ffred Jones, Carl Sargeant.

Officials in attendance: Tracey Burke, Director, Strategy and Review, Policy and Strategy; O. Gwyn Griffiths, Legal Adviser to the Committee; Rob Halford, Principal Policy Analyst, Business Policy, Policy and Strategy; Gareth Hall, Head of Group, Department for Enterprise, Innovation and Networks; Jonathan Jones, Director, Tourism and Marketing; Eleanor Knight, Principal Analyst, Strategic Planning and Review, Strategy and Review; Bob Macey, Chief Executive, Welsh European Funding Office; Cathy Presland, Head of Policy Branch, Welsh European Funding Office; Robin J. Shaw, Chief Executive, Transport Wales; Steve Webb, Head of Business Policy, Policy and Strategy.

Committee Service: Claire Morris, Clerk; Leanne Hatcher, Deputy Clerk.

*Dechreuodd y cyfarfod am 9.01 a.m.
The meeting began at 9.01 a.m.*

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

[1] **Christine Gwyther:** I welcome Members and members of the public to the meeting. I will state a few housekeeping rules. Headsets are available for simultaneous translation and sound amplification. The translation is available on channel 1 and the verbatim feed is on channel 0. The ushers will assist members of the public with any problems. If Members or presenters experience any difficulties, they should indicate to the deputy clerk. I remind Members and members of the public to switch off completely all mobile phones, BlackBerrys and pagers. If it is necessary to evacuate the room in the event of an emergency, an alarm will sound followed by a bilingual message. Please follow the instructions of the ushers: the assembly point is at the rear of the Pierhead building.

[2] We have received apologies from Kirsty Williams, and Eleanor Burnham will substitute for her. Welcome, Eleanor.

[3] Today is the last meeting for Leanne Hatcher, who is going to work as a Plenary clerk, so we will see a lot more of her. She has been promoted, so congratulations to her.

9.02 a.m.

Cofnodion y Cyfarfodydd Blaenorol Minutes of Previous Meetings

[4] **Christine Gwyther:** I ask Members to ratify the minutes and then bring up any action points on which they wish to receive answers. I see that you are happy to ratify them.

[5] Minister, do you have any action points on which you wish to give an oral update before we go on to your report?

[6] **Andrew Davies:** No.

[7] **Alun Cairns:** There is an action point noted in the minutes of the meeting in March, and we are still waiting for that. It seems that the Minister has forgotten about it. As a consequence of the Lyons review, the Minister agreed to provide the committee with a breakdown of public sector job gains and losses in Objective 1 and non-Objective 1 areas. I would have thought that that was quite straightforward.

[8] **Andrew Davies:** If I remember, at the last meeting I gave an update on the job creation and the job losses.

[9] **Alun Cairns:** The action point said that more detail would be presented to the committee in due course. I think that it should be relatively straightforward to do that. I am not making a criticism; I am just pointing that out.

[10] **Christine Gwyther:** Are there any other action points?

[11] **Alun Ffred Jones:** In the minutes of the meeting on 7 June, there is mention of a note on Hybu Cig Cymru. I know that it is an environment, planning and countryside matter: it is regarding the closure of the abattoirs in Anglesey and north Wales. However, we are told in the Minister's report that the Minister for Environment, Planning and Countryside asked for an analysis of the current state of abattoirs in Wales. I understood him to suggest that he was holding some form of inquiry. The second note states that HCC has briefed him on the situation. Is that it? Is it just a briefing with nothing on paper? Is there no analysis? I know that this is not exactly your portfolio.

[12] **Andrew Davies:** It is Carwyn Jones, obviously, who takes lead responsibility for this. I will liaise with him and ask him to come back on that. We can have a written report for committee members. You will have that as soon as possible; I will circulate it through the clerk, rather than wait for the committee meeting.

[13] **Christine Gwyther:** That will be very helpful. Maybe we could have that over the summer months via e-mail. Eleanor, did you have a question on this, or is it a fresh point?

[14] **Eleanor Burnham:** I notice that, on 22 June, Dewi Davies was to provide a note on the difficulties being experienced with 'the Liverpool Capital of Culture'. Do we have any idea when we will get that, and, if it is due during recess, will we be sure of getting the paper, the reply or whatever it is?

[15] **Andrew Davies:** As soon as I have the information from Dewi, I will circulate it through the clerk.

[16] **Eleanor Burnham:** Thank you very much.

[17] **Janet Davies:** On 7 June, the Minister agreed to provide a breakdown showing how

many of the 10,000 small and medium-sized enterprises reported as having been created with the assistance of Objective 1 funds are still in existence. I am concerned by the reply, which says that the Welsh European Funding Office does not collect information on that, but that we may make an assumption from the general business survival rate. I know that if we do not have the figures, the Minister cannot give any other answer, but it is not satisfactory that we do not have the figures.

[18] **Christine Gwyther:** I think that that is a very fair point. It shows how we need to get WEFO's monitoring to be more long term. Do you have a response to that, Minister?

[19] **Andrew Davies:** I think that part of the problem is that databases were set up on the basis of standard procedure across the European Union. So, this follows, I believe, the practice followed in other European structural fund areas. That is why we do not have the information to hand.

[20] **Janet Davies:** It is still not satisfactory.

[21] **Mr Hall:** Chair, as part of our review of the new business starts programme, which we merged into the General Support for Business programme, we went out and looked at some of the businesses six and 12 months after they were given the initial start-up support. So, we got some information from our programmes that help new businesses with regard to how many have survived and how many have gone on to grow—so we can provide you with that information.

[22] **Janet Davies:** Can we have those figures next term?

[23] **Christine Gwyther:** Yes; I think that Bob will explain—I hope so—how we can perhaps do that.

[24] **Mr Macey:** The Minister correctly referred to the issue. In many cases, also, it can be a matter of practicality and proportionality. Sometimes, the actual level of the assistance provided can be very light; for others, it is much more significant. Very often, indeed, increasingly often, we hope, under the next round, it will be provided through mainstream programmes. So, the data that we are looking to collect will come via those sources. We are looking to improve the quality of the data that we have on structural funds in the next round—a major grant information technology project is under way, which will increase the quality of the data. I suspect, however, that this is an area in which we will always struggle to some extent, because, very often, the nature of the advice that might be offered, in some cases, might be quite limited, so it will be a matter of actually looking to take the issue forward where it seems sensible and proportionate. Gareth mentioned the business birth rate strategy project—that is one of the routes whereby WEFO has provided funding in this area, and that suggests that the two-year survival rate is 70 per cent, as in the answer. However, it will be a little easier when you have fewer projects, which is what we are hoping for in the next round. The data sets, however, as the Chair indicated, are not all that we would have wished them to be, with hindsight, and we have different data sets very often for the European structural fund and the European regional development fund projects. So, there are deficiencies in some of the data we get, but this particular area will prove a bit of a challenge, for WEFO and the Department for Enterprise, Innovation and Networks more generally, in some ways, and I suspect that, often, it is by looking at specific programmes that you will get the best handle on this, with those programmes being, basically, EIN programmes, resourced partly by structural funds in the future.

[25] **Christine Gwyther:** Coming back to Janet's original question, what is the information that we will be able to receive?

[26] **Mr Macey:** Gareth indicated it, and the business birth rate strategy clearly has data that are available, and that essentially arises from the business birth rate strategy, so it is a contribution from structural funds, but not just structural funds, and there will always be the issue of double counting what is done with mainstream EFN and structural funds resources. The commission is particularly interested in what the total effect of the structural funds programme is, so that concludes the other contributions. So, there will sometimes be apparent inconsistencies between what we will be reporting on structural funds, when it is the overall project level, and other contributions from the other parts of the public sector, which will be looking at what their contributions are bringing to the table. It is not an area in which you will get simple and unambiguous answers.

9.10 a.m.

[27] **Christine Gwyther:** However, we will ensure that we have the monitoring in place so that we can have unambiguous answers in the future.

[28] **Mr Macey:** We will have better monitoring in place in the future; I can promise you that. One of the key issues that we are looking at is improving our locational monitoring of what happens with structural funds.

[29] **Christine Gwyther:** Okay. Leighton, did you have a point?

[30] **Leighton Andrews:** My points are about the Minister's report itself; I will wait until then.

[31] **Alun Cairns:** I have two brief points. I am sorry that I did not bring them up earlier; I had highlighted them in my notes. On 3 May, we discussed the cutting back of the contracts with the enterprise agencies. We were given an oral update, but we were also promised something a bit more substantial, in terms of what was going on. I would not want us to forget that in terms of the action points that have been noted here, because it is going on and on. I know that there are negotiations currently in place, but it seems to be going on from 3 May.

[32] In addition, I do not know where it slipped off the action schedule—I have tried to backtrack to where it slipped off, but have not been able to find it—however, some time before the new year we asked the Minister for a paper on operating aids for the new cohesion funds. That is not on the list of actions outstanding and we have not had the paper, either.

[33] **Eleanor Burnham:** I have one more brief request. On 7 June, the Minister agreed to write to Carl Sargeant on the points raised about the A55 and A494, and to make the letter available to Members. I wonder whether I might have a copy when that is available.

[34] **Christine Gwyther:** That has been sent out.

[35] **Eleanor Burnham:** I do not know whether it has or not; I am not on the committee.

[36] **Christine Gwyther:** Kirsty possibly received it instead of you.

[37] **Eleanor Burnham:** When these things happen, are they automatically sent to Members with an interest, such as regional Members, who might not be on the committee?

[38] **Christine Gwyther:** They are sent to committee members, which is why Kirsty has probably received it, but you have not. However, because you have a regional interest, we will ensure that you get a copy.

[39] **Eleanor Burnham:** That is kind of you; thank you.

[40] **Andrew Davies:** On Alun's point about the Lyons review and the action outstanding from March, I thought that the information had been sent out, but, obviously, it has not. I can give you an oral update now on the position. The Lyons review is about moving jobs out of London, essentially, to other parts of the nations and regions. So, strictly speaking, there should be no job losses in Wales that can be directly attributed to the Lyons review. However, in any sector, particularly the public sector and Government, there will be job losses and job gains. This is true across any sector and any Government department. We do not have any available statistics or any statistical sources that provide information on the net gains or losses separately. However, from 2001 to 2004, the total number of people who resided in west Wales and the Valleys—the Objective 1 area—and worked in the public sector increased by around 20,000. The equivalent increase for east Wales, namely the non-Objective 1 area, was approximately 15,000. So, these changes reflect the net effect of both increases and decreases at particular places of employment.

[41] **Alun Cairns:** I did not quite catch the introduction to that. Is that directly as a result of UK Government departments transferring here, or is that the net creation of public sector jobs in Wales by the Welsh Assembly Government?

[42] **Andrew Davies:** Those are figures for the public sector, which includes the UK Government, the Assembly Government and local government. It is the public sector in those very broad terms.

[43] **Alun Cairns:** Can we have a note on that?

[44] **Andrew Davies:** Sure.

[45] **Christine Gwyther:** That has been promised already. We will move on.

*Cadarnhawyd cofnodion y cyfarfodydd ar 7 a 22 Mehefin.
The minutes of the meetings on 7 and 22 June were ratified.*

9.14 a.m.

Adroddiad y Gweinidog Minister's Report

[46] **Christine Gwyther:** We move on to the Minister's report.

[47] **Andrew Davies:** I have several items to raise. First, I am pleased to announce that the 7.5 tonne weight restriction currently on the old A5 between Tŷ-nant and Dinmael is to be removed. Quite a lot of structural assessment had to be done on the old road and, particularly, on the very high retaining walls adjacent to the road. That has now been carried out and, as a result, the weight restriction will be removed with effect from Friday, 7 July—this Friday—at 10 a.m.. In the meantime, further traffic-management measures will be implemented to accommodate the removal of the weight limit. The road, however, will continue to be the subject of single-way working, under the temporary traffic signals. There have been concerns, particularly among some local businesses and haulage contractors, where the existing diversionary routes have led to increased cost, so this should be very good news for local businesses in north Wales, generally.

[48] I am delighted to say that inward investment results have been published for 2005-06 by UK Trade and Investment, and I am pleased to advise committee members that Wales, with just 5 per cent of the UK's population, has secured almost 10 per cent of the new inward

investment jobs for the whole of the United Kingdom for 2005-06. That represents an increase of just over 20 per cent on the number of new jobs recorded by Wales over the previous year, 2004-05. With the refocusing of international activity through International Business Wales and the significant changes in leadership, we believe that, particularly in North America, Asia and Japan, we will be able to build very substantially on this improvement in performance.

[49] I was delighted last week to announce the Assembly Government's role in working with International Rectifier, a global, American company, with an £8 million regional selective assistance grant and assistance through the Knowledge Bank for Business that has helped to bring £100 million investment to Wales, through International Rectifier's plant in Newport. The investment will create some 250 jobs by 2010. International Rectifier already employs 550 people at its Newport facility and some 350 at its Penllergaer operation in Swansea. So, this is very good news and shows us working very strategically with a major player. These are very well-paid, high-tech jobs. I visited International Rectifier and we have a very good relationship with the company. It testified to the fact that the Welsh workforce is of a very high quality and is highly skilled, and that it is delighted with the performance.

[50] Another major company that we are working very closely with is GE, and its aerospace engine services facility at Nantgarw has just taken delivery of the first GP7200 engine, designed to power the Airbus A380, the new super-jumbo. I am also delighted to say that GE announced earlier this year that it had won a contract with British Airways for a £1.5 billion investment on a contract to service BA's fleet engines. When you consider that the whole of the Objective 1 programme is £1.3 billion, to be able to get a contract for £1.5 billion is very significant and, once again, is a huge vote of confidence in Wales as a place to do business and in the local workforce.

[51] On telecommunications, the regional innovative broadband support project has been established to roll out broadband to those exchanges that are not currently broadband-enabled and to the black spots within the current network. I am pleased to announce that, through the regional innovative broadband support project, the first four of the remaining telephone exchanges were upgraded to deliver broadband on 30 June and the majority of the remaining exchanges will be upgraded by the end of September this year.

9.20 a.m.

[52] On tourism, despite the poor weather of May, 81 per cent of tourism businesses surveyed in Wales remain very confident about prospects for the summer season. A total of 42 per cent said that they were very confident and 39 per cent said that they were fairly confident, so, once again, the industry is responding to the challenges faced by global competition, and, with the support of Visit Wales, I am confident that we will be able to take forward that growth. Also on Visit Wales, the Assembly Government's tourism team has won the *Precision Marketing* response award for the best responsive inserts initiative. That award was for the Visit Wales 2005 Big Country autumn direct-mail campaign. We had a presentation at the Wales Millennium Centre on the very cutting edge marketing campaign. So, once again, that is good news.

[53] **Christine Gwyther:** Thank you. I will bring Members in on any questions that have been prompted by your oral update. I have questions on the Visit Wales website, but I will leave those until Jonathan Jones is present later in the meeting. Are there any questions on the oral update before we go into the substantive written report?

[54] **Alun Cairns:** Will there be an opportunity to raise anything that is not in the report and that the Minister has not said? Otherwise, the structure means that we do not have an opportunity to raise anything on urgent or emerging issues.

- [55] **Christine Gwyther:** If you had an urgent question, you should have let me know.
- [56] **Alun Cairns:** I am talking about urgent or emerging issues, which is the purpose of the item.
- [57] **Christine Gwyther:** Was there anything in the oral report on which you wished to ask a question?
- [58] **Alun Cairns:** No, but I have something that is not in the report on which I would like to question the Minister.
- [59] **Christine Gwyther:** Right; let us go through the report first. First, on economic data, under points 1, 2 and 3.
- [60] **Alun Cairns:** The percentage increase over the last quarters, up to the first quarter of 2006, was the lowest among all UK regions and nations. Has the Minister conducted any form of analysis to establish why we are the lowest in terms of the growth of our exports?
- [61] **Andrew Davies:** A large proportion of our exports are in the manufacturing sector and the largest export market is Europe. Obviously, the EU has continued to underperform, or perform less well than other parts of the global market. Our general view is that it is that suppressed demand in many EU markets that has led to the problems.
- [62] **Alun Cairns:** Would that not be the same for the east midlands, where the dependence on manufacturing is even greater than ours? Yet, we are still the lowest in terms of our exports increase.
- [63] **Andrew Davies:** I am not saying that other parts of the UK are not outperforming us, but the point that I have made in my reports previously is that, over the longer term, the growth in exports in Wales, certainly since 1999, has exceeded that for the rest of the United Kingdom. With the refocusing of the department, and with International Business Wales, I am confident that we will be able to build on the very substantial progress that we have already made.
- [64] **Alun Ffred Jones:** I was going to make the same point. Although it is dangerous to focus on too short a period of time, it seems that exports are flatlining in Wales, compared with Scotland, Northern Ireland—you name it. That trend seems odd and I am asking the same question; however, since we have had the answer, there is no point in me labouring the point. It is a worrying trend.
- [65] I do not expect an answer this morning, but how significant is the BAE Systems plant at Broughton in terms of exports? Do you have a rough idea of how much it contributes to Welsh exports?
- [66] **Andrew Davies:** I do not have any precise figures.
- [67] **Alun Ffred Jones:** Could you provide us with an estimate on an annual basis?
- [68] **Andrew Davies:** Sure.
- [69] **Eleanor Burnham:** This may not be the appropriate time, but I wondered whether the Minister had any thoughts about the uncertainty that seems to be surrounding Airbus at the moment, through no fault of its own, particularly in Broughton. What implications will that have on these figures?

[70] **Andrew Davies:** We are still very confident that the Broughton operation is robust. Clearly, Airbus, as a company, is going through very difficult times, but not that long ago, Boeing, its competitor, was going through similar problems. However, this is about the company at a corporate level. The Broughton operation is widely regarded as leading edge.

[71] **Christine Gwyther:** Excuse me, Minister; I remind Members to completely switch off all their electronic instruments—that includes your BlackBerry, Alun.

[72] **Alun Cairns:** I apologise.

[73] **Andrew Davies:** I am confident that the operation at Airbus is robust, in terms of the investment that we have provided and have worked with the company on, and in terms of the development of its apprenticeship scheme, which is now the largest apprenticeship scheme in the whole of the UK. I am confident that, if the company at a corporate level can weather this latest storm, the prospects are good.

[74] **Carl Sargeant:** It is unhelpful for us as a committee, or as individual Members, to suggest that there is uncertainty over a company, when it is going through a managerial transition. There is an air of confidence among people on the ground at Broughton that they continue to be successful in their business. The question that we should pose now is on the sales, and whether or not they will continue with BAE Systems. It is not the first time that this has happened in a company—although it is the first time that it has happened with the Airbus company. There are many global examples of where stock-market figures are different to what they thought they were at a certain point. Therefore, we need to have some stability, and we need to send the message out that we have confidence in Wales and in the workforce. This is a structural issue, and perhaps some people are looking far too deeply into it.

[75] **Andrew Davies:** He is right. If you look at the order books for Broughton, for the current range of aircraft that Airbus is selling, they are still robust. Therefore, as Carl said, there is a strong message that the local management and workforce are confident about the future. Given the current order book, and the planned production, Broughton's prospects are looking good.

[76] **Eleanor Burnham:** I regret that another Member feels that, in a democracy, we should not question and scrutinise. In a totalitarian state, we might not be—

[77] **Christine Gwyther:** Is this a question to the Minister, which is the purpose of this item?

[78] **Eleanor Burnham:** Yes. I seek assurance from the Minister that it is appropriate for me to ask a question about something that is going on in my region. I do not wish to cause discomfort to any company, but we are here, Minister, as I am sure you will agree, to ask questions when something causes concern.

[79] **Andrew Davies:** I am not sure that that needs a response from me.

[80] **Janet Davies:** I raise an issue that comes within the labour market statistics, but is about the Valleys area in particular. We have had a briefing from the Members' research service with some maps showing that Torfaen, Merthyr Tydfil and Neath Port Talbot are not doing as well as other areas—there has been a reduction in the employment rate. There is a fair matter of concern on this.

[81] I know that I am going to another section of the Minister's report now, but if you take that with the 'Jobs Gains/Safeguarded', you see that, out of 11 companies that are mentioned,

nine are along the M4 motorway, and only two are outside that area. Having looked at those maps, I realise that the Valleys areas that are doing better have areas along the motorway—namely Bridgend and Rhondda Cynon Taf—and Caerphilly is near to Cardiff. There is a matter of concern there, Minister, that those other two Valleys areas are not doing so well. I can see that Blaenau Gwent is better, but a huge amount of investment has gone into Blaenau Gwent over recent years—probably considerably more than to any other area. I am not making any political points; I am talking about the economics of it.

[82] **Christine Gwyther:** We can all agree on that.

9.30 a.m.

[83] **Janet Davies:** What I am trying to get at is how you propose to address the problem of so much coming in along the M4, giving a spurious effect in some Valleys areas. If you look at Rhondda Cynon Taf, I do not think that there is that much happening at the top of the Valleys, whereas the figures for that local authority look pretty good because of what is happening along the southern band. It is an issue that has to be addressed. I know that you have the Heads of the Valleys strategy, and we will come to that at some point today, but there is an issue here and I would like to know your answer to it.

[84] **Andrew Davies:** Two of the local authority areas that you mentioned—Neath Port Talbot and Torfaen—clearly have had some significant job losses, particularly in the manufacturing sector. However, significant investment continues to be made, for example, in Neath Port Talbot, the Intertissue paper mill is starting to recruit now. It will create 300 jobs and the company hopes to be operational early next year. Similarly, there is very significant investment in Torfaen.

[85] As the Government and public sector, if you look at inward investment, for example, we will always encourage companies to invest in areas such as the top of the Rhondda valley. We can offer financial incentives and other logistical support for companies to locate there. However, ultimately, it is a commercial decision for those companies as to where they locate. I tried to add another incentive, with the refocusing of the regional selective assistance grant, by giving an additional premium to companies that will take on the long-term unemployed; it is still very early days in terms of that incentive. As I said, we can work with individual companies, but, ultimately, where they locate is a decision for them.

[86] It is not just about financial assistance for companies; there are other areas in terms of economic development generally, such as regeneration. For example, there has been significant investment in the Porth relief road, with the best part of £90 million going in to improve the transport infrastructure in that area of the Valleys. Working with the local contractor, which I believe is Costain, we have been able to encourage it to take on local labour, particularly those who are long-term unemployed. That has been a successful scheme. We are looking at a whole range of policy areas, for example, procurement, where we can not only encourage investment, but encourage companies to take on people who are long-term unemployed and help them with skills training and entry into the labour market. There are significant problems and that is why our programmes, such as the Heads of the Valleys programme, but not exclusively that one, are seeking to address some of the problems created by massive structural change in the economy.

[87] **Janet Davies:** The issue of transport is a big one in this context. It is not only about getting development up in the Valleys; if people cannot get jobs in the Valleys, it is also about ensuring that they can get to work. As far as the roads are concerned, when you go from the Rhondda, the roads are pretty dreadful until you get to the Neath valley, and, to the west of the Rhondda, the railways are pretty awful too, if they are there at all.

[88] **Andrew Davies:** I pointed out that one of the problems is encouraging investment to create employment in areas where jobs have been lost. However, transport is key and that is why we are investing a significant amount in improving transport infrastructure. I have mentioned the Porth relief road, which is one key road scheme, but, on the railways, for example, that is precisely one of the reasons why we are reintroducing passenger services on the Ebbw Vale line, namely to improve the opportunities for people to travel from Ebbw Vale and that valley down to Cardiff and ultimately to Newport. That will open up new opportunities for people. I think that investment in new road schemes—I mentioned the Porth relief road, but there is also the Bargoed by-pass and many other road schemes in the Valleys—will do precisely that, which will help people to access other opportunities.

[89] On the work that we are doing with bus companies, some of the schemes that we have been supporting with some of the bus companies are helping people to travel.

[90] **Janet Davies:** That is no joy for anyone at the top of the Ogmere valley though.

[91] **Christine Gwyther:** Okay. Do you want to come in, Leighton?

[92] **Leighton Andrews:** We seem to be edging into the Heads of the Valleys discussion, which is tabled for later, and there are quite a lot of things in this report that I would like to talk about.

[93] **Christine Gwyther:** Okay; that is a fair point. Let us move on. We will now look at items 4 to 20 under the heading 'Supporting Enterprise'. Are there any questions?

[94] **Alun Cairns:** Paragraph 5 refers to procurement. What consideration has the Minister given to setting a target for Welsh-based companies or even small and medium-sized companies in terms of bidding for contracts from the public sector?

[95] **Andrew Davies:** The fundamental problem that we will have is that, under European law, we are not able to specify that business should come from any particular part of the European Union—in this case, Wales. I am sure that it may well be interpreted by the European Commission or other parts of the European Union as encouraging or putting an obligation on the public sector to buy Welsh. So, I think that that would be the fundamental problem with having specific targets such as that.

[96] **Alun Cairns:** Is there a measure of what is Welsh or what goes to SMEs, even on a UK basis, at present? Secondly, if there is a measure—let us say that it is 20 per cent, just to pick a figure for argument's sake—there is nothing wrong with hoping to be able to grow that to 30 per cent, 40 per cent, 50 per cent, or whatever it might be, because we want to put Welsh business in the front line in order to bid for it. There is nothing wrong with that. However, is there not an issue then of adding sustainability to it? Food miles, for example, is one measure that many people use in terms of sustainability to give a slight advantage to local growers and providers of meat and so on.

[97] **Andrew Davies:** The other point about figures is that we do not currently have robust figures on public sector procurement, which is approximately £4 billion per year. We estimate that around 35 per cent of that is actually won by Welsh-based companies. However, at present, we do not have robust figures. So, I think that until we have those figures it will be very difficult to set a target. As I said, there are problems with having a target and how it would comply with European law. I would be very loath to set a target until we actually have robust figures.

[98] **Alun Cairns:** What about the sustainability issue?

[99] **Andrew Davies:** I accept that entirely; that is the work that we very much looked at in terms of the business procurement taskforce, which I chair, namely how we can incorporate sustainability principles into our procurement practice and processes. It is clear, under European law, that as long as you specify the criteria by which a public body is buying goods and services, it is quite proper for a local council or the Assembly Government to do that, as long as they are explicit and transparent. That might include issues such as the impact of road miles on the environment or whatever. It is perfectly acceptable that you do that, but it has to be transparent.

[100] **Christine Gwyther:** Carmarthenshire County Council is doing really good work in that respect. We will move on now.

[101] **Andrew Davies:** Just to add to that, the reason why Carmarthenshire is doing so well is that it employs far more procurement professionals than any other local authority, to the best of my knowledge. I can see that it is getting better value for money as a local authority, but the impact on the local economy is also very substantial.

[102] **Christine Gwyther:** I call on Alun Ffred and then Eleanor.

[103] **Alun Ffred Jones:** On procurement, I welcome this charter and the work that is going ahead. We all understand the importance of getting the best out of public procurement. However, that benefit has to be spread to the whole of Wales. I will just refer to a specific matter, which is the procurement of external printed requirements by the Welsh Assembly Government, the Assembly Parliamentary Service and many external associated bodies. This goes through a single procurement process. Of the 22 companies on the list, not surprisingly, perhaps, 11 are based in Cardiff, three are based in England and only three are based outside what I would call south-east Wales. When you add to that the fact that many Assembly-funded bodies are based in Cardiff, then you see that most of that work is concentrated in south-east Wales. There is no company on the list from north Wales. That may be an oversight on the part of the companies, but it is highly unsatisfactory. No-one can answer, no doubt, why there are no companies from north Wales on this list, but it is a serious issue, because there are companies that are not able to access these contracts. Therefore, I ask the Minister to reconsider the list, which is to be reviewed in 2008.

9.40 a.m.

[104] In the meantime, you have brought in a number of bodies, such as the Welsh Development Agency and the Welsh Language Board, which used to use external contractors. As the procurement is now being done in-house through a single process—the corporate procurement service—companies that used to have contracts with these external bodies no longer get them. Therefore, they have lost that work. I ask the Minister to review the situation before 2008, because many of these companies in north Wales have lost out on substantial contracts, and will not be able to access them until 2008. Will the Minister review the situation in light of what I have said?

[105] **Andrew Davies:** It is difficult for me to comment on specific contracts, but I know, from previous correspondence that I have had with Members, that the reasons why companies have failed to win contracts are many and varied. In some cases, we find that companies that complain have not actually bid for the work, and, in other cases, they have put in bids but, unfortunately, they have not won them, for whatever reason—they have not been competitive, or they have not made the final list because of various criteria. However, generally, it would be difficult to impose a geographical commitment in addition to every other commitment. I think that it would be practically difficult for us to consider the geographical impact of our purchasing policies.

[106] **Alun Ffred Jones:** The fact that there are no companies from north Wales is an issue. There are only three from outside the urban south east of Wales—they are in Aberystwyth, Welshpool and Milford Haven. This is public money that is therefore not being utilised, not to help them, but to give them access. You are right; you cannot say, ‘We will have two from north Wales and one from west Wales’, and I understand that. However, the situation has changed recently because you have brought these bodies in-house and they are going through the system, which confines them to 22 companies. I am asking you to review that list in light of the fact that many of the companies in north Wales—and I am talking specifically about north Wales—have lost out, and simply cannot access this work.

[107] **Mr Hall:** I have two points, Chair. While the sell2wales website is a national website, we are working with companies through the regional offices around Wales to promote their businesses, and to give them a higher profile when it comes to contracts. With the merger process, we have central procurement because, as a Government department, we need to derive economies of scale from bulk purchasing. So, through the sell2wales website, we want to ensure that companies that we know can compete get the information on the website and are aware that they can pitch for these tenders and contracts when they come up.

[108] **Alun Ffred Jones:** So, this is a closed shop now; it is 22 companies, and all the requirements of Government and associated bodies go through this system. Previously, some of these bodies, such as the WDA and the Welsh Language Board, had other methods of tendering. Therefore, can you review that situation so that companies that have lost out can access the work? If the answer is no then so be it, but I think that it is grossly unfair.

[109] **Andrew Davies:** I will give a commitment to look at that. I am not responsible for central procurement, but I will take it up with colleagues and officials at senior level and come back with a report.

[110] **Eleanor Burnham:** I have a similar concern. One company approached me about a month ago and we are still trying to get a meeting with Value Wales to see what it is about the criteria that it does not meet. Its view is that it falls outside the criteria now and that it will then become almost a vicious circle, or a chicken-and-egg scenario: it will never meet the criteria. I am pleased to hear that you are going to—

[111] **Christine Gwyther:** We have that commitment, Eleanor.

[112] **Eleanor Burnham:** Okay. I have two small points. On the Llandudno Junction Assembly Government building and the north Wales business park in Abergele, I wondered whether we could perhaps have some more detail on those. My last point is on Careers Wales. It is heartening to see that you are building up a partnership so that perhaps Careers Wales can improve its advice even further on self-employment, because I think that is really important. Perhaps you could give us some more details on what is happening with that as well.

[113] **Andrew Davies:** I will certainly do that.

[114] **Christine Gwyther:** Ffred, if you want to bring up extra points now, could you bring them all up at the same time?

[115] **Alun Ffred Jones:** Gwnaf ddau bwynt cyflym iawn. Mae un ynglŷn â pharagraff 15, ar ddoc Fictoria yng Nghaernarfon, a chroesawaf y ffaith bod y gwaith yn dechrau o’r diwedd, ar ôl blynyddoedd o ddisgwyl. O ran paragraff 6 ar B2B Wales 2006, a gynhaliwyd yng **Alun Ffred Jones:** I will make two very brief points. One is about paragraph 15, on Victoria dock in Caernarfon, and I welcome the fact that work is about to commence on that at last, after years of waiting. In terms of paragraph 6 on the B2B Wales 2006 event in Cardiff, I have received a complaint from one

Nghaerdydd, yr wyf wedi derbyn cwyn gan un cwmni oedd yn bresennol na roddwyd dim sylw i'r Gymraeg ac nad oedd unrhyw ddefnydd ohoni yn y digwyddiad. Gan fod y Gymraeg yn bwnc llorweddol i'r Llywodraeth, credaf ei bod yn bwysig iddi gael ei gweld yng nghyd-destun diwydiant a busnes hefyd.

company that attended it that no attention was given to the Welsh language and no use was made of it at that event. As the Welsh language is a cross-cutting theme for the Government, I believe that it is important for it to be seen in an industrial and business context as well.

[116] **Andrew Davies:** Victoria dock is an exciting development. I remember visiting it a year or so ago to see it at an early stage. I think that it will be a significant development for Caernarfon and north-west Wales. On the B2B event, that was not a Government event. B2B Portfolio is a private company, although it is headed by a Welshman, Nick James, from the Newport area. I promise to take that issue up with the company.

[117] **Mr Hall:** In fact, I am meeting the organisers next week and so I will bring it up with them. There were 150 exhibitors at the event and it was a very successful. They are also looking to have another event, a sort of Welsh equivalent to the Ideal Homes exhibition, and they want to promote energy efficiency when building new buildings. There is a very keen private sector interest in that.

[118] **Christine Gwyther:** Have we all finished on that section of the report? Alun, I see that you want to come in. Will you ask all your questions at the same time?

[119] **Alun Cairns:** It is just that I asked about procurement but then the discussion went elsewhere and it did not come back to me.

[120] **Christine Gwyther:** Go on then, but be quick.

[121] **Alun Cairns:** In paragraph 8, the Minister says that he has agreed a customer service standard with the various business organisations. I therefore assume that we will have a quarterly or a six-monthly report on the progress that we are making towards achieving that standard, which will come to the committee. Is that fair?

[122] **Mr Hall:** Yes.

[123] **Alun Cairns:** Secondly, on paragraph 9, on Business Eye, can you give us a report on the numbers of contacts and the numbers of businesses that have been helped? You are talking about the fact that the levels of inquiries have risen by 18 per cent, so I have no doubt that you will want to share the number of contacts. I would also like the figures per office, if possible, so that we can analyse which offices are having better success than others.

[124] **Gareth Hall:** We discussed this at the last meeting. We offered to have a specific agenda item, when we come back after recess, on performance indicators on service delivery. As part of that discussion, we can give you that information.

[125] **Alun Cairns:** Yes, but providing those data in the meantime would be relatively straightforward, would it not?

[126] **Mr Hall:** Yes. In the meantime, we can get you that information.

[127] **Carl Sargeant:** I have a couple of points on some of the other Members' questions. On procurement, I think that Ffred had a reasonable point about the performance issue in north Wales. I think that it would be useful if we could have a paper on the anecdotal evidence that Ffred suggested, about companies losing out now that the Wales Tourist Board

and others have come in. Would it be possible to have that information about contractors that were supplying the public sector, but are not on the supplier list now? Is it reasonable to ask for that paper for the future?

9.50 a.m.

[128] My other point is on shared data in point 8. I notice that the DELLS and EIN departments are working in a cross-cutting way to share data. How do you interact with the EPC portfolio, because economic development can be based around the planning system? I think that there are some issues about how the departments work out. I am just wondering whether you have any strategy on that point. I will leave it there, if I may, Chair.

[129] **Christine Gwyther:** Sure.

[130] **Andrew Davies:** On the procurement, I do not know whether the information that you have suggested or requested will be available. If it is possible, we will certainly provide it. Apropos, questions are being asked about procurement, so maybe I could report back to committee on the procurement generally. As I said, I will bring back a report on the work of the business taskforce, but it may be a worthwhile opportunity to have a discussion about procurement, the changes that we are bringing about, and the challenges and opportunities that we are faced with.

[131] On shared data, we have a very good relationship with the Department for Education Lifelong Learning and Skills. For example, Jane Davidson and I had a joint meeting with the Construction Industry Training Board's ConstructionSkills group the other evening. I know that Gareth also has a very close working relationship with Steve Marshall, the director of the ELLS department. I suppose that the Department for Environment Planning and Countryside tends to work on a more project-by-project basis, but the next stage is to see whether we can have the same approach with it as we have with the ELLS department, and similarly with the Social Justice and Regeneration Department. As the skills agenda is recognised by everyone, I think that it has to be the primary focus. I think that that is why we have started initially with the Department for Enterprise, Innovation and Networks and the ELLS department. We see that as a model for collaboration across the whole of Government.

[132] **Christine Gwyther:** Okay, let us move on now to 'Promoting Innovation', under points 21 to 30. I see that there are no questions. We will therefore move on to points 31 to 41, 'Investing in Networks'. Janet, Eleanor and Leighton would like to speak.

[133] **Janet Davies:** I want to bring up two separate issues, Chair, under points 31 and 33. Shall I do them both together?

[134] **Christine Gwyther:** Yes, please, because we are running a little short of time.

[135] **Janet Davies:** On the north-to-south air links, could you give us any costs for the terminal building? I know that we have had costs in the past on the expected revenue subsidy, but it would be good to know whether they are still the same. In addition, how many of those costs are being met by the Isle of Anglesey County Council as opposed to the Assembly, or to any private money going in?

[136] Secondly, could you tell us what you mean by 'significant demand for the service'? How many people are likely to use it?

[137] On Aberthaw power station, I assume that, like existing power stations, it will need a mix of coal. Could you say how much you expect the station to be dependent on coal from opencast coal sites? Could you also expand on the carbon emissions issue? I have brought this

up in the past. While you are removing the cell for the carbon emissions, the amount of coal that goes in increases but, because they are more efficient, the amount of electricity generated actually reduces. Perhaps we could have a report on this at some point, though I do not know whether that is asking quite a lot at this point. The other question that I want to ask on that is where you expect these extra workers to come from.

[138] **Andrew Davies:** Sorry, what do you mean by ‘extra workers’?

[139] **Janet Davies:** Workers for the construction. It says:

[140] ‘500 workers on site at the peak of construction’.

[141] Are you hoping to get them fairly locally?

[142] **Christine Gwyther:** Before you answer, Minister, I will just say that when we do our mini review of energy, which will be in an afternoon or a morning, I think that you identified clean-coal technology to be part of that session, so we will return to it, but, obviously, you want an answer now.

[143] **Andrew Davies:** Clean-coal technology covers a range of technologies, and flue gas desulphurisation is just one of those. You are right about FGD: while it removes sulphur dioxide, the main cause of acid rain, it leads to an increase in carbon dioxide emissions. I can provide a note on that specifically, or you may wish to wait for the wider review. When I visited Aberthaw and spoke to the RWE Group executives—and RWE owns the power station—they did not think that there were any problems with recruitment for a construction on the site. They were aware of a possibility of working with the construction companies, Alstom and Amec, to use local labour where possible. I do not have a precise breakdown of those 500 jobs, or of where they come from, but I think that it depends on the type of job. Some areas may well require highly specialist work, for which we may have no capacity of supply in Wales. If the information is available, we will certainly make it available to you.

[144] On the north-to-south air links, I will ask Robin Shaw to come in on the issues to do with the terminal. In terms of the demand, we commissioned a consultants’ report on that, which said that there would be significant demand and that it would grow, but, clearly, it was not commercially sustainable in the short term, which is why public subsidy would be needed through a public service obligation. That has worked successfully in the Republic of Ireland. I have met the chief executive of Aer Arann, which is now operating out of Cardiff, and is running several routes. It has had considerable experience of running public service obligations, and I was told that the company’s experience in Ireland was that while, initially, many of those routes required subsidies through a PSO, through aggressive marketing and the operation of those routes, the need usually fell away, and they were then commercially viable.

[145] **Mr Shaw:** Having been given planning consent, the next stage is to get a competitively tendered contract. I cannot give you a definitive price for the civilian enclave, but I can confirm that the Welsh Assembly Government will be paying for the capital cost of that enclave. There is no contribution from the Isle of Anglesey County Council or from the air force that owns the airport. However, we are in discussion with Anglesey council about the revenue risk of running the civilian enclave and the terminal there, and we are looking to work in partnership with it to manage that side of the process.

[146] **Janet Davies:** I did not receive an answer on how much opencast coal would be involved in Aberthaw.

[147] **Andrew Davies:** It is difficult to say at the moment because the company, RWE, wants to source locally as much as possible, and it may well be that it would want to source

from places such as Ffos y Frân. At the moment, we do not know what the outcome of the legal case will be, and it is also difficult to predict what proportion will be local, and how much will be deep-mined or opencast mined.

[148] **Christine Gwyther:** I am sorry that we cannot give you more of an answer than that at the moment. We will now move on to other Members.

[149] **Leighton Andrews:** I declare my normal interest that my wife is BT's director for Wales.

[150] You have given a report back on fibre speed in the 'action outstanding' note. I asked whether there had been a demand analysis, and there has clearly not been; what there has been is a research study of broadband usage by companies on the business parks. So, given that there has not been a demand analysis—at least not in terms of how I would recognise it—how much are we proposing to spend on this? I made the point repeatedly throughout meetings of this committee and elsewhere that I think that one of the great deficiencies in Wales is our investment; we need less in the piping and infrastructure and more in the content and applications for the future of telecommunications. You refer, Minister, to moves towards integration and convergence, and the development of triple play opportunities by several telecommunications companies. This illustrates that the balance of emphasis and efforts is going into the wrong end of the future of our telecommunications sector—well, it is not just the telecommunications sector, it is media, telecommunications, the internet, and so on. Therefore, how much do we plan to spend on this fibre speed scheme, and for the benefit of how many people?

10.00 a.m.

[151] **Andrew Davies:** I reject the idea that our policies are focused entirely on connectivity—they are not. The Broadband Wales programme is a mixture of demand and supply. However, because there is market failure, largely down to the fact that Wales was dominated by one telecommunications company, there was a need to try to create a market in Wales. The broad thrust of our policies has been to create a more open market.

[152] When the Broadband Wales programme started—I launched it almost exactly four years ago—Wales was significantly off the pace in terms of the availability of broadband. Now, four years later, we probably have greater accessibility to broadband than most parts of Wales. That is a significant development, given the fact that we do not have large urban concentrations, which is why the regional innovative broadband support project has been brought forward.

[153] However, the Broadband Wales programme is a mixture of demand and supply. Much of the work that we do, for example, providing support through Opportunity Wales and European funding, is encouraging companies to use e-commerce, and, where appropriate, broadband, in order to drive up demand. Similarly, the marketing campaigns that the Broadband Wales programme is running are to encourage the awareness of broadband, and to encourage take-up.

[154] Where there is a market in Wales, particularly in the urban centres—Cardiff, Newport and Swansea, where there is competition between BT, NTL and other providers—the take-up of broadband has been significant. Therefore, it is a mixture—it is public sector intervention, but, wherever possible, working with private sector partners and local stakeholders and players to increase the demand for broadband.

[155] On fibre speed, this is a significant development, and, within my department, I have asked for a clear rationale and business case for this. That is why we are undertaking an

internal review of this. I will ask Gareth to come in on that.

[156] **Mr Hall:** To reinforce that last point, as part of the new EIN organisation, the Minister set up a policy and strategy group. That group has the task of challenging, and asking those profound questions, particularly in the context of telecommunications and the convergence of technologies, because things move on at such a pace. As the Minister outlined, it is undertaking a review, and we can come back and give you the results of that review, which will also include updated demand analysis.

[157] **Leighton Andrews:** I welcome that—that is important, particularly in the field of new technologies. It is my experience in other organisations that technologists are focused on the latest kit, which does not necessarily mean that it has the widest possible application. On fibre speed, it is good news that that is being looked at, and that there is proper review going on of that.

[158] On the general point, I do not disagree with what the Minister says about the need to balance supply and demand—I agree with everything that he said about that. My issue is not so much with the encouragement of people to take it up; this is, ultimately, about Wales's engagement with the high-end applications and products services content that will be used. The Minister and I have talked about this, and we have discussed it here. We benefit in Wales—we have a strong media sector, we have some good software companies, and some interesting gaming companies, and so on. It is many of those kinds of applications, products and services that they are developing that may well drive future engagement with the technologies. There is always a danger that the infrastructure issues will dominate and that is the point I am making.

[159] **Alun Cairns:** I support what Leighton Andrews has said. Specifically in terms of the development of the sector, the grant structures that we have had, namely regional selective assistance and Assembly investment grant, are not geared towards the sort of companies that we want to grow, which would increase the demand in those areas because they tend to be capital-intensive or labour-intensive, but if we are talking about the knowledge end of that sector, then clearly that is not the sort of support that they need.

[160] **Andrew Davies:** I would not agree that the financial assistance disqualifies companies from investment. When I took over this job four years ago, it struck me that it was daft to give companies grants to create jobs when we had an unemployment level effectively below—or approaching—the UK level at that time. For me, it was about how we could add value and invest in the high-value-added, high-skilled jobs and knowledge-based jobs. That is why the review that I asked for is looking at refocusing RSA.

[161] In the public sector, the issue of how to intervene in a situation and what is the most appropriate use of investment to help create a dynamic market is difficult. I accept Leighton's point about many in the industry being very focused on technology and kit, but the dilemma for us is that there was no point in having a widespread all-Wales broadband awareness campaign in parts of Wales, when broadband was not available in many rural areas. That would only increase the frustration of those trying to access services, particularly in the private sector. So, there has had to be a balance. Again, it is down to the role of the public sector. For example, my creative industries strategy is very much about trying to support those companies in film, animation and television, which will need increasing bandwidth in terms of being able to trade and work globally.

[162] In the public sector itself, the investment that we are making through the Institute of Advanced Telecommunications at the University of Wales, Swansea involves working with telecommunication companies such as Motorola and many others to look at applications, because that is what will drive broadband take-up, namely what people will use it for in terms

of applications and services that they will need to access in order to grow their businesses. So, those were just two examples of how public sector intervention, working collaboratively with the private sector, is helping not just to provide connectivity, but to identify products or services that people want and which can also help to create wealth in Wales.

[163] **Leighton Andrews:** It is that end of it that you were just talking about, the applications, for which, in a sense, the resourcing is needed even more now.

[164] **Andrew Davies:** We will come to that when we talk about the convergence programme, but clearly that is identified as one of the priorities.

[165] **Eleanor Burnham:** Briefly, on the north-south air link, I attended the presentation, at which it was asserted that there would be sufficient or significant demand for it, but I am not convinced. However, I would be more convinced if it were going via north-east Wales on the way down to Cardiff.

[166] Alternatively, on the green issue, we should be looking to improve the train links because they are abysmal. You only have to look at some of the figures that we were given on cancellations, let alone performance, before we started the committee meeting. There have been so many cancellations and in a twenty-first century devolved nation, most of the rolling stock, as I have said before—and I will perhaps reuse the word that I used to describe it before—

[167] **Christine Gwyther:** I would rather you did not.

[168] **Eleanor Burnham:** The other day, the north-to-south service was almost an hour late and was very hot. It was at least 100 degrees Fahrenheit in some of the carriages and that is just not on. We need to take Arriva to task.

[169] **Andrew Davies:** On the north-south air service, the consultants' report looked at locating the service in north-east Wales or having it go via north-east Wales. It was felt that there was less of a business case for for that. The other problem, of course, was airfield capacity. There was a real problem in identifying somewhere in north-east Wales where it was practical to fly from.

10.10 a.m.

[170] **Eleanor Burnham:** What about Wrexham, in Borras?

[171] **Andrew Davies:** Given those two issues, the consultants felt that it was not a viable option. On north-south rail services, we are committed to improving them. We are putting a considerable amount of money into an annual subsidy and Arriva Trains Wales knows our views on the quality of the service and we will continue to remind it of them. I will do that, and I know that Robin does that regularly, as does someone whom I have not mentioned previously, namely Tim James—he is the head of the rail unit. Following the transfer of responsibility for the franchise from the Department for Transport to the Assembly Government and me, we have increased the capacity of the rail operation and Tim James, who is now heading that up, will continue to reinforce the message to Arriva Trains Wales about its performance.

[172] **Christine Gwyther:** We are now over time, so I am going to take all of the remaining paragraphs together: paragraphs 42 to 44 on Visit Wales and paragraphs 45 to 56 on 'Job Gains/Safeguarded' and 'Job Losses'. Alun, did you have a question?

[173] **Alun Cairns:** My question does not relate to those paragraphs; it is an emerging

issue. I wondered whether the Minister could give us the latest update on the Metrix bid.

[174] **Andrew Davies:** My understanding is that the feedback that we are having from Metrix is very positive from our work with the bid team. Also, the team headed up by David Swallow and Gareth have been closely involved. I think that the feedback has been very positive.

[175] **Mr Hall:** At the last update meeting, the gauntlet was thrown down by the Ministry of Defence, and it asked that we present an option agreement as regards the land holdings by 17 June. We met that tight timescale and that now confirms that the Metrix bid, which was based on St Athan land in Assembly ownership, is now being treated on a level playing field with all the competing sites that are in MOD ownership. That was one of the issues, when it comes to scoring the two bids, that could have reduced the Metrix score, but they are now on a par. That was when the shutters came down: the two bids are now being analysed in great detail and compared. The latest from the MOD is that it is still on track to make an announcement about the preferred developer this October.

[176] **Christine Gwyther:** Do any other Members wish to comment on that? I see that they do not.

10.13 a.m.

Y Sefyllfa Ddiweddaraf o ran y Rhaglen Weithredol Update on the Operational Programme

[177] **Christine Gwyther:** Gareth Hall and Cathy Presland are going to take questions on this item. Minister, did you want to say anything on it?

[178] **Andrew Davies:** Thank you, Chair. The new programmes are the major focus of attention now that the current programmes are coming to an end—obviously we will look at the quarterly report on the current programme later. The structural fund regulations are now very close to being agreed; all that remains is a vote in the European Parliament and final approval in the European Council. The preparations are going well in Wales. I think that we are in a much better position in terms of preparedness than we were in 1999 in relation to the current programme. We will issue the draft convergence programme, the successor to the Objective 1 programme, for public consultation over the summer and we will return to the committee on this matter—I believe that it is on the agenda for September.

[179] The competitiveness programme, the successor to the Objective 2 programme, will follow in the autumn. We are in close discussions with the Department for Trade and Industry, the lead UK Government department, about an allocation from the competitiveness programme. However, we know that the competitiveness programme will have a reduced allocation compared to Objective 2. Therefore, the UK, not just Wales, will get about half of the current Objective 2 and 3 receipts, but we will continue to press for a fair settlement for east Wales and we will continue to make the best use of that investment.

[180] The consultation document has been developed with the post-2006 work streams and the external stakeholder group, which includes representation from local authorities, particularly through the Welsh Local Government Association, the private sector and the voluntary sector. The convergence consultation document includes European regional development fund priorities and the European social fund element of the all-Wales human resources programmes. As I have reported previously, we are trying to simplify the whole process, so, whereas the current programme has priorities and, within each priority, a range of measures, in future there will just be six priorities and no measures. That should make the

administration and the delivery much more straightforward. At present, there are 37 measures under the six priorities of the Objective 1 programme.

[181] As I said, it is intended to launch the operational programme consultation document over the summer, allowing time into September/October for responses. With the enlargement of the European Union to 25 countries, there are a significant number of additional beneficiaries of European structural funding and we were very keen not to end up at the back of the queue in terms of this being considered by the European Commission. We hope to be able to get very early approval by the European Commission for the operational programme document.

[182] The convergence programme document will go first and then the consultation documents for the regional competitiveness programme, the employment programme and the territorial co-operation cross-border programme, which is the successor to the current INTERREG programme, will be launched over the autumn. I think that the committee will be discussing the document on 27 September and the aim is to submit the finalised programmes to the European Commission as soon as possible, as I said, to maximise an early start. Bob or Cathy, do you want to add anything?

[183] **Ms Presland:** I have nothing to add.

[184] **Christine Gwyther:** We will be discussing that in detail on 20 September. Do Members have questions?

[185] **Alun Cairns:** At this relatively early stage—although I have made the point at an even earlier stage—there is a lot of worry among local authorities and smaller organisations about the thrust that the Minister is taking in terms of seeking to limit the number of applications. There are 3,000 projects. I remind the Minister that it is him and his Government that have let it get to this stage, where it might well have been unmanageable. There is a lot of concern out there about the restructuring. There is concern that simplification, or rationalisation, is code for centralising. That is a genuine concern among even local authorities, which have the structures and capacity to bid and to develop bids in this way.

[186] In paragraph 19 of the Minister's report, you highlight a project in Forge Fach, which may be a good project or not such a good project—I have not seen the detail of it. Is that the sort of project that you would like to see continuing to develop under the new round of funding or is it the sort of project that will be squeezed out because of your rationalisation? I am trying to be generous in the phrasing that I am using rather than scaremongering, but this is one of the worries that are out there, not only among smaller organisations that perhaps do not have the same capacity as larger organisations, but among local authorities; if local authorities are worried, it is obvious that others would be worried. Perhaps the Minister could put some more meat on those bones.

[187] **Andrew Davies:** I accept that there are fears or apprehensions, but I think that they are misplaced. The First Minister and I met with the leader and officials of the Welsh Local Government Association only a week or so ago, and they raised these concerns with us. We were able to satisfy them that we would still see a very significant role for local authorities. They accepted the need for streamlining and felt that the current system was unsustainable.

10.20 a.m.

[188] You said, quite rightly, that there are nearly 3,000 projects under the current programmes. They felt that that was unsustainable; not only did it create unnecessary bureaucracy and management for WEFO, it meant a huge burden for local authorities in terms of managing the projects. I think that there was a broad recognition that having local-

authority-only projects often meant missing some of the benefits, or synergies, that could be achieved by having greater collaboration across local authority boundaries, and that, on some issues, be it transport or training, having projects just on a local authority basis was often not the most efficient way in terms of use of resources or the best way in terms of outcomes. So, I think that we were able to satisfy them that it was not about centralisation and central direction, but about how we could make the most efficient use of a very significant investment opportunity. In terms of not just the programme document, but the delivery, local authorities would remain key players.

[189] There is clearly a fear as well, particularly among voluntary organisations, that current projects may not be eligible. In some cases, they may not be, because, clearly, the European Commission has indicated that the thrust of the programmes must be in line with the Lisbon agenda. So, clearly, there has to be a reorientation, and it may well be that some community-based projects would no longer be eligible. However, that is not our decision—that would be because the European Commission has said that there needs to be greater emphasis on innovation and investment in, for example, infrastructure that aids economic growth, rather than in community regeneration, although that may well be laudable. That is largely because that is the criteria set down by the European Commission. There is also a fear among many projects that they are coming to the end of the current programme—there are jobs involved in these projects and issues about long-term sustainability. However, there has never been a presumption that projects will automatically get funding for a third or fourth time, because many projects have already had two rounds of funding. The general principle is that, if a project is worth while, if it has proved its benefit and if it fits with the criteria of the priorities, without prejudging it, we would want to support success. Where something has been beneficial, we would want to be able to work with those projects to roll them out, without commenting on the specific project that you mentioned in Clydach.

[190] **Christine Gwyther:** Can you give us an update, as this relates to the voluntary sector, on where match funding in-kind is at the moment with the commission? I understand that that is still an ongoing negotiation.

[191] **Ms Presland:** I will answer that point. Just to add to the last point, the committee will recall that the national strategic reference framework consultation has now closed and the Department of Trade and Industry is analysing the responses to it. The local authorities and organisations that have responded are very supportive of the strategic approach that we want to take. Inevitably, they want to understand how this will work in detail, and I reiterate that we are working very closely with our stakeholders on this.

[192] On the question of match funding, I want to cover two points. First, in general, on whether match funding from the private sector is able to be included at a programme level, you will recall that there has been some debate about this over the last months and a change to the regulations was agreed in December for the new member states. This is now being widened to the old member states, so that there is an option for all member states to include private match funding, as well as public match funding, at a programme level. That is the current situation. As the Minister said, we are waiting for a parliamentary plenary vote on the regulations and there will then be a final vote in council. We know that the parliament's regional committees adopted the regulations and we would expect all of this to go through smoothly, although, until the final papers are approved, we cannot say that definitively. However, we would certainly expect that to be the situation.

[193] There is also the question that some voluntary organisations have raised. At present, they count the time of staff or volunteers as what is called in-kind match funding. So, if a volunteer gives a number of hours to an organisation or to a project that is getting structural fund resources, that time can be costed at rates that are set for particular kinds of posts. That in-kind contribution within current programmes is used towards match funding. We have not

yet finalised the detailed eligibility rules for the new programmes, but we see no reason why that situation would change. The regulations allow that. So, we would want to assure the committee that we would expect this to be something that would be allowed under the new programmes.

[194] **Alun Cairns:** I have a point on what Ms Presland said, but to come back to the point that I originally raised with the Minister about centralisation, or whatever it may or may not be, I support a number of the 3,000 projects that are out there at present. This has come from the structure, and I remind the Minister that it was his administration that set up the structure. Many of them are a complete waste of time, although many are very good projects. Clearly, there will be a great squeeze on this; that is the reality of life. Sustainability is the name of the game and unless they can survive after that period, maybe they do not deserve the funding thereafter.

[195] I have a question for the Minister. At this early stage there are a lot of worried organisations out there. They need to start thinking about the sorts of things that will be able to fit into the new structure. In the new financial year in April 2007, they will, effectively, want to hit the ground running in terms of drawing down funds. On that basis, can the Minister give some indication of the sort of vision that he has for structural funds and the sorts of projects that he would like to see coming forward, so that these organisations have an indication at least? If not, can he indicate whether he is setting up pre-matched funds, for example, so that organisations can bid into section 4 grants, in the way in which that was used previously? That would, at least, allow people to start thinking about it. Let us not forget that we are not back here until September or October, when the new year will be pretty close; on that basis, we will effectively have a new programme.

[196] **Andrew Davies:** Because you repeated it, I will come back on a point to which I did not respond earlier. The current programme was approved by the predecessor of this committee and the Assembly. It may have been a child of its time, in that there was a belief that a bottom-up approach should be the way forward. Experience has shown that you need a better balance between a more strategic direction and a bottom-up approach in terms of engagement and delivery.

[197] The other point is that, when the programme was set up, the Assembly was being established at the same time and the Assembly Government had no central policy developed. For example, 'A Winning Wales' was not developed until some years after the Objective 1 single programming document had been developed. The skills employment action plan, the Wales spatial plan, and a lot of those policy planks that are now the central planks of Assembly Government, did not exist. So, to a large extent, the current programmes were initially planned in what you could say was a policy vacuum.

[198] **Alun Cairns:** I do not want to go over old ground, but welcome to the party; it is nice to hear someone recognise that what was said at the time was right.

[199] **Andrew Davies:** All that I am saying is that, when I took over as Minister for Economic Development and Transport, I felt that there was a need for a greater focus. That is why WEFO was brought in-house. We have refocused the organisation, we have streamlined the delivery in terms of the partnerships, we have eliminated unnecessary bureaucracy and, as ever, we are always re-evaluating what we do. That is very much the culture of the new department. Nothing is sacred. If the situation has changed and the organisation has to change, then we will do so.

10.30 a.m.

[200] On the issue about worried organisations, I accept that there is great uncertainty for a

number of organisations in both the public and voluntary sectors—probably less so in the private sector. As I have said on many occasions, for example, during my regular meetings with the voluntary sector, we cannot currently give certainty, because certainty does not exist. Until we get approval by the European Commission of the convergence programme, the operational programme, then I am afraid that we cannot say definitively to organisations, ‘These are the priorities; these are the types of projects that will fit those priorities’. Nevertheless, there is now an emerging consensus about what those will be, and we have worked with the stakeholders—in the external stakeholder group and elsewhere—to try to give greater clarity about what is likely to happen. Bob and Cathy may want to come in on this.

[201] **Mr Macey:** Can I come in on the issue of the extent to which stakeholders can think about preparing for transition? We have the national strategic reference framework, which sets out high-level priorities; six have been identified for the convergence programme. The consultation document to which the Minister has referred will identify various themes under those—they are not measures, as in the current programme, because we do not have the constraints in the next round that we have in the current programme. This is all subject to the agreement of the commission. We are also including in the document a list of indicative activities that we would expect to come forward in the area. However, as the Minister has said, it is very much work in progress, and we cannot give certainty at this point.

[202] We are giving out a similar message with regard to ways of working. I understand the concerns that you have articulated; I hear them myself. We are working with many of those bodies through the work streams that we have set up, in terms of identifying the priorities—and they have gone through quite a process of engagement with representatives of these organisations—and there is a separate programme of management work-streaming to look at how we hope to deliver in the next round. It is very much work in progress with clear directions of travel indicated by the Minister. However, I understand that there are many people who want the application forms in order to know the precise details. We cannot give them those as yet. The directions are clearly set, but the detail is yet to be determined.

[203] **Andrew Davies:** I would like to add one point about communications. The major preoccupation and focus has been drawing up, as Bob said, the national strategic reference framework, and working with stakeholders to identify what the priorities and the shape of the programme will be. There is an increasing need for us to be able to communicate with all the various stakeholders outside—the public, private and voluntary sectors. I have asked Bob and other colleagues to look at how we can now start rolling this out, not just in terms of the consultation, but in terms of how we look at communicating to civil society the shape of our next programme.

[204] **Christine Gwyther:** Thank you. Eleanor has been waiting patiently to defend the honour of the previous Minister for economic development.

[205] **Alun Cairns:** It was Rhodri Morgan who set it up; I do not think that you should take all of the blame.

[206] **Eleanor Burnham:** I think that the bottom line is that the voluntary organisations are concerned. When will they know whether they can continue with their wonderful work of gluing our communities together? Many of them are plugging gaps and if they cannot continue their work, that will mean the undoing of wonderful community regeneration, and redundancies. After all, we are talking about voluntary organisations. They are valuable, we should be treating them with greater respect, and we should be far more positive and allow them to know as soon as possible what their future will be.

[207] **Andrew Davies:** If it were a matter that we could decide on our own without

reference to either the UK Government or the European Commission then, of course, we could make those decisions and communicate clarity and certainty to the voluntary sector. However, we are, to a large extent, dependant upon the European Commission signing off this operational programme. We do not know when that will be. As I said, with the enlargement of the European Union, which now has 25 countries, and the accession states now being eligible for convergence programme funding, there is a larger demand on the European Commission. We hope to be first in the queue, to get it signed off, but we cannot give any certainty on when that will be.

[208] On the second point, we must keep reinforcing the point that European funding is not core revenue funding.

[209] **Eleanor Burnham:** Many of these organisations use it as if it were, quite frankly.

[210] **Andrew Davies:** They should not. It has always been clear that this is time-limited funding. It raises issues about the sustainability of organisations that are dependent on European funding. They are not all in the voluntary sector—there are some private sector companies as well, which are over-exposed, or vulnerable to European funding being discontinued. However, that is not sustainable business, and the same is true with the voluntary organisations—it is not a sustainable organisation that is dependent on time-limited funding.

[211] I know that organisations will intellectually acknowledge that the money is time-limited but, inevitably, when jobs are involved, those organisations will somehow expect or hope that the funding will continue. We cannot give that assurance. As I have already outlined, we do not know, for example, whether the activities out there will be funded in the future, because of the refocusing by the European Commission in terms of the Lisbon agenda. Furthermore, even if they fit the criteria, we cannot say, ‘Yes, you will continue to get funding’, because, inevitably, they will have to make an application to WEFO, and go through the normal adjudication and assessment process.

[212] **Carl Sargeant:** Drilling down on this, paragraph 15 mentions the competitive and employment programme, which east Wales will possibly be eligible for. You say that we are due to discuss the consultation documents on convergence on 27 September; I believe that that is correct. Will this give us the opportunity to look at competitiveness in more detail? Recognising the issues of zoning within competitiveness, who will be the consultees for this document, which will be launched in the autumn? At what stage in the autumn will that be? Could you give us some more detail on that?

[213] **Ms Presland:** On competitiveness, as the Minister said, our priority has been to get the convergence programme into the commission at such a time that we can start as early as possible after 2007. The UK has received an allocation for competitiveness; it is done slightly differently—rather than being at the regional level, it is at the member state level, and we are still in negotiations with the DTI about the allocation for east Wales. We set out in the NSRF the proposed priorities for the competitiveness programmes. At that stage, we asked consultees—it went out to an open, public consultation—for views on how best this programme might be focused, given that we expect it to have a significantly smaller resource. We are currently analysing those responses, and we will use those as the basis to develop the draft programmes for competitiveness, which, as for convergence, will be developed closely with our stakeholders.

[214] In the NSRF, we said that the competitiveness and employment programme—the European regional development fund and the European social fund elements of that—would apply across east Wales. At present, we have the Objective 3 programme, which is an ESF-funded programme, for which all of east Wales is eligible, and the Objective 2 ERDF

programme, which is only available in certain spatial areas. The proposal in the NSRF is that the ERDF element be made available across east Wales. However, accepting that it will be a smaller resource, it will need to be focused in some way—either spatially or by limiting the priorities. We asked for views on that; we will analyse them and we will commence with the drafting as soon as we can, after having finalised the convergence programme.

[215] It is highly unlikely that we will have a draft to bring to the committee on 20 September—I would hope that we would have a good discussion on the convergence programme, and we will bring it to the committee as soon as we can thereafter. It will go out again to full public consultation, so that any individual or organisation in Wales—or even beyond—is welcome to respond to that consultation.

10.40 a.m.

[216] **Carl Sargeant:** Just to come back on that. Competitiveness is as important to east Wales as convergence is to the whole of Wales. I underline the fact that, while we are looking to start drawing down by 2007 for convergence, there does not seem to be a target, in effect, for the competitiveness programme; it is a process as opposed to getting some delivery on the ground. I am conscious that it refers here to the autumn, which is when the document will be coming out, but when do you expect the consultation period to end, and that we will have some security on the ground?

[217] **Ms Presland:** The Minister will need to make a decision about the length of that consultation period on convergence. A decision has been made that it will go out for a 10-week consultation, so we are aiming to get that out by the end of July, which then takes us into early October. We need to consider whether we want those two consultation periods to overlap, or whether we want one to finish before we start the second. Those decisions still need to be made. Assuming that we may have another 10-week consultation period—and we could make a decision for that to be longer or shorter—that would then take us close to the end of the year before the consultation period would be finished.

[218] At the same time, we are working very closely with commission officials in DG Regio and DG Employment to ensure that they are fully aware of the direction that the Government is taking in terms of the drafting of the programmes and the kind of priorities and themes that we are developing, so that when we formally submit the programme after the consultation period, we would hope to be aware of all of the sorts of issues that the commission is likely to raise so that we can very much reduce the period of formal negotiations. Obviously, convergence money is for west Wales and the Valleys and competitiveness funding is for east Wales, and we are very aware of the competitiveness programme's importance for east Wales, although it is significantly smaller than the convergence programme. I would not want to be drawn into giving an exact date, but let me say that we are working to get this programme up and running as early as possible in 2007.

[219] **Alun Ffred Jones:** On what Eleanor said and on the Minister's response, my great concern during the Objective 1 period was that many of the schemes seemed to be over-dependent on European grants and core funding. It was inevitable that many of them would face extreme difficulties when they came to an end. I have to say that WEFO must bear some of the responsibility for that, as it approved the schemes. However, be that as it may, we are now looking forward.

[220] I have three questions. I may have missed the answer to this one, but is there a fixed date for the publication of the consultation document?

[221] **Christine Gwyther:** That is due at the end of July.

[222] **Mr Macey:** The working date is 28 July.

[223] **Alun Ffred Jones:** Secondly, what input has there been by the private sector to this document and to the work-stream groups, if that is the correct term? Thirdly, and most importantly, the Minister said that the local authorities would be key players and so on, but, clearly, there is a different emphasis now on the new convergence programme, and the local economic committees have been disbanded because you needed a more strategic outlook. However, there is no pattern and you have not indicated what the pattern might be for the local authorities to work together. There was an assumption at one point that perhaps the spatial plan regional groups would form some sort of basis for regional partnership working. Is that the assumption for the future? Furthermore, in terms of universities or whoever happens to be a major player in those regions—in north-west Wales, you think about the University of Wales, Bangor, further education colleges and possibly the voluntary sector—do you envisage local plans being worked up through such groupings? I remember that you referred to the Heads of the Valleys partnership as a possible vehicle for producing local plans that would have strategic outlooks. Do you intend to replicate that throughout Wales and, if so, when will we be told how exactly you expect this to work in the future?

[224] **Andrew Davies:** On the first point that you made—I know that it was almost a throwaway remark—that it was WEFO's fault for giving out all this money, I remind Members that long-term sustainability is an issue that is taken up in the assessment of any project. There is also a specific issue about state aids and how much public money can go into a project. I must say, I have received lots of questions and letters from colleagues—and I do not just mean those on this committee—asking, 'Why is WEFO holding this up; why will it not just sign it off, because it is a very good project and it should automatically get money?'. It is a matter of trying to get a balance between dealing with an application efficiently while addressing issues such as long-term sustainability and the specific issue about state aids. I will ask Bob to comment on that.

[225] In some local authorities, for example mine, the Objective 1 partnership has evolved into a local regeneration partnership, looking more broadly or strategically at regeneration within the local authority area, and I think that that development is to be welcomed. On the convergence programme—and this was raised in the meeting that I had with the First Minister and the Welsh Local Government Association about European funding—yes, we do see the spatial plan groups as being key in developing frameworks and priorities for the delivery of allocations for what they broadly see as the priorities in their areas. For example, it would be unhelpful to deal with employment issues in Anglesey in isolation from the rest of north-west Wales, particularly Gwynedd. We need to look at the issue more broadly, and that is accepted as a way forward.

[226] Similarly on transport, now that the Transport (Wales) Act 2006 has reached the statute book, the Wales transport strategy, which will be issued for consultation in about a week's time, and the development of regional transport plans will, again, give us a framework to determine priorities. Clearly, that will feed into the convergence programme as well.

[227] **Ms Presland:** I will take those points one by one. As we have already said, the aim is to issue the consultation on 28 July, and we are working hard to meet that deadline.

[228] **Alun Ffred Jones:** Will the consultation run for 10 weeks?

[229] **Ms Presland:** Yes, 10 weeks, which I think will take us to 6 October, when the consultation will close. On that issue, we are planning to organise a number of events across Wales, in addition to the electronic consultation, to discuss the strategy. We will be inviting our external stakeholders to organise events that we will be happy to attend.

[230] In terms of input from the private sector, we have had a close working relationship with the private sector on the external stakeholder group. The social partners unit organises the representation on that group. We have a rotating list of, I think, seven members from private sector organisations; otherwise, those who are available will attend. We have had some very constructive input. We also have private sector representatives on our work streams, and I think that Alun asked a question on that. Obviously, we have the response to that, if you wish for us to make it available. We are trying to put as much information as possible on the WEFO website; you will see the membership lists of all our work streams, the minutes of all the work-stream meetings, and the agenda papers and minutes for the external stakeholder group meetings on the website. So, we have information about all the representatives, not just those from the private sector. We have also been to discuss the development of the programmes with the business partnership council, which has a high level and comprehensive membership. I will finish there.

[231] **Christine Gwyther:** I think that that is it. Are there any other questions from Members? I see not. We will segue into the next item.

10.49 a.m.

Adroddiad Chwarterol Swyddfa Cyllid Ewropeaidd Cymru The Welsh European Funding Office's Quarterly Report

[232] **Christine Gwyther:** I do not know whether you need to provide much of an introduction to this item, Minister, but you are welcome to do so.

[233] **Andrew Davies:** I am delighted to say that almost 100 per cent of all programme funds have now been committed. That is 99.9 per cent. That is a very significant achievement and I compliment Bob and his team in the Welsh European Funding Office, Bob's predecessors and everybody who has made the current programmes a great success.

[234] In terms of Objective 1, 100 per cent of that has been committed. That is a total investment, including match funding, of £3.16 billion. We have seen the difference that that investment has made across west Wales and the Valleys in terms of economic indicators. Average earnings in the area increased by 6 per cent, compared with 3.6 per cent across Wales for 2004-05, the employment rate in the Objective 1 area was 3.5 per cent higher in February this year than it was in 1999, and the unemployment rate in the Objective 1 area over the same period fell by 2.3 per cent. So, there has been a very significant achievement operationally and in terms of the delivery in making a difference to the lives of people, particularly in west Wales and the Valleys.

[235] **Christine Gwyther:** Are there any questions?

[236] **Janet Davies:** I went to my first Objective 1 programme monitoring committee last month. The big issues are about commitment. I assume that things have moved on in the two to three weeks since that meeting. Although the Minister has said that there is 100 per cent commitment, it seemed, from the meeting, to be variable: some programmes were undercommitted and others were overcommitted. Has that now been sorted out? It is an extremely different issue for WEFO staff and other people to handle, because you do not want to lose any money but, on the other hand, you do not want to be overcommitted and have to find money from elsewhere. What is the state of play on that?

[237] **Mr Macey:** I would love to be able to tell you that it has all been sorted out and that, by the end of 2008, everything will be precisely as we have programmed it. We know that it will not be like that. We have commitments and we have overcommitments in some areas,

and we expect to lose some of those. There are some risks in that. We lose some of our flexibilities this year, which was one of the issues that arose at the programme monitoring committee. At the moment, we can seek approval from the commission to vire between priorities. We will no longer be able to do that, so we are thinking very carefully about our last opportunity to do that. Thereafter, we will continue to have flexibility to vire between measures as long as we do not go across funds. So, there is another constraint on us there. However, we will continue to have some flexibility with measures within a priority and a fund.

[238] So, a lot of work is going on and will continue to go on, and the PMC and the sub-committee that services it and advises it are rightly pressing us quite hard on how we are looking to manage those issues—and they are not without some risks, obviously. We are looking to ensure that, when we go forward with our last virement this year, we have money in areas where we have the most flexibility and the fewest risks. As you correctly point out, there are some interesting challenges for us here, and I am afraid that, come the next committee, and through to 2008, you will be getting a similar answer on this. It is a continuing management issue for us. There is a lot of feeling out there that this round has come to an end; however, in terms of spend, it has far from come to an end this year. In terms of commitments, we are where we wish to be, more or less. We can make further commitments, within the constraints that I have just mentioned, and many of the further commitments will be about how we best manage the pots of money that are there to ensure that we spend as closely as possible to the amounts that are available. However, with money in different boxes, that is a constraint that we are going to have to live with and look to manage.

[239] **Janet Davies:** Clearly, there are risks here but, as long as they are recognised and managed as well as possible, as a committee, we have to sit back a bit on this; it is for WEFO to do.

[240] **Christine Gwyther:** In the past, we have supported overcommitment to try to manage the n+2 issue. Has that worked to a reasonable extent?

[241] **Mr Macey:** Thus far, we have hit n+2, and it continues to be a priority to do so right through to the end of the programme. That is the work that I have just been talking about, and the thinking that we are giving to that area of work has that very much in mind.

[242] **Eleanor Burnham:** I will make a small point. Page 4 of the report is on the main findings of the customer attitude survey, which is very important. Bullet point 3 asserts that there were low levels of satisfaction with the flexibility and efficiency of the service and—a niggling point perhaps—8 per cent of sampled applicants agreed or strongly agreed that the application forms were in need of improvements. I am sure that you have it in hand.

[243] **Mr Macey:** I am not surprised that you raised that. Yes, it is in hand. Taking the first of the bullet points that you highlighted, we are looking to improve flexibility and efficiency, particularly with the next round. We are fundamentally reviewing our processes and we are looking to bring the European regional development fund and the European social fund processes into line, which will help. However, I would be misleading you if I said that the issue of structural funds was ever likely to be process-light. We are operating within a very wide range of regulations from the commission and they do impinge, so I suspect that this will never be an area where people will say, 'This is the most streamlined scheme we have ever come across'. I would have huge audit problems if I were operating like that. However, that is not to say that we are complacent about the issue.

[244] **Eleanor Burnham:** When you hear about the Irish scenario, it appears—and I use that word advisedly—as though the Irish have streamlined things, got on with it and used it to

the best of their capabilities, whereas the perception here in Wales is that we have missed many opportunities because of burdensome bureaucracy and our *Yes Minister* scenario.

[245] **Mr Macey:** One thing that we are doing is looking to have one application form rather than two, so that we do not have a separate form for ERDF and ESF. I know that the ESF application form is particularly disliked by those who have to struggle their way through it. We also hope—and it will be a real failure if we do not succeed in this—that claims can be submitted electronically, with applicants able to track the progress of their claims through the system. So, that is some of the investment that we are making in new admission arrangements, supported by appropriate IT to help to streamline the system. We recognise that we have problems here and, to the extent that it is in our gift, we will do what we can to do things better. However, in this area, we are never likely to be as streamlined as the Assembly investment grant is, for example.

[246] **Andrew Davies:** I will just add that the ERDF and the ESF funds are run from different parts of the European Commission—one is by the regional policy directorate-general and one is by the directorate-general for employment, social affairs and equal opportunities. The audit regimes are also different, so there are complications and it is not straightforward.

[247] It would be difficult for me to comment on the comparison between Ireland and Wales but, in terms of outcomes, they have been broadly similar. You are right when you talk about perception—I suspect that it is down to perception. Wales and Ireland are not directly comparable in many ways. For example, local government in Ireland is nowhere near as powerful or robust as it is in Wales. There is far more central direction in Ireland of the use of Objective 1 funds. I know that Alun is not here, but the accusation made was that we have been far too centralist in our attitude. However, that is how European funds were delivered in Ireland.

[248] **Christine Gwyther:** Okay. Is everyone happy? I see that you are. We will meet again in 15 minutes, at 11.15 a.m..

*Gohiriwyd y cyfarfod rhwng 10.59 a.m. a 11.22 a.m.
The meeting adjourned between 10.59 a.m. and 11.22 a.m.*

Gorchymyn (Canllawiau ar Gau) Rheilffyrdd (Cymru a Lloegr) 2006 Railways (Closure Guidance) (England and Wales) Order 2006

[249] **Christine Gwyther:** Before we go on to the next item I would like to draw Members' attention to a piece of legislation that we can choose to scrutinise or not; it is the Railways (Closure Guidance) (England and Wales) Order 2006. This sounds quite sinister to me. I am assured that it is not, but I would like Robin to go through it so that we can decide whether we need to give it further scrutiny.

[250] **Mr Shaw:** Basically, the Railways Act 2005 implemented changes in terms of the governance of the rail industry, in particular, to abolish the Strategic Rail Authority, which was the organisation that had responsibility for dealing with any proposals that came forward for closures. As a consequence of the SRA being dissolved, the Department for Transport and we need to publish new guidance, which must be in place for anyone or any organisation that wishes to promote a rail closure.

[251] I will pause there; we do not have any proposals to close any railways in Wales, I hasten to add. However, this is a formal process and it is necessary to have a closures regime in place before the Strategic Rail Authority can be finally wound up.

[252] A joint consultation exercise has been undertaken by the Department for Transport and there will be draft closure guidance available for consideration in the autumn; it will be a piece of secondary legislation as far as we are concerned. This is just to formally bring it to your attention now. The timetable did not allow us to bring it to your attention in the forward look for secondary legislation, but we have to decide whether the committee wishes to scrutinise the draft guidance and therefore place it on the agenda for the next term.

[253] **Christine Gwyther:** Thank you very much, Robin.

[254] **Janet Davies:** I remember that when we were looking at the primary legislation this was an issue that was brought up as something on which we should have an input if such a thing were to be proposed. Quite surprisingly, I had people ringing me up a couple of months ago telling me that railways were going to be closed. I told them that this is a formal issue about what might happen in the future. I would support the legislation coming to committee for scrutiny because if it were ever proposed that a railway was to be closed or downgraded—I think that this includes major downgrading—it would be something in which the Assembly and this committee should be very involved.

[255] **Eleanor Burnham:** I agree.

[256] **Christine Gwyther:** There is no disagreement there. Thank you very much. It will come to committee for scrutiny, but we had to go through that formal procedure.

11.25 a.m.

Adroddiadau Diwedd Blwyddyn Awdurdod Datblygu Cymru a Bwrdd Croeso Cymru Welsh Development Agency and Wales Tourist Board End of Year Reports

[257] **Christine Gwyther:** Minister, would you like to introduce the item?

[258] **Andrew Davies:** Thank you, Chair. It is a requirement for the end of year reports for the former Welsh Development Agency and Wales Tourist Board to come to committee. Jo and Gareth are here. Gareth is the former chief executive of the WDA, and Jo is the former chief executive of the Wales Tourist Board. This is part of the normal business reporting mechanism. Later in the agenda, we will consider my new department's business plan. The reports are there for you to consider. We also have with us Tracey Burke, Eleanor Knight, and Steve Webb. Steve and Tracey are members of my new policy and strategy group within the department. The reports show a stepping stone between the former Assembly-sponsored public bodies and the new department. These reports are in draft form for your consideration. I would like to place on record my appreciation to not only Gareth and Jo as former chief executives, but the former chairs of the ASPBs and their board members, for the significant contribution that they have made. I will hand over to Gareth and Jo.

[259] **Mr Hall:** I would like to take a moment to provide some context for the consideration of these reports. On 8 December last year, when I reported to the committee on performance at the half-year stage, I highlighted the forecast that the strategic targets for jobs created and private-sector investment would not be met. At the end of the 12-month period, that has proven to be the case. This time last year, I outlined the new performance guidance that we were introducing in the measurement of our output performance. I described the stricter definitions on scoring and the timing of jobs, and when investment was secured. That was welcomed by the committee at the time. I also appraised the committee of the review that I commissioned, on taking up the role of chief executive of the WDA, to look at all of our inward investment activities, particularly in North America, where performance was well

below par. This root-and-branch review, on which we kept you updated, highlighted shortcomings in both the forecasting and the scoring of jobs created by inward investment.

[260] Under these new, stricter, more robust criteria, 70 per cent of the inward investment shortfall can be accounted for by jobs that will be phased into later years, and which have not been recorded in the output performance for the last financial year. So, these are jobs that are not being lost; in previous years, they were recorded on announcement. Our new system brought more reality and we now score jobs when they are created and when they are phased. So, 70 per cent of that figure, while not in this year's figures, will be in subsequent years. That, therefore, accounts for 70 per cent of the shortfall, and I highlighted that at the half-year stage. The balance of the shortfall, the other 30 per cent, relates to a mix of projects, some of which have not been scored this year as they do not meet the stricter evidence criteria. In three cases, at the last count, the projects did not proceed. That is normal; between announcements, certain projects do not reach fruition, for various reasons.

[261] As part of this new stricter framework of performance measurement, over the last three years, we have had all of our output scores independently validated by KPMGLLP. We have received its latest report, which looked at outputs recorded at the half-year stage, and it has reported back to us that accuracy in reporting has increased. However, it has also highlighted a weakness in our forecasting—we have had a tendency over the years to be ambitious and premature in our forecasting of outputs. We are trying to learn the lessons of that in the new business planning round, and we try to seek improvements in the quality of forecasting in the business plan, which, as the Minister said, we will discuss later.

11.30 a.m.

[262] The Minister also mentioned this morning the UK trade and investment figures that were published today. As he said, these figures note that 10 per cent of the new jobs in the UK have arrived in Wales, which demonstrates that our performance on inward investment—and I am the first to admit that it is starting from a low base—is moving in the right direction. A more focused strategy, as well as the restructuring, is beginning to pay dividends, and we are building on a firm foundation.

[263] I will explain the other reasons for falling below the forecast job target. We have had several discussions around this table regarding the new business starts programme. At the half-year stage, it was identified that the uptake for the General Business Advisory Service was below par. We realised that the providers were mixing and matching the services, so we brought them together and we re-tendered part of it; that is now operating, in the current year, on a much firmer footing.

[264] The other grounds for variances in the jobs figure and the private sector investment figure is the slippage of several major projects, one of which is Bluestone; when we made the forecast, we did not anticipate that that would go from the Court of Appeal to the House of Lords. Again, these projects have not gone away—they have slipped, and we have been wholly realistic in how we have reported our outputs.

[265] Therefore, building on the explanation that I gave at the half-year stage, that explains why we have not met the targets. The theme underlying all of this is that the whole approach with this committee has been one of openness, honesty and no surprises. We are tackling these key issues, and that will be demonstrated when we go on to discuss the business plan. We have had to make some tough decisions, particularly in terms of our approach to inward investment, and how that is brought together with trading and export promotion. We have also had a look at our enterprise functions, and have focused on where we in the public service can add real value to businesses; we are complementing, not competing with private sector provision.

[266] Last year, on our operational outputs—we have two sets of outputs; we have strategic outputs, which are the headlines on jobs created and safeguarded and private sector investment, and we also have operational outputs—those figures show that our support for improving productivity and innovation, which does not necessarily result in big numbers of jobs, but improves the competitiveness of business, its profitability and the quality of jobs, is beginning to reap dividends. I believe that Mr Cairns was hinting at that in our earlier discussions. Also, on the focus that we have been putting into west Wales and the Valleys, and the proportion of our outputs that have been secured in the Objective 1 area, those results speak for themselves.

[267] Finally, we have been talking with the CBI, the FSB, the chambers of commerce and the professional bodies, and their main interest is not our output targets. They want to see how we are moving and shifting the headline tracking indicators that we set out in ‘WAVE’ in the right direction, and how that is increasing the wealth and the prosperity of Wales. They are also telling us how we can have better performance measures in our service delivery, and we look forward to presenting on that after the recess.

[268] Therefore, that is the context for the output performance of the WDA in its final year, which I would very much like to discuss. Do you want Jo to discuss the Wales Tourist Board now?

[269] **Christine Gwyther:** We will take the WDA and the WTB together. Jo, will you start?

[270] **Mr Jones:** Thank you, Chair, and I thank the Minister for his kind words, which Steve and I will take back to our former WTB colleagues. To put the tourism industry in context, it is now believed to be one of the, if not the, largest industry in the world, and as far as Wales is concerned, it generates £3 billion a year. If you are like me, billions will not mean a lot, but when you explain that that is £8 million a day, it has a slightly bigger impact.

[271] I am pleased to say that we have delivered what the Minister and the First Minister wanted last year, which was business as usual or better. We have met all the targets set for us, but I will highlight one or two targets that need to be emphasised. The first is advertising. Recall of our television advertising has increased from an already staggeringly good 52 per cent to 72 per cent. That means that almost three-quarters of those people asked remembered a WTB television advertisement. Our return on investment from UK marketing has increased from a target of 30:1, which was a pretty stretching target when it was set last year, to 49:1; for every £1 of taxpayers’ money that we spend on marketing in the UK, independent research shows that the people who have been directly influenced by that marketing have spent £49 in Wales. So, that is a £49 to £1 return. That ratio is slightly lower in terms of overseas visitors because of the cost of marketing overseas, but it is still a very good target.

[272] On our quality control, we were set a target of getting all our quality graded accommodation, 85 per cent of it, into three, four or five star establishments. We have hit 89 per cent. That is not to say that everything is perfect; there are still areas where we need to work to improve the quality of accommodation in Wales.

[273] The section 4 capital grant scheme has worked brilliantly with the support of European funds. Only last year, we allocated £11.3 million to 111 projects. I do not have the exact figures, but from recollection, those are spread fairly evenly throughout the whole of Wales, with over a quarter of them in north Wales and over a quarter in south-west Wales. Clearly, we do not feel ourselves to be M4-east-centric.

[274] Public relations is considered to be a black art by many, but when dealing with

restricted funds—however much money we have, we will never have enough to market Wales throughout every country in the world—we use public relations. We bring journalists into Wales and show them the product in the hope that they will go away and write about it. In the UK market, we have generated £38-million-worth of advertising equivalent in magazines, books, radio and television. In overseas publications, we have generated £19 million. If we were a UK PR company, we would multiply that figure by three and if we were an American company, we would multiply it by 10, but we take, purely and simply, the straight advertising equivalent. So, I think that we have done well there. The industry has also done well, because these people would not have written in such positive terms had the industry not looked after those journalists when they came to Wales. If journalists do not like what they see, they write bad press articles—we have seen one or two of those recently—but this is positive coverage.

[275] Finally, on business support, it is often perceived that businesses do not want all of the support that is given to them. With the last four roadshows that we ran for over 300 businesses throughout Wales—the Minister launched the one in Cardiff and spoke via video to the other three—well over 90 per cent of the 300 businesses that attended said that they valued it and that they would come again. However, more importantly, 76 per cent of those businesses went away and said that they would change their business practices as a result of the techniques and information that we and other private sector partners had brought to the table.

[276] I will now ask Steve to give us a very brief review of how we came to revise our tourism policy, which is now Government tourism policy for 2006-13, launched by the Minister in April.

11.40 a.m.

[277] **Mr Webb:** The original ‘Achieving our Potential’ document was launched by the First Minister in 2000. Coming up to the midway stage, we decided that, in fact, the world had changed and that tourism is open to many external influences. We wanted to review the key strategic challenges that were identified in that original document, so we undertook a 12-month consultation with key stakeholders, the industry and other interested parties, to ensure that what we have now is a document that refreshes the original strategy and is more focused on the challenges that face the industry up to 2013—we are trying to coincide with the next structural funds programme, for obvious reasons. We have identified the priorities in terms of understanding where Government intervention should be focused, to ensure that the 6 per cent average annual growth that has been achieved in spending since 1998 continues through until 2013.

[278] **Alun Cairns:** I have some simple factual questions, to begin with, on Mr Hall’s initial statement. He mentioned that they have sharpened the measures or something like that. Therefore, if we turn to the five-year summary in the report, are each of those figures on a like-for-like basis? Are they all comparable figures, because you also said that KPMG had gone back three years? On pages 12 and 13 of the five-year summary, can we compare 2001-02 with 2005-06, or not?

[279] **Ms Burke:** The outputs could be compared from 2001-02 to 2004-05 on a like-for-like basis, but in 2005-06 we introduced the new, stricter definitions of performance, so you could not compare those on a like-for-like basis.

[280] **Alun Cairns:** To which figures specifically do the new, stricter definitions apply and how do the definitions differ?

[281] **Ms Burke:** They specifically apply to jobs created and private sector investment. We brought in a range of new stricter criteria to ensure that the outputs that we were claiming

were proportionate to our involvement, that they were forecast on robust bases and that we could validate them. For major projects, of over 50 jobs, we phased in the jobs created in line with the company's business plan. The two measures most greatly affected were those for the jobs created and private sector investment.

[282] **Alun Cairns:** Were the targets set on that basis, according to the stricter definitions?

[283] **Ms Burke:** Yes, they were set on that basis.

[284] **Alun Cairns:** Okay. Therefore, when we are comparing the actual, we are comparing them with the specific targets that were set at the time.

[285] **Ms Burke:** Yes, we are.

[286] **Alun Cairns:** Mr Hall offered quite a long introduction about why things had happened, saying that there was slippage and this and that, but I put it to him and to the Minister that there was an abject failure in the main strategic outputs, be it jobs created, private sector investment or new business starts—the target was exceeded for the jobs safeguarded. There was a failure in three of the four main areas, as seen on the first page of the report, due to the merger. This was because the Minister and you were putting all your time and effort into the merger; the Minister has mentioned several times how many hundreds of meetings he has had with staff and officials to satisfy their concerns about the merger. If the merger had not been taking place, the Minister may well have been having those hundreds of meetings with private sector companies, seeking to address private sector capital investment, to create jobs, to achieve the new business start-ups target and seeking to achieve all of the targets that were set.

[287] On the five-year summary, if you look at the private capital investment, we go from achievements of £513 million, £932 million, £874 million and £916 million, to a much reduced target of £656 million, and come in at £355 million. That is exceptionally worrying. Is it not the reality that you have just taken your eye off the ball? You have been worrying about moving pawns on a chessboard instead of focusing on business and growing the economy. Is there any wonder that Welsh GVA is at such a low level that we are the lowest of all the UK's nations and regions? That is the reality of the dreadful performance by the former WDA, the Minister's new department.

[288] **Andrew Davies:** That is absolute rubbish. The nearly 100 meetings that I had were not with staff and officials, neither mine nor those of the former WDA or tourist board; those meetings were with business organisations, individual companies and tourism operators the length and breadth of Wales. They were not internally focused meetings at all. The whole purpose of that was for the new department to ask, 'What do the users of our services want?'. They said that they are not interested in structures; they want services that add value to their businesses, and that is exactly what the new department is doing. The whole department is aimed at adding value.

[289] In terms of performance—Gareth can come in on the WDA targets and achievements, and he has explained already why the figures are as they are in 2005-06—I will briefly look at the indicators for the Welsh economy. I do not want to go around the issue of our GVA again, but it is not true to say that Wales is underperforming; far from it. In fact, the gap between Wales and the rest of the UK is the lowest that it has been, certainly since the Assembly was established in 1999. To go back over history yet again, why are we in the position that we are in terms of the relative position of Wales compared with the rest of the UK? It is because we were losing 20,000 jobs in manufacturing every year from 1979 to 1997. That is why Wales qualifies for Objective 1 funding. If you look at average weekly earnings, employment figures and gross domestic household income, you will find that Wales is outperforming most parts

of the United Kingdom. So, to say that the Welsh economy is doing badly is wrong and to say that the former WDA, the former WTB or, indeed, my department are underperforming is wrong. If you look at issues that affect the people of Wales, you will see that the Welsh economy is performing, historically, at a higher level than it has done for many years, and the new department is focused on the needs of business. Perhaps I can ask Gareth to come in on that.

[290] **Mr Hall:** I want to reinforce that point. In my introduction, I said that there were a number of difficult decisions that I had to make. One of those was having a root-and-branch review of our international operations. That would have been needed irrespective of the merger. In the WDA, our performance was not up to scratch. I bit the bullet. In the same way, businesses were telling us, 'We have confusion and duplication', and that is why I instigated at that time a thorough review of the enterprise function, and that was not merger-related.

[291] In answer to your earlier question, on many occasions in this committee, Mr Cairns, you have questioned us about the robustness of our figures, and we went back to the drawing board and to best-practice standards and I came back here and said, 'Yes, these are the stricter definitions'. In the past, up to 2004, when jobs were announced, we were collecting the scores for all of those jobs. The reality was that those jobs were phased in, not over 12 months but over upwards of 12 months, two years or three years, according to the scale of the project. You come here and ask us for reality and we have delivered reality. That is the truth.

[292] The other thing about private investment is that—and to quote your own words—the economy of Wales is shifting, and we are shifting a lot to knowledge-based businesses. We are investing in skills and intellectual property, which is not always about big bucks, at the end of the day. Private sector investment is in the quality of the jobs and the quality of the outputs.

[293] We are not being complacent in any way, because we are looking all the time to improve the scoring and the collection of our outputs. It is interesting that what we did not capture and what we are going to introduce into our business plan this year—I think that this relates to a point that was discussed earlier about procurement—is the liquefied natural gas scheme in your part of the world, Chair. We have been supporting local businesses and more than 25 of them there have won contracts that are already up to a total of £100 million, which is going to be spent in the local economy. That has not been captured by those figures. What I did not want to do—again, following the principle of honesty—was reverse those figures so that they come closer to the target. That is a principle that we wanted to come into this new organisation. It was about honesty and delivering gaps in provision with the private sector. It called for tough decisions and I honestly believe, and the people in the organisation believe, that we are building on a firm foundation going forward.

[294] **Alun Cairns:** That is precisely why, Mr Hall, I came in with the original questions to ask whether we can compare previous years with this year and the answer was, 'No, not directly', and I accept that. But, I also checked that the targets that were set were in the light of the request from the committee for honest, robust targets. That is the target. So, I am only comparing what was actually achieved with the targets that were set. If you look at some of the key areas, you will see that they are pretty dire figures, to be frank. I would hope that the Minister would have given the Welsh Development Agency board a similarly tough time. It has come in with such an underperformance at £355 million, in terms of the lower level target of £656 million. I accept what he said earlier, namely that many projects will have slipped—and that is a reality—but many projects would have landed in your lap as well, so one will cancel out the other. When we are looking at like for like over the previous years, that, quite obviously, needs to be taken into consideration.

11.50 a.m.

[295] Mr Hall mentioned that issues are shifting. It seems to me that the only thing that is shifting is his argument and that of Andrew Davies. When you are comparing like for like in terms of the target that was achieved and it does not marry, then, quite obviously, it has failed. Are you telling me, in an interpretation of the Minister's answer, Mr Hall, that, in terms of all the time that was spent on the merger, there was no effect on the time that you spend with businesses in seeking to develop and grow projects and to win investment opportunities? Are you saying that that had no impact whatsoever on staff morale and on the sort of tasks that you would undertake as the chief executive at the time?

[296] **Christine Gwyther:** When you respond to Alun, can you include when the 2005-06 targets will have been set, because that may have a bearing?

[297] **Mr Hall:** Yes, and Tracey can come in after this. The targets were set from September 2004. That is when the original targets were set, and they were developed during a period of three to four months following that. I would not be so bold as to say that any merger process has no impact on performance—that is an experience of business. I apologise for the length of my introductory remarks, but part of my honesty was to try to give a detailed explanation for those variances. A number of those explanations have been corroborated by the independent assessors. I would be the first to accept—and it came out in the KMPG report—that, while we have been far more robust in the way in which we calculate our outputs and score them, we have moved from being overambitious now to being rather conservative, and the one shortcoming is that we have tended to be overoptimistic in the forecasting. That is something that we have tried to temper in the business plan. A lot of people in this new organisation are in customer-facing roles, and they are very committed to delivering those outputs to their customers. You can understand their exuberance in looking to deliver those outputs. We need to temper that enthusiasm with the reality, and, hopefully, that is reflected in the business plan.

[298] **Ms Burke:** I wish to clarify that 60 per cent of the shortfall in the jobs created is down to foreign direct investment, which was under the new measures, as was the 69 per cent shortfall in private sector investment. As you say, we had forecast on the basis of the new stricter definitions, and you could say that we should have met that on the basis of that forecast. We made those forecasts, which would have been back in the autumn of 2004, on the basis of the known pipeline—the projects that we already know may come to Wales—and on the basis of the projects announced by UK Trade and Investment, which will land in that following year. We then did a discount factor based on the likely conversion in that year, and also a discount based on the phasing of it. Both of those discount factors were understated.

[299] **Alun Cairns:** I suggest then that the discount factor was understated because the changing of near-private-sector-investment people, or private-sector-type people, into civil servants might well have frightened some of those companies off.

[300] **Ms Burke:** Two thirds of those outputs are phased into future years, and we are awaiting evidence on the remaining third, so that is not the case.

[301] **Alun Cairns:** I will ask the Minister a final question. Can we assume that you will have carried out some stiff questioning of the Welsh Development Agency board, because it was obviously answerable to you as Minister? I cannot imagine that you are pleased with these figures, Minister, or are you?

[302] **Andrew Davies:** Going back to the point about this canard that we have somehow gone from having a private sector commercially orientated WDA to having a risk-averse public sector department—my new department—it is just a complete travesty. It is a caricature of the situation.

[303] **Alun Cairns:** Will you answer the question?

[304] **Andrew Davies:** I am answering; you made the point and I am responding to that.

[305] The new International Business Wales is headed by Ian Williams, who is a former senior executive with Shell. In terms of the operation of the international division of the WDA, as Gareth has said, the review that he initiated—and we had had many discussions about this—was clearly not working. I saw that for myself. I have been going to America nearly every year for the last four years. I could see for myself that there was very little coming through the pipeline. We were following, as the review identified, an outdated strategy in an area of the world—the global market—that had been a major source of inward investment for Wales. Even the WDA's internal review showed that approximately 70 jobs had come out of North America in the relevant year, when 40 per cent of the costs of the international division operation were taken up with North America. Clearly, our operation was not working. Are you saying that, somehow, we should just let that go? We had very robust conversations with the WDA, the former chair and the board, and then with Gareth, when he was chief executive. That is why Gareth initiated the review of the international division. I am confident that, in the future, the performance of what is now International Business Wales will significantly improve. It will focus, particularly in the North American market, on our strengths as an economy and our strengths in Wales, and it will be focused on the new priorities, not on an outdated strategy. As Gareth will know, as a former chief executive, the meetings that I had with him and the former chair were very robust, as were those with the former chair of the Wales Tourist Board and Jo, in my monthly meetings with them. I can tell you that they were very robust.

[306] **Alun Cairns:** So, are you pleased with the output or not?

[307] **Andrew Davies:** I have said that I was not happy with the previous performance and that I am delighted now that we have re-focused the organisation. I am confident that, in the future, we will build on the significant success. I have already said that the Welsh economy is performing at a higher level than it has done for many years, and it is certainly higher than it was when your party was in Government. I am confident that the new organisation, particularly International Business Wales, will build on that success.

[308] **Christine Gwyther:** Thank you very much.

[309] **Alun Cairns:** I wish to acknowledge the activities of the Wales Tourist Board and its achievements in—*[Inaudible.]*

[310] **Christine Gwyther:** Thank you. I call on Alun Ffred.

[311] **Alun Ffred Jones:** I wish to refer to a general point. You talk about there being a robust economy, but that does not seem to be the case in the Objective 1 area. It is confusing; in terms of the good employment figures that you often quote, which are quite genuine, how do you equate those with these low GVA and comparative figures that keep coming out? I would like to ask two specific questions on this report. I am sorry if I have not quite understood some of the answers, but in terms of the figures on the associated investment, for example, which show a complete collapse in 2005-06, is that down to the way in which you have compiled the figures, or does that reflect a genuine collapse in the numbers? What would explain that?

[312] Secondly—and this is just a minor point—on the land reclaimed over the years, was that land reclaimed for business or because it was contaminated? Does that reflect land that is in the public domain or does it also include private land? Those are factual questions.

[313] Shall I ask my question to Jonathan Jones?

[314] **Christine Gwyther:** Yes, if you do not mind asking them all at the same time.

[315] **Alun Ffred Jones:** Cyfeiriaf at y rhan yn yr adroddiad sy'n sôn am dwristiaeth gweithgareddau. Mae dau bwynt yma. Dyma faes sy'n tyfu, ac mae'n amlwg eich bod yn rhoi cryn bwyslais arno. Fodd bynnag, un broblem yw bod prinder Cymry lleol sy'n gweithio fel hyfforddwyr. Rhywbeth fel 7 y cant yn unig o hyfforddwyr yn y maes hwn sydd wedi cael eu haddysg yng ngogledd-orllewin Cymru, er enghraifft. Mae'r ffigur o ran siaradwyr Cymraeg hyd yn oed yn waeth.

Alun Ffred Jones: I will refer to the part of the report that mentions activity tourism. There are two points here. This is a growing area and, obviously, you place some importance on it. However, one problem is that there is a lack of local indigenous Welsh people working as trainers. Only around 7 per cent of trainers in this field have received their education in north-west Wales, for example. The figures for Welsh speakers are even worse.

12.00 p.m.

[316] A ydych yn ystyried bod hynny'n rhywbeth sy'n berthnasol i chi, neu a ydych yn meddwl mai rhywbeth i'r Adran Addysg, Dysgu Gydol Oes a Sgiliau yw hynny? Yr ydych yn sôn am:

Do you consider that to be something that is relevant to you, or do you think that it is something for the Department for Education, Lifelong Learning and Skills? You talk about

'the need to better package activity products.'

[317] Beth fyddai'n cryfhau'r sector hon, gan ei bod yn eithriadol o bwysig yn ardal Eryri? Ni wn a oes un peth a all ddigwydd, ond beth fyddai'n cryfhau hyn ac yn gwella'r economi leol?

What would strengthen this sector, given that it is extremely important in the Snowdonia area? I do not know whether there is one thing that could happen, but what would strengthen this and improve the local economy?

[318] **Christine Gwyther:** Thank you, Alun Ffred. I ask Jonathan to answer the tourist board questions first, and then we will come back to the substantive questions.

[319] **Mr Jones:** Yr ydym yn rhoi pwysigrwydd i dwristiaeth gweithgarwch, oherwydd ei bod yn bwysig iawn mewn ardaloedd gwledig, yn enwedig Eryri. Yr wyf yn falch iawn i ddweud bod un o aelodau'r panel twristiaeth newydd fydd yn cynghori'r Gweinidog, Pete Busnell, yn Gymro Cymraeg o Eryri ac yn gweithio yn y maes hwn. Mae ef—fel yr ydym ni—wedi cydnabod eisoes bod angen gwneud rhywbeth i gael mwy o bobl ifanc, yn enwedig Cymry Cymraeg, i ymwneud â hyn. Yr wyf hefyd wedi siarad â Huw Lewis ynglŷn â hyn o ran y Cymoedd, lle maent yn gweithio yn agos iawn â Phrifysgol Morgannwg i weld a fyddai'n bosibl sefydlu coleg ym Merthyr Tudful, drwy gydweithio â Choleg Merthyr Tudful a'r brifysgol, i

Mr Jones: We take activity tourism seriously, because it is exceptionally important in rural areas, particularly in Snowdonia. I am pleased to say that one of the members of the new tourism panel that will advise the Minister, Pete Busnell, is a Welsh speaker from Snowdonia, and he works in this area. He has—as have we—already recognised that something needs to be done to get more young people, particularly Welsh speakers, involved in this. I have also spoken to Huw Lewis about this in terms of the Valleys, where they are working closely with the University of Glamorgan to see whether it would be possible to establish a college in Merthyr Tydfil, through collaboration between Merthyr Tydfil College and the university, to

ganolbwyntio ar hyfforddi pobl o Gymru i weithio yn y maes hwn o weithgareddau ac i ddweud mai dyma'r lle gorau ym Mhrydain, ac efallai yn y byd, i hyfforddi ac i weithio yn y maes hwn. Nid ydym am adael popeth i DELLS; mae'n rhaid inni gydweithio â'r adran, ond credaf fod yn rhaid i ni, yn gyntaf, gydnabod bod gwendid yma a gwneud rhywbeth am hynny.

concentrate on training people from Wales to work in this field, and to tell people that this is the best place in the UK, and perhaps in the world, to work and train in this area. We do not wish to leave it all to DELLS; we must collaborate with the department, but I believe that we must highlight the fact that there is a weakness here and do something about that.

[320] Ynglŷn â'r ail gwestiwn ynglŷn â dod â phobl at ei gilydd, fel y bu ichi ei weld yn yr adroddiad, bu inni lansio ymgyrch ar hyn ym Metws-y-coed i geisio annog y rhai sy'n cynnig llety i weithio'n agosach gyda'r rhai sy'n cynnig gweithgareddau—mae hi mor syml â hynny—yn hytrach na'u bod yn gwerthu llety ar ei ben ei hun heb fod yn ymwybodol o'r hyn y mae'n bosibl i bobl ei wneud yn yr ardal er mwyn denu mwy o bobl i mewn, er mwyn iddynt wario mwy ac aros yn hwy yn yr ardal i wneud gwahanol bethau. Mae gwaith gennym i'w wneud. Mae'n rhaid inni dderbyn yr her a gweithio gyda'r diwydiant i wneud rhywbeth am hyn.

With regard to the second question about bringing people together, as you saw in the report, we launched a campaign on this in Betws-y-coed to try to encourage those offering accommodation to work more closely with those offering activities—it is as simple as that—rather than people just selling their accommodation in isolation without being aware of what people can do in their area to attract more people in, and to get them to spend more and to stay for longer to undertake various activities. We have work to do on that. We have to accept the challenge and work with the industry to do something about this.

[321] **Andrew Davies:** I will ask Tracey or Gareth to come in on the detail. Alun Ffred prefaced his remarks with a question about the Objective 1 area. I am not sure, Alun Ffred, if you were present when we were looking at the quarterly report for structural funds, but I said then that, if you look at the indicators over the last few years, west Wales and the Valleys has outperformed the rest of Wales. For example, the employment rates in the Objective 1 area in February 2006 were 3.5 per cent higher than in 1999. Unemployment rates in the Objective 1 area fell by 2.3 per cent. You almost dismiss unemployment as a peripheral issue; it is a central issue. The legacy of mass unemployment—unfortunately Alun Cairns is no longer here—

[322] **Alun Ffred Jones:** I did not say that it was peripheral.

[323] **Andrew Davies:** It is almost dismissed. Whenever we have had discussions about this here and in Plenary, the massive reduction in unemployment is almost dismissed as an incidental.

[324] **Alun Ffred Jones:** No; I was just trying to equate—

[325] **Andrew Davies:** Sorry, Alun Ffred, but can I just finish my comments? It is almost dismissed as an incidental, and as something that is not central. We had mass unemployment throughout Wales, which is one of the reasons why we now have Objective 1; to dismiss it in such a way belittles the achievement. Whether you look at gross domestic household income, or average earnings—and I quoted a figure earlier on—during the last year for which we have figures, namely 2004-05, average earnings in west Wales and the Valleys increased by 6 per cent, compared with 3.6 per cent across the whole of Wales. So, growth has been larger, faster and more significant in west Wales and the Valleys than in the rest of Wales. This can also be compared with a 3.7 per cent increase across the UK. Whichever indicator you look at, in terms of GVA growth, west Wales and the Valleys has outperformed much of the rest of Wales and, indeed, much of the rest of the UK. Perhaps Tracey and Gareth could come in at

this point.

[326] **Mr Hall:** Alun Ffred, I can assure you that it is not private sector investment that has been lost or reduced; it is directly correlated to the explanation that I gave for foreign direct investment—it is slippage into subsequent years. It will not be lost to the Welsh economy; it just has not been recorded, because it was not secured in the timeframe of the last financial year. It will be secured in 2006-07 and beyond.

[327] You also asked factual questions about land reclamation. We carry out land reclamation in several ways. Directly, as an organisation, one of the successes over the period has been the reclamation of the old coking Phurnacite works in the Cynon valley, which is a very successful, large-scale land reclamation scheme of a site that was a blight on the Cynon valley. We carry that out directly. We also carry out much of our land reclamation work through local authorities, through the public sector land reclamation scheme, and that brings forward derelict or contaminated sites, the last remaining legacy of industrial dereliction, and that creates sites for everything, from business to residential sites, from public open space to schools and playing fields. We have a very broad mix of after-uses for those sites. We also carry out land reclamation schemes for the private sector. One notable scheme in the past year that was completed before schedule, I am pleased to say, was a very large-scale private sector scheme for the reclamation of the old steelworks in Brymbo. There is a comprehensive scheme for residential and open space, and it is all part of the wider Brymbo community, so it is a very good success story.

[328] **Christine Gwyther:** Janet, you had something on land reclamation, did you not?

[329] **Janet Davies:** It is just a plea. I know that this may sound like nitpicking, but, in your statement at the beginning, Gareth, you compared the amount of land reclamation and talked about the use of 1,200 sites, and then you said that it is an area equivalent to 18,000 rugby pitches. Could I make a plea that we have that figure in acres or hectares, because I am sure that even an avid sports fan could not actually comprehend 18,000 rugby pitches? I am sorry if that sounds a bit like nitpicking.

[330] **Mr Hall:** I must have been watching the World Cup on television when I was drafting that, but your point has been noted.

[331] **Eleanor Burnham:** My first point seeks clarification of the five-year summary in this document from the WDA. I am interested in the management running costs, which, in 2001-02, were 34-point-something-or-other, and, by 2005-06, had increased to 49-point-something-or-other. For the uninitiated, or someone looking in who might not be aware of it, what are those costs? Do they include the costs of the merger, the associated redundancies or whatever? It is quite a significant increase, possibly, for people looking in and not understanding. So, that is one question.

[332] We have mentioned the risk assessment before. Has it actually changed? It must have changed somewhat, because the culture is quite different, now. How will that affect outputs?

[333] I have other questions.

[334] **Christine Gwyther:** Could you ask all of them now? It is just that we are running rather short on time.

[335] **Eleanor Burnham:** Okay. With regard to tourism, I do not know whether I have time to ask them all, really.

[336] Yr wyf yn edrych ar dudalen 3 y I am looking at page 3 of the document,

ddogfen hon, atodiad B, o dan ‘*capital investment; jobs created*’ ac ati. A ydynt yn amser llawn, yn rhan amser neu’n dymhorol? Hefyd, o edrych ar bwy yr ydych yn ei gefnogi, o dan ‘*events*’, ar dudalen 4, a ydych yn cefnogi’r Eisteddfod, Eisteddfod yr Urdd, Eisteddfod Gerddorol Ryngwladol Llangollen, a chyrrff megis y Gymdeithas Hosteli Ieuencid, sydd mewn trafferthion ar hyn o bryd?

appendix B, under ‘capital investment; jobs created’ and so on. Are those full-time, part-time, or seasonal jobs? Also, looking at who you support, under ‘events’, on page 4, do you support the Eisteddfod, the Urdd Eisteddfod, the Llangollen International Musical Eisteddfod, and organisations such as the Youth Hostel Association, which currently finds itself in difficulties?

[337] O dan ‘*quality assurance*’, dywedwch fod pobl sy’n cymryd rhan wedi cwtogi ar y ‘*grading scheme*’. Pam mae hyn wedi digwydd, ydych chi’n meddwl? A yw’n ymwneud â’r uno, neu rywbeth arall?

Under ‘quality assurance’, you say that people who participate have curtailed the ‘grading scheme’. Why do you think that that has happened? Is it connected in any way to the merger, or something else?

12.10 p.m.

[338] Mae’r pwynt olaf ynglŷn â chymorth i fusnesau. Pa fath o waith ydych chi’n ei wneud i integreiddio’r hyn a elwir yn ‘*client management system*’? Allwch chi ddweud rhywbeth am hyn?

The final point is on business support. What work are you doing to integrate what is called the ‘client management system’? Could you say something on that?

[339] **Christine Gwyther:** We will take Jonathan’s points first. Please could you be quite brief, Jonathan?

[340] **Mr Jones:** Certainly. Please forgive me, but I will turn to English, as I can be briefer in English than I can be in Welsh. The jobs are full-time equivalents and, therefore, if there are four part-time jobs, they would be broken down into full-time equivalents. They are not seasonal, but year-round jobs. We go back to these projects after the event and, usually, more jobs have been created than were claimed in the original assessment.

[341] We are curtailing the amount of money that we have available for events, because we are now working with our colleagues in the culture department and throughout the rest of the Welsh Assembly Government to ensure that we eventually get a central events body that can look at all events and analyse how much they bring into the Welsh economy or what effect they have on culture. At the moment, we support the events that I have listed there. In terms of the National Eisteddfod, we have a stand at the National Eisteddfod that we share with the Welsh Assembly Government, as we do at the Urdd and Llangollen eisteddfodau.

[342] We do not fund the YHA at all, but, through section 4 grants, we have funded individual hostels. We are currently working with the YHA to see whether there is any way for us to keep Llangollen youth hostel open, which I know is causing great concern up there. At the end of the day, YHA has to take a commercial decision on which hostels it has to close, in order to reinvest in others.

[343] On quality assurance, we believe that numbers have fallen, because a few people have now decided to be graded by the AA instead of us. For the first time, we will have to introduce more advantages for people should they choose to be graded by us as opposed to the AA.

[344] On business support, we are working with our colleagues in the former WDA and the old WAG systems to try to work towards having one customer management system.

Currently, we use the Maximizer system in the tourism department, and I believe, Gareth, that you have two systems in the former WDA. A project team has been set up and the intention is to merge the systems to get a cost-effective one, and not to hand that on a plate to a consultant who will add lots of noughts at the end of the bill.

[345] **Mr Hall:** First, on the question of management running costs, they include salaries, IT costs, rent and rates. So, when you look over the five-year comparison, compared with the early years of 2001-02, you see that the old WDA took on additional responsibilities and staff. In addition, on a specific question that you asked, I can confirm that the costs of the merger and the redundancies are included in the figure for last year. In recent years, we have had the additional cost to management running costs of equality of pay. We have also included not just the cost-of-living increases but incremental increases related to performance. Hopefully, that explains the breakdown of the management running costs. Under the Welsh Assembly Government, they are now called 'departmental running costs', and we are under a specific constraint of budget to meet a tight target and to keep the costs down there. They also include things like travel and subsistence.

[346] You also asked about risk assessment. One of the things that we have embedded in our business planning process is that, when we work up projects, we are not only looking at the forward output projections in the costs and bringing more robustness into that, but we have also adapted a system from the private sector, in which risk assessment is part and parcel of working up your projects. So, we build the risk aspects of individual projects into how we take things forward, so that, rather than keeping a risk register somewhere over there, it is part of a system that is under constant scrutiny. Any variance is reported to the senior management team.

[347] **Carl Sargeant:** I was interested in Alun Cairns's line of questioning. First, what was important from this report, and what he failed to mention, was the £950 million that was above target from 2000 to 2004, which clearly outstrips the 2005 problems that he was outlining. My concern when we set targets is that they are always up for scrutiny and they are easy to knock if they are not achieved. There are significant actuals above target across the years. However, you said that your figures and target-setting would now be far more robust, and perhaps a little more conservative—I suppose that that is an easy way out, to reduce your targets to meet the actuals or projected actuals. Are you confident that the systems in place are far more robust, so that next year or the year after, we will not come back to figures that are nowhere near reflective of your targets, and that they will be much more aligned?

[348] Secondly, there was great concern about the international division of the former WDA, which was raised in committee, certainly about its North American operations. I am unsure whether my next question is appropriate, but I will ask it anyway and if it is not, please tell me, Chair. Now that the system is within the operation of Government, do you have much more of a grip on the issue? The problems of the international division seem to have run and run, and yet we have a flagging system, and there is a problem here. How do you respond to that?

[349] **Christine Gwyther:** I think that it is perfectly appropriate and a very important question to ask.

[350] **Carl Sargeant:** My third question is for Jonathan. This is a great report, again, but then again, we have a great product and if we cannot sell Wales, we have a problem. You should be commended on the issues that are raised in the report. In the last committee in north Wales, we picked up on the quality aspect of that, so perhaps we need to focus on that in the future. Do you have any comments on your last report?

[351] On the question that Alun raised, what is interesting is that he was trying to hang the

blame for any perceived failures on the peg of the merger. Unfortunately, the Minister did not make the last committee meeting in north Wales, but an interesting comment was made by the Confederation of British Industry, who said that there were concerns about it only at first. I think that the phrase he used was something like, ‘We spat the dummy and threw our toys out of the pram far too early’—I think that it is in the Record, but we should ensure that it is also on record here. There was a lot of concern over nothing, and I think that the merger process has been successful. However, the figures do not help that in respect of robustness.

[352] **Christine Gwyther:** We will start with Jonathan, and then with Steve.

[353] **Mr Jones:** I agree that we have a brilliant product, but, unfortunately—or fortunately, however you want to look at it—there are hundreds of other brilliant destinations out there, and so it comes down to the marketing in a competitive environment. I think that we are up to that challenge.

[354] On quality, some of you may have seen that *Week In Week Out* programme on television recently, where they found some fairly poor-quality accommodation. We have asked for the list of those names, so that we can see whether any of them were graded by us. If they were, they need to be either knocked down a grade, given some serious help to improve, or persuaded to come into our grading system. The Minister is committed, and there is a manifesto commitment, to introduce legislation. I hope that, following the passage of the Government of Wales Bill, that will be taken forward in the next Assembly. We are working with Assembly colleagues to try to produce some research to show exactly what the level of bad product is. It is simply because we do not have statutory registration—we know the quality of the product that we assess and the numbers in the report, but we have no idea of the number or the quality of those who are not in the grading scheme. We firmly believe that statutory registration will be a step towards improving quality throughout Wales.

[355] **Mr Webb:** I will just add that one of the five strategic priorities in the new strategy for tourism is quality. Quality is upfront, and, to be honest, the consultation responses and all of the research tells us that quality is foremost in trying to make your product more competitive in a competitive tourism destination world.

12.20 p.m.

[356] **Andrew Davies:** To follow on from that, whatever part of the economy you look at, in a very intensive global market, it is about quality in everything that we do. That is true in terms of tourism, manufacturing and the service industry, and it is also true about government services and the public sector. That is what drives my new department.

[357] You used the phrase ‘conservative targets’, but I would say that they were realistic targets, focused on the way in which jobs, for example, are delivered, as Gareth said. In the past, we have announced jobs when the deal has been announced by a company, but it may be two or three years before those jobs are delivered. In many cases, the plans may change and the company may not deliver the forecast number of jobs.

[358] In terms of the international decision, I thought it bizarre that the North American operation of the former international division—was operated and headed out of Amsterdam. It struck me when I was with the then head of operations in America, that the address on his business card was Amsterdam. What message did that send to the American market? I am glad to say that that is no longer the case. We will shortly be appointing a new head of North American operations, or the head of the Americas, rather, and also a head of Australia. I am confident that, with the excellent work that Ian Williams is doing—and anyone who knows Ian will know that he combines great enthusiasm and focus with a tremendous knowledge of the way in which international businesses work—that there is a

vigorous regime within International Business Wales, and underperformance will not be countenanced. To follow on from Carl's analogy about spitting dummies out of prams, I know Alun is not here, but maybe he is having withdrawal symptoms and cannot stop playing with his.

[359] **Mr Hall:** Just to add to that, before Tracey talks about the realism of the outputs going into the new business plan, on the UK TI results announced today, I honestly believe that we are turning the corner as regards our international operations. We have much more focus, and that focus has been worked up by working with businesses and staff in international businesses, and they feel much more confident now that they, with this focus, have particular propositions that they can go out to sell to targeted businesses. Before, we were fishing in a very large pond, but we are now going out there with a real proposition that can get us across the threshold of businesses to say, 'We can add real value to the bottom line of your business and Wales is the place to invest in'. So, I am confident going forward. That model is being replicated across all our offices overseas.

[360] You also talked about a flagging-up system. I think that that is an extension to the risk assessment that we have tried to build in. The principle that I talked about in our introduction, about honesty and no surprises, not only applies to this committee, but is one of the values of the new EIN department. People will say if things are going well, and we celebrate it, but if things are not on track, you put your hand up early and collectively we can do something about it. That is part of the whole culture of the organisation.

[361] It is very good to hear the feedback from the CBI in north Wales. We have been working hand in glove with the CBI and the other representatives throughout this process. Those people represent business and we have been listening and responding to them. We have been listening to our customers, whether business customers or communities. A lot of noise around the system has been created by suppliers; we hinted at intermediaries when we discussed earlier whether they will get money in the future. We are not in the business of core funding organisations—we are here to fund sustainable organisations in the private and voluntary sector to help us to deliver those outcomes that are the priorities in the strategy going forward. We had some very constructive feedback from the CBI and the other organisations, not just in terms of what type of outcomes they are looking to deliver, but also in terms of the quality of service, and that will be built in as we go forward.

[362] **Ms Burke:** To give a little more detail, you were saying that you took it that we would not come back next year not having achieved our targets. I emphasise that our targets are based on forecasts, and those forecasts are based on historic performance, sometimes baseline studies, and sometimes research. Our external validation has shown that perhaps the weakest area of what is a good performance system is the quality of the forecasting by our project managers. We are producing new guidance, and, potentially, will have more training on that. However, no matter how rigorous we get, I suppose that there will always be some optimism bias by project managers, and I believe that we would all want people to aspire to achieve the best that they can in any year. Therefore, I cannot give you an absolute carte blanche assurance, but I would certainly hope that the variance would not be as wide as it is now.

12.25 p.m.

Cynllun Busnes yr Adran Menter, Arloesi a Rhwydweithiau
The Department for Enterprise, Innovation and Networks' Business Plan

[363] **Christine Gwyther:** We have had the pitch from all sections of the department, so we do not need an introduction. All I want Members to do, if they have any substantive, detailed questions, is to ask them now.

[364] **Leighton Andrews:** I will concentrate on some point of detail. On page 37, on the mid Valleys regeneration, what does that budget figure of £1,250 focus on? On all-Wales land reclamation, I am pleased to see that the Tylorstown/Llanwonno road tips included. I understood that there was money allocated previously for the Maerdy pit site reclamation—where would that be?

[365] On page 39, under key deliverables—going back to telecommunications again—is listed making second generation broadband available to at least 50 per cent of businesses in Wales. Do 50 per cent of businesses want it? Can this be part of your policy review of demand in the telecommunications area?

[366] **Mr Hall:** On mid Valleys regeneration, it is a £1.1 billion budget; we have only specified and grouped together projects over £1 million. I can give you a breakdown of what comes together there, and, as part of that breakdown, I can also give you the latest position on the Maerdy land reclamation site. On fibre speed, we can make that part and parcel of the review that the policy and strategy group is undertaking.

[367] **Leighton Andrews:** It was more about high-speed broadband, not specifically on the fibre speed project.

[368] **Mr Hall:** No, but we can embrace it as part of the review that is currently under way; we can do that.

[369] **Alun Ffred Jones:** On page 27, I note the figures for regional selective assistance. I would like a comment from the Minister or Gareth Hall on this. I made a breakdown of last year's RSA figures, looking at west Wales and the Valleys, and I split it into urban and rural authorities; population wise, rural authorities are, roughly, about 75 per cent of the urban numbers. However, if we look at the grants that were paid out, and the jobs that were created from those schemes, the total number of jobs in the rural counties amounted to about 330—this is not absolutely scientific. In the urban areas, the total is 2,000. Therefore, the number of jobs created from those schemes in the rural areas is 15 per cent of the jobs created in the urban areas, which is a huge disparity. The same pattern emerges from the RSA grant spending pattern—urban areas in south-east Wales get a disproportionate amount of those grants. Is there a reason for that, and a rational explanation for it? It seems that certain areas of Wales are losing out on this important grant scheme.

[370] **Christine Gwyther:** Do you have any other questions?

[371] **Alun Ffred Jones:** No, I will concentrate on that.

[372] **Andrew Davies:** Regional selective assistance, and the Assembly investment grant, are discretionary schemes, and are also demand led. We can publicise and work through our own offices or through the private sector to encourage companies to apply for RSA and the Assembly investment grant, but, ultimately, that is the company's decision.

12.30 p.m.

[373] As I said in a reply to an earlier question, ultimately, it is up to the individual company, for example, an inward investor, where it wishes to locate. We can encourage a company to go to a rural area or a south Wales Valleys location, but, ultimately, that is a decision for the company. Many companies would prefer to locate in a city or along the M4 belt, I suspect because the larger capital projects, which have created the largest number of jobs, would probably fit into the right categories and their decision on where to locate would be swayed in favour of proximity to major centres of population. For example, they would

locate in north Wales in proximity to the dynamic north-west England economy or along the M4 belt in south Wales rather than locate further west or north in mid and west Wales. That is my understanding of how you have analysed these figures. I accept that it is not scientific, but that reflects those underlying points.

[374] **Alun Ffred Jones:** I am sure that what you say is correct, but it also underlines the problems facing rural areas in retaining a variety of jobs to keep our young people in rural communities. So far, I have not seen anything in the strategies that address this huge and complex problem. I am not suggesting that there are easy answers, but unless we get to grips with this, we are condemning many rural communities in the west to a slow death. The age pattern of those communities is seriously worrying at the moment. If you look at pupil figures for some schools, in quite large settlements, it is disturbing to see how few children are going into those schools. Unless we address this, we are condemning much of rural Wales to a slow death.

[375] **Andrew Davies:** The demographics are even more acute in the south Wales Valleys and the issues concerning outward migration are probably more problematic there than in the more rural areas of mid and west Wales.

[376] Taking RSA in isolation ignores the other significant investments that we are making as a Government, for example, what Carwyn Jones is doing in terms of agri-food and rural diversification investment, and Objective 1 and the future convergence programme investment. There is a very significant amount of additional investment going into these communities over and above RSA or, indeed, the Assembly investment grant. It also ignores the very considerable private sector investment being made that is over and above or quite separate from Government investment. For example, there is the huge investment in Pembrokeshire and Carmarthenshire with the liquefied natural gas development. We calculate that that will be around £2 billion-worth of investment. That would not appear in any of these figures in terms of output or outturn for public sector, because we are not directly responsible for it.

[377] **Eleanor Burnham:** Following on from what Alun Ffred said, the other side of the story is that many tourism outlets are having difficulty finding local staff and many hotels in Wales, whether in the west or north, are now very much reliant on staff who are not Welsh-speaking or local. I am not sure how the Welsh Assembly Government is addressing that. That is a minor point in passing.

[378] On economic activity, on page 16, I was listening to an academic on Radio Cymru some days ago discussing the very serious issue of long-term sickness, which I presume would be included in these figures, particularly with regard to those who are off sick because of stress and mental health problems, which is, apparently, a growing problem. How is the Welsh Assembly Government addressing that great challenge?

[379] Briefly, on page 18 on transport, the FIFA World Cup championship has only just finished and it was a wonderful event—

[380] **Christine Gwyther:** It has not finished yet, but England is out.

[381] **Eleanor Burnham:** Sorry, I thought it had finished. One of the issues that I was interested in was integrated transport and integrated events and transport ticketing arrangements, whereby people could not only go to the event, but enjoy the facilities in the surrounding area. How are we going to address these issues in respect of the National Eisteddfod, the Llangollen International Musical Eisteddfod and so on? I have been on the Heart of Wales line—a wonderful line—to Builth Road and would like to know whether the Assembly Government is pushing all these important tourism events to ensure that, as far as

possible, we have integrated transport and events ticketing? I am sorry about the comment on the football World Cup.

[382] **Andrew Davies:** In the labour market, it is not just tourism and hospitality that are experiencing problems in terms of recruitment. Recruitment is a general issue across many sectors and we are working on it with the industry. The work that Jo and his department are doing with the tourism training forum, the sector skills council and the industry is looking at what we can do to encourage more people to go into the industry. It is not just about the operation of the labour market, the industry itself has major issues to address in terms of its status. It is seen by many young people as low-status, low-paid, seasonal work, while there may be much more attractive options. The whole thrust of what Jo and the department are doing to raise the quality and status of the industry is crucial.

[383] We, as a Government, see mental health and the impact of stress-related illnesses as a major priority. We are working on this with the Department for Work and Pensions and the Welfare Reform Bill is currently being taken forward by the UK Government. In fact, we are funding an Objective 1 project called 'Healthy Minds at Work', which I launched last year, which is trying to address these specific issues on how to support people who are experiencing stress-related illnesses, to support those who are in existing employment and to help those who are outside the labour market to access opportunities.

[384] Transport is a key issue and Robin and his team have worked closely with the Millennium Stadium, for example, on major sporting events to co-ordinate, with the operators, transport and access issues. Major concerns and fears were expressed initially about last year's Eisteddfod in north-west Wales and I am delighted to say that those fears were not realised. I asked Robin and his department to take the lead in terms of co-ordinating activities and I am delighted to say that we had virtually no complaints about transport access. I hope that there will not be any issues concerning this year's Eisteddfod in Swansea.

[385] **Mr Hall:** Could I just say something?

[386] **Christine Gwyther:** Was there something that I have missed?

[387] **Mr Hall:** There is something that we did not miss—a test of the robustness of our new performance system, Chair. I can confirm to Leighton that Maerdy is included in the business plan. Tracey checked it in the background papers. Thank you for setting us that test.

[388] **Andrew Davies:** I gave a commitment to the Chair and the committee that the transparency, accountability and scrutiny of the new department would be no less than under the old system and I hope, given the comprehensiveness of this business plan, that we have delivered what we promised.

[389] **Christine Gwyther:** Thank you.

12.38 p.m.

Cymorth Rhanbarthol—Canllawiau'r DU Regional Aid—UK Guidelines

[390] **Christine Gwyther:** This item will be a quickie. Rob, will you come to the table? I wrote to Paul Driver from the Department of Trade and Industry in April to express the committee's support for the Welsh Assembly Government's approach on this issue. I think that you all have a copy of that letter in your papers. We only have five minutes for this item.

[391] **Andrew Davies:** I think that the best idea would be to ask Rob to give an update on where we are with this. I know that we have discussed this matter on many occasions.

[392] **Mr Halford:** I had hoped to be able to come along this morning and give you an update on the paper that you have before you, to provide you with further detail on the position. However, I regret that, because we still await the release of the draft map, I am not in a position to add very much to what it says in the paper. Our information is still that the map should be released on 10 July; we understand that it is in the final stages of being agreed at the UK level.

12.40 p.m.

[393] At this juncture, all that I can do is to perhaps comment on the content of the report as drafted and say that, despite the fact that, as part of the reduction in population coverage that the UK is undoubtedly going to see—we know that the commission has reduced the population ceiling for the UK significantly and that that in turn will mean that 4 million fewer people, or thereabouts, will live in assisted areas under the new map than under the current map—we are very confident that the special needs of Wales will be reflected in that draft map, which is up for consultation. It is important to recognise that the committee has an opportunity to view that draft map. There will be a month or so of consultation before the map is finalised and sent to the commission in the autumn, so there is an opportunity to review the provisions and to make further comments.

[394] In terms of the dialogue that we have had with the Department of Trade and Industry, we have attempted to make sure that it is aware of the issues that have been debated in this committee and elsewhere, particularly the significance of aligning areas of deprivation with areas of opportunity, such that it is possible to utilise the assisted areas to provide the necessary ongoing support for industry and commerce. We believe that those messages have been taken on board. So, we are very much in the hands of the DTI at this juncture and we will wait to see what the map looks like, but we are hopeful that it will reflect the considerations that we have presented to it.

[395] **Christine Gwyther:** Are there any questions or observations on that?

[396] **Carl Sargeant:** That position has not changed that much, information-wise. As soon as the mapping exercise is done and the map has come out, would it be possible for committee members to have a paper, so that we can have an understanding of what is going on through the summer period?

[397] **Christine Gwyther:** By the sound of it, you need to be reaching some sort of conclusion in the autumn, so we might need to consider this as individuals, out of committee. Are Members happy for us to take that approach? I do not necessarily want to convene the committee in August for that purpose. I see that they are. Thank you, Rob. That was very helpful.

12.42 p.m.

Strategaeth Blaenau'r Cymoedd Heads of the Valleys Strategy

[398] **Christine Gwyther:** Again, this is something that we have done out of committee, as a response to the consultation. We have put together a letter to the Minister and I seek Members' agreement to that letter.

[399] **Janet Davies:** I am going to be very careful what I say, so do not panic. I am

concerned that there is not a mention of the proposed open-cast coal site in Merthyr in the document or in our response. Of course, legal proceedings are under way and that constrains comment and what I am saying now, but I wondered whether it was possible to include a reference saying that, were it to go ahead, it would have a significant effect on the success or failure of this strategy. I do not think that we can take it any further than that.

[400] **Leighton Andrews:** I would want to resist any such move, because I think that you could refer to several developments, whether they are environmental or industrial planning issues, which are under discussion at the moment, and make a judgment as to whether or not they affect the likely success of the strategy. However, to do so and to introduce this at a very late stage, on the back of a previously considered position by the committee, when we have spent some time looking at these matters, would seem to me to be foolish. What Janet has done is try to introduce something that we cannot, properly, get into a sensible discussion about for reasons of which we are aware. You can make an argument, perhaps, on one side of the case that this represents an industrial development and you can make an argument that it has environmental or health implications and so on—whatever argument you want to make; I am not trying to prejudge the argument. For a strategy that affects five counties, as this Heads of the Valleys strategy does, it would be slightly perverse to include that specific reference within the committee's response.

[401] I wanted to welcome what has been drafted. It reflects much of what was said at the last committee and it certainly reflects one or two of the things that I have said, and I am very happy with that response. We have now had the strategy, which was not the case when we had our last meeting, Chair, if I can remind you of that. A number of things have come out of it, and I know that my own local authority is responding in a particular way that is potentially beneficial to one of the communities in my constituency. What I wanted to say in terms of the strategy is that, while I welcome the action plan and the costings that are given, there is little within the document that gives any spatial sense of where that money is being spent. That is one element that I would like to add to this. We have to recognise that we discussed this before we had the document.

[402] **Christine Gwyther:** I know, but we could not do it any other way, I am afraid. It was a timing issue.

[403] **Leighton Andrew:** I understand.

[404] **Christine Gwyther:** Are there any other comments?

[405] **Janet Davies:** I would like to make the point that this is significant; it is not just like any other possible development. I realise that the committee will probably not put it in, but I would like it on record that I have made this point and that I feel strongly about it.

[406] **Carl Sargeant:** As someone who was involved in the process, I feel uncomfortable that we are discussing it in this committee. I think that it would be foolish to include it when legal proceedings are ongoing.

[407] **Christine Gwyther:** Okay. Janet, do you want me to put this to a vote?

[408] **Janet Davies:** I do not think that there is much point putting it to a vote. Nevertheless, I do not want it to be said at any time in the future that I did not raise it. I feel strongly about it.

[409] **Christine Gwyther:** The verbatim record will show that.

[410] Are Members reasonably happy with the letter? I see that you are. I realise that it is

not terribly detailed, but it is all that we can do at the moment. We are all free to put in our own responses. Thank you.

Daeth rhan gyhoeddus y cyfarfod i ben am 12.47 p.m.
The public part of the meeting ended at 12.47 p.m.