

**MINUTES**

**Date** 12 June 2002  
**Time** 2.00 – 5.00pm  
**Venue** Committee Room 1, National Assembly for Wales, Cardiff Bay

**Attendance**

**Members**

Chris Chapman  
Alun Cairns  
David Davies  
Andrew Davies (Minister for Economic Development)  
Ron Davies (Chair)  
Mike German  
Alison Halford  
Brian Hancock  
Dafydd Wigley  
Phil Williams

**Constituency**

Cynon Valley  
South Wales West  
Monmouthshire  
Swansea West  
  
Caerphilly  
South Wales East  
Delyn  
Islwyn  
Caernarfon  
South Wales East

**Officials**

David Pritchard Director, Economic Development Department  
Emyr Roberts Economic Policy Division  
John Clarke Chief Executive, WEFO  
Caroline Turner WEFO  
Phil Gray WEFO  
David Hobbs ICM

**In Attendance**

Tony Hackney Kronospan Ltd  
Dennis Pugh Kronospan Ltd  
Lee Hargreaves Building Research Establishment  
Chris Le Breton Energy Consultant

**Secretariat**

### **Item 1: Chair's opening remarks.**

1. Declarations of interest were made by Brian Hancock who works as a Health and Safety Consultant, Dafydd Wigley who is a director of a small company and Phil Williams who is currently involved with an Objective 1 application.
2. Apologies were received from Christine Gwyther and Elin Jones. Brian Hancock substituted for Elin Jones.

### **Item 2: Energy Review – Combined Heat and Power**

1. The Chair welcomed the speakers and invited them to provide brief introductions to their papers.
2. Tony Hackney of Kronospan Ltd. outlined the specific issues facing companies such as his, whose production processes were energy intensive. As well as the problems they had faced with the rising cost of fuel for the CHP plant, they were also facing competition from the national power companies for the supply of recycled timber which was used in their manufacturing process. He said that industry in Wales needed active support particularly with regard to planning and environmental policies.
3. Lee Hargreaves outlined the difficulties facing CHP users in recent years. CHP had the advantage of reducing both emissions and electricity costs and many major hotel chains recognised the long-term benefits of the technology and were increasingly taking decisions to install CHP when carrying out refurbishments.
4. Chris Le Breton said that Withybush Hospital remained the best application of CHP in the public sector in Wales but that it should be one of many. He said that there were still benefits to using CHP despite the position of gas and electricity prices. He felt that the National Assembly for Wales had an exciting opportunity to include CHP as part of a wider energy strategy in the public sector.
5. In discussion Kronospan confirmed that their UK operations had energy costs far in excess of those of others within the group across Europe. They were unable to sell their excess back to the national grid as they needed security of supply and could not make the necessary guarantees. Their aim was to have embedded power generation on site for both heat and electricity. They said that the incentive in their particular industry for CHP was that it was easy to run and it provided a reliable heat and electricity source. The major disincentive was the effect that changes in fuel prices could have on the company's overall profitability. At

present CHP was providing a net saving to the company but when gas prices last reached a peak in October 2001 the opposite was true. He added that this experience might be peculiar to their particular industry sector given the specific needs of their manufacturing processes.

6. Mention was made of the apparent conflict between initiatives under WRAP and the Carbon Trust. Kronospan said that there was only a definitive amount of timber available in the UK and whilst they welcomed the Carbon Trust initiative it had reduced the supply of recycled timber for their production process. This also affected Kronospan's wish to become self sufficient – if their supply was lost to the large power generation companies they would have no biomass to utilise. They suggested that WRAP and the Carbon Trust should work together to deal with the conflicts that exist. Kronospan said that the use of CHP had resulted in considerable savings for them under the Climate Change Levy.
7. On the use of CHP in the public sector Chris Le Breton said that he favoured using private sector funding as had happened with the 'third set' installation at Withybush Hospital. This had the advantage of transferring the risk to the private sector and also ensuring that it was in their interest to make the installation profitable. He said that NHS estates managers did not always look at the life cost of installations only at the initial capital costs. He added that it should be remembered that an NHS trust's priority was to care for their patients.
8. Lee Hargreaves spoke about the existing level of CHP within the hotel industry but said that the sector would benefit from dissemination of energy efficiency best practice programmes and said that Carbon Trust Wales with funding from the Assembly should take the lead role in this.
9. Several members raised the issue of the lack of skills training within the energy efficiency sector. Whilst attempts were being made by BRE to increase training provision it was felt that there was a major gap between the academic process and practical experience offered by some University courses. It was also felt that many engineering courses did not always keep up with new technology. Members agreed that this was an area that should be addressed within the report.
10. Chris Le Breton said that the introduction of NHS trusts had had a negative impact on CHP. The biggest increase in CHP installation had occurred in the 1980s at a time when the Welsh Office was carrying out regular energy reviews. However since then, energy usage in hospitals had drifted upwards. He said that the Assembly should take a more pro-active approach to managing the estates it had influence over and should set objectives to drive improvements forward.
11. The Minister said that the Welsh Assembly Government recognised the implications for CHP on environmental footprints and reducing costs for industry. He agreed that there were a limited number of sites within the NHS and agreed to raise the matter with the Health and Social Services Minister. He said that he would also discuss skills training with the Minister for Education and Lifelong Learning.
12. He said that the WTB recognised the need to encourage greater energy efficiency

and he hoped that they and the Carbon Trust would work together on this.

13. In concluding the discussion the presenters said that they felt it was important for investors in Wales to have clear guidance on planning and environmental issues. They also identified the potential for the use of CHP in Universities and prisons as well as hospitals, and the opportunities that also existed for community heating schemes.

### Item 3: Budget Issues Paper

1. The Minister briefly introduced the paper by saying that he wished to hear the Committee's views on his budget priorities and that he would consider them carefully in preparing his bid to Cabinet.
2. Some members were surprised that the Minister's paper opened with what they considered was a 'political' statement and asked whether he could justify his claim about the 'most favourable tax position for small businesses'. The Minister said he had provided this information in his report to the previous EDC meeting although he added that this referred to only G7 countries. He would send the Clerk the information referred to, demonstrating the accuracy of the figures used. **[Action: E.D. Minister]**
3. A member asked about the number of businesses that had benefited from Objective 1 monies and the Minister agreed to write to the member about this. **[Action ED Minister]**
4. Discussion focused on Annex B to the paper, which summarised the current planned provision for 2002/3 to 2004/5. By way of clarification the Minister said that the figures for WEFO included the Local Regeneration Fund, which was formerly part of the Local Government Major Expenditure Group (MEG). The outturn figures for 2001/2 also included these figures to present a consistent trend.
5. Officials said that they did not consider the changeover in the Assembly to Resource Accounting would have any significant effect on the figures.
6. Members expressed concern about the level of funding for Structural Funds, which appeared insufficient to provide all the match funding that currently could be expected. This was because delays in spending had increased the commitment in later years of the programme and because the value of the pound to the Euro had increased. The Minister acknowledged that these factors would have an impact and agreed that figures for 2003/4 and 2004/5 should be considered as indicative. He reiterated the Government's assurances that no suitable project would fail simply due to the lack of match funding.
7. Officials said that they were preparing a financial profile to 2009. Members asked if they could see the budget calculations that showed the levels of expenditure that were necessary in order to avoid decommitment of EU monies. However, the

Minister said he could not make these available to members until negotiations with the Treasury were complete. He said he would provide the information on completion of the Comprehensive Spending Review (CSR). Some members were surprised that these figures should be confidential given that the Government had agreed that no project would be turned down for lack of match funding. **[Action ED Minister]**

8. Concern was expressed about the amount of Objective 1 money for Research and Development that was being allocated to Cardiff, which was not an Objective 1 area. The Minister noted that there were rules to cover this situation and that they would be strictly adhered to. It was noted that detailed information on this had been promised by WEFO for the next meeting.
9. Members commented on the shortfall in funds in some of the Structural Fund programmes and asked about scope to transfer monies between elements to match demand. Officials said that there was some limited scope to do this - but added that because expenditure built up at different rates it was not always easy to identify early on, the programmes which were under-performing. The new business birth rate strategy was mentioned as one such programme, expenditure on which was expected to pick up quickly after the current financial year.
10. Reference was made to the forthcoming statement from the Minister on broadband ICT and members asked whether funding for this had been allowed for within the budget shown in Annex B. The Minister said that it had been considered in last year's budget round and some members expressed surprise that the proposed increase was so low. Clearly this would need to be considered carefully when the Minister's proposals came forward. Nonetheless, the Committee unanimously supported the Minister's commitment to broadband.
11. Members' conclusion from the discussion was that the figures presented in Annex B were not sufficiently detailed for them to give the Minister a clear view on his priorities. Officials said that more detailed information was available on the Intranet and would be provided to the Committee. It was agreed that the Chair should consider the possibility of a brief further discussion on this before the Finance Minister's deadline. **[Action ED Minister/Clerk/Chair]**

#### **Item 4: Minister for Economic Development's report**

1. The Minister provided a brief oral update on the recent survey carried out by the WTB on the performance of the tourism industry over the Jubilee Bank Holiday weekend. This is attached to his written report.
2. A member expressed concern following the announcement that 90 jobs were to be lost at Thermomax which was due in part to the weakening in the German market for solar panels and the effects of the weak Euro. The Minister said that the Company were keeping their R&D function at the plant and they hoped to regain their market and develop in the future.
3. On tourism, a member highlighted the importance of countering the stereotypical

images that exist of the valleys and the need for good quality accommodation. The Minister said that he recognised the need to bring tourism to the less traditional areas of Wales and that £1m of the Corus package had been set aside for this purpose. On the proposed statutory registration he said that during the consultation process 80% of tourism operators were in favour of the scheme but that he would take on board issues raised concerning the need for flexibility in the criteria before making a final decision in conjunction with the WTB.

4. A member called for the First Minister to make further efforts to meet with the Managing Director of Friction Dynamics. The Minister said that he could not comment on the matter before the Industrial tribunal but could confirm that he would speak to the First Minister on the issue.
5. Several members raised the issue of the pressures that exist on development land in certain parts of Wales and that whilst the jobs were welcome, over development put pressure on local services and offered no protection to people already living in the area. The Minister agreed that pressures existed in certain parts of Wales and said that the Assembly Government were committed to sustainable development. The provision of land for development was largely a matter for the planning authorities.

## **Item 5: WAC Report – Objective 1 European Funding for Wales**

1. The Minister opened the discussion by referring to his paper, which gave the Welsh Assembly Government's initial response to the report. He said that he broadly welcomed the positive message that the Welsh Affairs Committee had presented and, while he acknowledged their concerns about turnaround times for applications, he indicated that at present they were generally dealing with these close to the deadlines. He said he would welcome the views of the Committee which would assist in the response to the report.
2. Chris Chapman as Chair of the Objective 1 Programme Monitoring Committee said that it was a generally encouraging report which made some constructive criticisms. She said that they had already been working on many of these issues and that the report had been sent to the PMC. She said she wished to pay tribute to the staff at WEFO for the excellent work they were doing and emphasised the importance of good quality projects. While recognising the deadline, it should not be adhered to slavishly if more time would allow a project to be improved.
3. There was some discussion about the locus of the Welsh Affairs Committee in respect of an area of work which was devolved to the National Assembly. Members thought it preferable that a Parliamentary Committee should focus on matters pertaining directly to the Secretary of State, such as budgets and state aid rules etc. They wondered if it was appropriate for the WAC to be scrutinising the National Assembly on the carrying out of a devolved function. However, it was

noted that a Select Committee had the power to summon people to appear before it and was free to consider whatever it wished to. The situation called for some common sense to be applied.

4. Members noted the WAC support for the development of operating aids and asked about progress with these. The Minister said that he was continuing to work on them and to press the Treasury. However, he was not in a position to say when something positive might emerge.
5. In response to a question about the delays in processing applications, John Clarke said that initially there had been delays due to factors such as the learning curve for staff and partnerships and the large number of applications received in the opening bidding round for Objective 1 in September 2000. However, neither of these was now an issue and he confirmed that staffing was not a cause of delay.
6. Reference was made to 'co-financing' of projects, which in England operated through the Department of Education and Skills. This approach led to a simpler application process which incorporated the provision of match funding. Members commented that it appeared that such match funding came directly from Treasury and, for an English region, appeared independent of any funding for other Government expenditure in the area. Conversely, in Wales an increase in match funding had to be met from within the Block and hence necessitated offsetting reductions in other budgets. It was noted that the Minister was not responsible for the funding regime that applied in England.
7. Members commented on the witnesses examined by the WAC, which they noted were either Ministers or Civil Servants. They felt that the Committee might have got a fairer picture of the Objective 1 programme if they had spoken also to recipients of grants and perhaps those who had applied and been turned down. It was felt that had the report been based on better evidence it would have been possible to give its conclusions greater weight.

## **Item 6: Minutes of Previous Meetings**

1. The Minutes of 22 May and 30 May were agreed as a true record of the meeting.
2. Members were unhappy with the Minister's response to action point 4.6 from the 22 May meeting and asked for fuller information on the geographical analysis for Interreg IIIA applications. The Minister said that he would provide more information once he had something more substantive to report. **[Action: E.D. Minister]**

## **Committee Secretariat**