

MINUTES

Date 13 June 2001
Time 2.00-5.30pm
Venue Committee Room 1, National Assembly for Wales Building.

Attendance

Members

Constituency

Ron Davies (Acting Chair)	Caerphilly
Alun Cairns	South Wales West
Christine Chapman	Cynon Valley
Glyn Davies	Mid and West Wales
Mike German (Economic Development Minister)	South Wales East
Brian Gibbons	Aberafan
Alison Halford	Delyn
Brian Hancock	Islwyn
Ann Jones	Vale of Clwyd
Dafydd Wigley	Caernarfon
Phil Williams	South Wales East

Officials

David Pritchard	Director Economic Development Department
Mike Phelps	Chief Economic Adviser
Emyr Roberts	EPD
John Clarke,	Chief Executive, WEFO
Phil Gray	WEFO
David Howarth	WEFO
Roger Bonehill	OCG

Secretariat

John Grimes	Clerk
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Apologies: Chris Gwyther – Ann Jones substituted

Val Feld – Brian Gibbons substituted

Election of a temporary Chair

In Chris Gwyther's absence, Ron Davies was elected as Chair.

Item 1: Chair's opening remarks.

1.1 Opening the meeting the Chair explained that Chris Gwyther was unable to attend due to her partner's illness. Members agreed he should write to her expressing their very best wishes **[Action: Chair/Clerk]**.

Item 2 Minister's report

2.1 The Economic Development Minister introduced his report by referring to the latest unemployment figures, the time-table for the next stages of NEDs process, welcoming the expansion of Legal and General in Cardiff and the on-line business news letter. He said that WEFO had recently made 2 appointments: Dr Susan Denman as Head of Research and Evaluation, and Dr Caroline Turner as Policy Director. He said that on Monday the Westminster Government had confirmed that it would accept the EU Directive on consultation with employees. The Minister said he would provide his update in written form to be attached to his report. **[Action: ED Minister]**.

2.2 The Chair referred to paper EDC 09-01(p8) "Quarterly Economic Report for Wales" which had been tabled as a paper for information. He thought it was relevant to a number of items on the agenda and that it would be in order for Members to refer to it during the meeting. He said that this was the first time the report had been prepared and he thought it was very useful and helpful to the Committee.

2.3 Members expressed concern that Annex 1 to this report showed that the gap in economic performance between Wales and the UK as a whole was widening. While it was recognised that the figures indicated that the Welsh economy was continuing to grow, it was suggested that they showed that the Minister's policies were not working. The forecasts were also significantly lower than the targeted figures implied by the NEDS consultation paper. It was noted that one possible reason for Wales' relative under-performance was the fact that it depended far more on manufacturing than most other parts of the UK and would therefore tend to suffer more at times, such as the present, when manufacturing was not growing as strongly as the service sector. It was argued that the high pound combined with an under-valued Euro were critical factors here.

2.4 Responding, the Minister said that regional economic forecasts of this kind, while useful, tended to rely merely on extrapolating past trends. They did not and could not take account of major policy changes of the kind to be included in NEDS until such changes had begun to have a real impact. It was therefore unwise and misleading to conclude at this early stage that the Assembly's policies were not working. He agreed with the assessment that the pound was overvalued/Euro under-valued.

2.5 Members recognised that there was no quick solution to Wales' problems and emphasised the long-term objective of closing the gap. There was a discussion on the level of resources necessary to achieve this but the Minister felt that it was too early to come to a firm view on this while consultation on NEDS was continuing and before final decisions on the strategy were taken. It was also the start of the budget planning process: there would be plenty of opportunities to discuss this issue later in the process.

2.6 Members noted the effect of an economically inactive cohort of 45-54 year old males which was the consequence of past restructuring in the manufacturing sector. Members noted that in this age group, economic activity for women was much better – and that their relatively lower pay rates were a factor in Wales' low GDP. A number of members expressed concern about continuing delays in support being made available to the tourism Industry and the reference to an announcement 'in due course' when help to the industry was needed now. They noted that the Minister's report referred to an extension of the existing support scheme but also that this was not from his introducing more money, merely allowing more time for it to be taken up.

2.7 In the discussion, Members commented on the importance of Ministry of Defence contracts to bringing research and development to Wales. There was also discussion about various reports and surveys which gave conflicting views on Wales' export performance. It was suggested that this disagreement might have been the consequence of one survey being based on a very small sample.

Item 3: Introduction to the Budget process and discussion of the National Assembly for Wales Performance Report 1999-2000

3.1 The Chair introduced the papers which had been prepared by the Minister to summarise and update the information contained in the Performance Report.

3.2 There was discussion about Annex D of Paper 3 which showed a net underspend of £54m. Members found it very difficult to see how such a large underspend could have arisen undetected. The Minister said that the figures, which were very close to those reported to the Committee last autumn, gave a false impression. He said that when one took account of exceptional items, the real underspend was under 0.1 per cent of the Assembly's total budget.

The figures reflected an underspend of £21m on Regional Selective Assistance: this scheme was demand-led and in many cases it was difficult to forecast with precision whether particular claims would materialise at the end of one financial year or the beginning of another. Indeed, companies themselves often found it difficult to know when they would be submitted owing to a wide range of factors including the state of a particular sector, corporate strategy or the normal challenges of managing a project to schedule.

3.3 The figures also included £21.5m for a single large project for which the WDA had had, at the time, a contractual commitment. He emphasised that the Assembly's budgets were no longer managed on the basis of simply "12 months at a time" but over a 3 year period. As a consequence, there had been no loss of funds to the Assembly or indeed to the EDD budget: which had grown significantly as a result of the last planning round.

3.4 Members were still concerned that it might have been possible to forecast these underspends sooner and thereby make resources available to the great many companies who were anxious for help. Indeed, there were many other programmes within the Economic Development Department looking for resources. It was pointed out that excessive underspends might also hinder bids for resources in the future. The Minister agreed to provide a note explaining what had happened. **[Action: ED Minister]**

3.5 While not accepting that the scale of the issue was anywhere near as large as some Members considered, the Minister agreed that it was very important to monitor expenditure carefully during the year. Indeed, to reinforce the point, as part of the recent restructuring of EDD he and David Pritchard had established a new unit in order to do just this. Members were however anxious to understand the processes and the checks and balances in place to manage programme resources well. The Minister offered to provide a note on this for the next meeting. **[Action: ED Minister]**

3.6 There was some discussion of the apparent £2m underspend in relation to CBDC, but officials said they had concerns about the figures which they had not been able to resolve fully before the meeting. The Minister agreed to provide a note on this also. **[Action: ED Minister].**

3.7 Members referred to the Finance Minister's paper outlining the budget process and the reference in it: "I do not expect to receive large bids for new spending but rather suggestions for reshaping or refocusing the published plans". Members were concerned to know how the Minister reconciled this with the clearly identified need for significant additional resources in order to meet the NEDs targets. The Minister said that he would be making a suitably robust bid to the Finance Minister.

3.8 In discussing the report more widely, some concern was expressed that numbers of jobs did not distinguish between new and safeguarded and that long-term targets, such as for 2010, were of only limited value if they did not include some indication of expected performance in

intermediate years.

3.9 The view was expressed that it was important, if we were seeking a knowledge-based economy, to spend more on research and development. However, it was noted that the bulk of this fell within the education budget and not within that of the ED Minister.

3.10 A number of members expressed concern that the total money spent during 2000 in Wales on Objective 1 was only £400,000 when some £82m had been allocated in the Assembly budget for 2000-2001 for Structural Funds expenditure in Wales and £175.5m had been allocated from Europe. Officials from WEFO said that this was partly the consequence of delays in finalising the programme and that all of last year's Assembly budget had been spent apart from £21m set aside for the Finance Wales project which would be carried forward. Acceptable claims to draw down the £175.5m EC commitment needed to be with the Commission before the end of 2002 and officials were confident that this would be achieved. There was some discussion of the £21m allocated for Finance Wales which could have been funded from the £79m that had been advanced by the European Commission since the beginning of the programme but could not be spent until the EC had approved the project. It was hoped that approval would be received in Autumn 2001.

3.11 Concern was expressed that the Commission had already approved one particular scheme for certain English Regions and had done so in advance of the venture capital proposals made by the 'Alliance' of UK Objective One areas, including the Finance Wales proposal for Wales. The Minister and officials were pressing the Commission hard to come to an early conclusion on this.

Item 4: Objective 3 PMC report

4.1 Introducing the report on Objectives 1, 2 and 3, Phil Gray said that 277 Objective 1 projects, with a total value of £188m, had been approved and that they were on track to meet their targets for the year. He said that WEFO were currently aiming to commit a total of £380m by the end of 2001 in order to get sufficient front loading to generate sufficient expenditure to ensure that they could draw down funds in line with EC expectations. He said that they were expecting a further tranche of good quality products to come forward in the Autumn and commented that one of the issues facing them was the balance between obtaining the right volume of products with the need to maintain quality.

4.2 The text of Kirsty Williams' oral report is annexed to EDC-09-01(p5). She spoke about the recent Objective 3 PMC meeting and the AMBP which had been considered and on which further work had been requested before it was submitted to the EC. She said copies would be sent to EDC Members when it was complete. She provided an update on progress with

Objective 3 and spoke of the Committee's desire to improve its information base and to develop a strategic approach to the programme.

4.3 There was some discussion of the high failure rate of applications submitted and the cost these incurred for both the applicant and the office. It was noted that there was a balance to be drawn and that if the application process was too rigorous there was a risk that good projects would be lost.

4.4 Some concern was expressed that although the information in the report suggested that community projects were generally being supported, this did not accord with the impression on the ground. The comment was made that for smaller projects arrangements had been put in hand for applicants to apply for grants from a large sponsor such as the WCVA Social Risk Capital Scheme under a simplified application process

4.5 Concern was expressed that according to the timetable on the WEFO website Objective 2 letters would not be going out until September. John Clarke said he would investigate this.

[Action: John Clarke]

4.6 Some concern was expressed about apparent inconsistencies between figures given in the different papers but it was noted that these related to different time periods.

4.7 Reference was made to the recent meeting that Chris Gwyther had had with the CBI and the latter's concern that delays with Objective 1 which were the result of delays in filling posts within the private sector unit at WEFO. John Clarke said that they were making good progress with this and that it would be fully up to strength by the end of July.

Item 5: Business Support Review - Report on consultation

5.1 On a point of clarification, the Minister said that the references to 'We' in his paper referred to the Cabinet and were not intended to imply that the recommendations were on behalf of EDC.

5.2 The Minister introduced this paper by thanking everyone involved in the consultation and, in particular, paid tribute to Val Feld for her commitment throughout the process. He said that they had received clear responses on a number of important issues although on some views had been mixed. His paper indicated the way he proposed to proceed and he invited the Committee to comment on the recommendations of the Cabinet.

Recommendations 1 & 2

5.3 Concern was expressed that the Minister's paper could be construed as indicating the Cabinet was not minded to implement these 2 recommendations. The Minister stressed that this was not the case but that a number of important bodies had indicated that they could give final views only in the context of the NEDs consultation, which had not yet ended. The Minister said he would come back to this in the autumn. Concern was also expressed that the paper suggested (Page 2 of Annex 3) that the WDA did not support some of the recommendations when in fact Members believed they did. The Minister said he would clarify the position.

[Action: ED Minister]

5.4 In conclusion, the Committee endorsed their recommendation for the establishment of an Economic Policy Board and an Economic Research, Monitoring and Evaluation Unit.

Recommendation 3

5.5 The Committee accepted and welcomed the Minister's endorsement of their recommendation.

Recommendation 4

5.6 The Committee accepted the Cabinet's recommendations, although some stressed the importance of the reference in 4.17 to the Agency being sensitive to the roles of each partner. It was noted that the Minister would reflect this concern in the final recommendations and would bring forward further proposals, on implementation, in October.

Recommendation 5

5.7 The Committee accepted the Cabinet's recommendation. Members noted the need, identified by EDC, for there to be more clarity about the amount of money going to Economic Development.

Recommendation 6

5.8 There was some discussion of the proposal to retain Business Connect as a brand name. Members agreed that the underlying structures were more important than the name – it was a matter of judgement whether overall retaining the name did more harm than good. Overall, the Cabinet's recommendations were accepted.

Recommendation 7

5.9 The Minister said that the view not to establish an Ombudsman was finely balanced. EDC Members had equally balanced views. Generally, it was felt that it was important to have a mechanism to resolve concerns when an applicant felt it had not received good service.

However, Members were concerned that often the terms of reference for an Ombudsman were set too narrowly to be of much help. Alternatively, if they were to be presented in broad terms there would be the risk that any applicant turned down for a grant would seek to appeal whether or not the basis for rejection was fair.

5.10 Members noted that the Assembly was undertaking a review of Ombudsman functions and concluded that it would be appropriate for the Minister to await the conclusions of this and report back to EDC in due course.

Item 6: Minutes of meeting on 23 May 2001

6.1 The Minutes of the two parts of the meeting held on 23 May were agreed as a true record.

6.2 Under Action Outstanding, the Chair said that the point he had raised at the previous meeting (when Chris Gwyther was Chair) was about the veterinary basis for the advice that it was now considered sensible to open up footpaths when previously it had not been. The ED Minister said he would respond to this. **[Action: ED Minister]**.

Committee Secretariat