

**Date:** 31 October 2001  
**Time:** 14:00 to 17:30  
**Venue:** Committee Room 1, National Assembly, Cardiff Bay  
**Title :** ECONOMIC DEVELOPMENT MINISTER'S REPORT

## **1. GOVERNMENT BUSINESS**

### **International Trade Day**

1. A very successful event arranged by WalesTrade International. Held at the Vale of Glamorgan Hotel and attended by almost 200 businesses. 8 business seminars were held throughout the day along with 35 specialist advisers offering one-to-one business advice in areas such as market research, e-commerce, legal issues, custom procedures and finance.
2. I gave the speech of welcome and presented certificates to the regional winners of the National Languages for Export Campaign. I was particularly pleased to learn of the success of the recently returned WTI mission to the Gulf and the exceptional welcome they had received.

### **Swansea City Centre Redevelopment**

1. On Tuesday 23 October, I gave the go-ahead for gap funding from the WDA to secure a £125m regeneration of the eastern end of Swansea City centre. The original Castle Quays scheme which I turned down two years ago has been radically changed in a way that overcomes the strong objections raised against the original scheme. The ambitious new Castle Quays scheme will transform the centre of Swansea, providing a strong and attractive regional centre for South West Wales, and is estimated to create 1,200 jobs when completed around 2006.

### **Broadband Life-long Learning Network for Wales**

4. I attended the ITEC centre in Cardiff on 24 October and announced an £18.4m investment package from the Assembly to speed up the introduction of high speed broadband internet services in schools, libraries and life-long learning centres throughout Wales. This is a made-in-Wales policy which I believe to be the most far-reaching and significant investment in broadband made by any UK government, and shows how the Assembly is leading the way. It will bring

broadband into schools for the first time and ensure that rural areas of Wales do not lose out on the technology of tomorrow.

5. £8.5m has been earmarked this financial year for providing broadband services for all local authorities, as well as extending existing provisions for further and higher education centres, with another £4m to follow later. The balance of £9.9m is intended to provide interactive multi-media equipment to every primary, secondary and special school in Wales.

## **2. MAJOR ISSUES UPDATE**

I have recently announced significant Assembly funding for two new exciting and ambitious initiatives which I anticipate will have a very positive impact upon our future economic performance.

**The Technology Commercialisation Centre** (previously known under the working title of the National Technology Institute)

1. An important initiative to stimulate the creation of new fast growth high technology businesses in Wales and to encourage new world beating products into existing businesses and will be issuing more details shortly.

### **A Welsh Centre For Manufacturing Excellence**

1. This new initiative will deliver pro-active practical advice about production and other key business issues to SME's operating in the manufacturing sector, to help them improve their competitiveness. Services provided will include relevant learning opportunities, and information on the practical application of latest technologies, including access to "hands on" facilities. Again, details will follow.

### **Entrepreneurship Action Plan**

1. The paper sent by EDC clerk to committee members on 22/10/01 on funding issues was discussed with my officials, but it was the clerk's paper. Things are constantly moving on the EAP, with new projects being approved and coming onstream eg Finance Wales Objective 1 approval. Extra monies have been put in the budget for the Business Birth-Rate Strategy (£1m for 02-03, £4M for 03-04). We recognise that there are still gaps in funding in some areas, these are being addressed by the EAP.
2. A full report on the EAP will be made at the 12 December EDC meeting - new Chairman of the Entrepreneurship Panel, Roger Jones, expected to be in attendance

## Finance Wales

5. This will be formally launched on 6 November. An extra £21m will be in Finance Wales' bank account shortly, with private sector money following.

## 2. JOB NEWS

3.1 Eleven companies in North Wales are to benefit from £3.3m worth of Regional Selective Assistance (RSA) grants from the National Assembly, which will help create 219 new jobs and safeguard 72 existing jobs in the area.

### **Gains above 50 since the last EDC meeting.**

Bluebird Electric Vehicles, Pontardawe.

2. 100 jobs are on their way to the Swansea Valley and it is hoped that this will rise to 350 over the next 3 – 4 years. Bluebird is setting up production in the 37,000-sq ft former BAW factory at Pontardawe. Recruitment is starting immediately and production should be underway after Christmas. The company hopes to be producing 2,500 electric powered vehicles a year by the end of 2005.

British Gas, Cardiff.

2. British Gas is to create a further 200 jobs at its Cardiff HQ. The company announced yesterday that its National Sales Centre (NSC), which already employ's 2,000 staff, is to expand its call centre operation with a further £2.7m investment. The initial phase will be for 150 staff with the balance next Year.

Sainsbury's, Cardiff

3. The Sainsbury's store at Thornhill, Cardiff, is to expand and create 75 new full/part time jobs starting in January 2002.

### **Losses above 50 since the last EDC meeting.**

Alpha Digital, Rhondda.

2. 50 jobs have gone, more than halving the 90 strong workforce to 40 – this despite staff producing computer printers and CD's without pay for nine weeks. The firm

blames events surrounding September 11 for the lost jobs.

Alenia Marconi Systems at Cwmbran.

5. 98 jobs are to go out of 113. Alenia makes control and simulation systems for the aviation industry. It has taken the steps to remain competitive. Software design is to be transferred to other plants in the UK, whilst air traffic management training, which employs 15, will remain. It is hoped 25 members of staff will relocate.

### **Jobs under threat**

6. Two associated North Wales companies - DJ Construction and Jennings Plant Hire – have been placed into administration. One of the UK's leading wind farm contractors, DJ Construction has been unable to sustain margins in what has been an increasingly competitive market. The workforce will have to be reduced significantly by the administrators as they arrange to meet existing commitments and protect the firm's assets.

## **4. ACTIONS ARISING FROM PREVIOUS EDC MEETINGS**

### **Corus Response Programme**

1. The original Corus package announced on 3 May 2001 provided £66 million. The funding for this package is comprised:
  - o £50 million from the Assembly
  - o £16 million from the DTI

(the DTI funding is part of a package announced by the UK and is in the form of social aid payments under the European Coal & Steel Community (ECSC) Treaty to workers in the steel industry affected by restructuring).

1. In the draft budget proposals announced by the Minister for Finance on 18 October 2001, a further £26.1million is being made available to help the communities affected by the Corus closures. This brings the total Assembly funding to £76.1 million. All of this will be met from unspent resources carried forward from previous financial years under end-year flexibility arrangements (EYF). Table 1 shows the programme period.

### **Rural Recovery Plan**

2. The package of measures announced by the Minister for Rural Affairs on 26 July

totals £65 million. The funding for this package comprised

- £60 million from EYF provision
  - £5 million from existing allocations in 2001-2002, re-prioritised in response to FMD (ELWa £1.5m; WDA £2m; and NAWAD £1.5m)
1. The Assembly contribution will be partly offset by consequential adjustments received as a result of the Department for Environment, Food and Rural Affairs (DEFRA), the Department of Transport, Local Government and the Regions (DTLR) and Department for Culture Media and Sports (DCMS) receiving additional provision from the Reserve: the Assembly will receive its appropriate share of these amounts. Table 1 shows the programme period.

### **Assembly Funding Programme**

2. For both the Corus and Rural Recovery Plan packages, the Minister for Finance has decided to use some of the unspent resources carried forward from previous financial years. In Resource Budget terms the total EYF available to the Assembly is some £419.427 million. This can be drawn from the Exchequer when it is needed (subject to the Parliamentary Estimates procedures).

**TABLE 1 - CORUS AND RURAL RECOVERY PACKAGES: PROFILE**

<b>£ millions</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>Totals</b>
<b>CORUS original (excluding DTI element)</b>	8.700	10.000	15.500	15.800	50.000
<b>CORUS additional</b>	2.500	15.300	-1.300	9.600	26.100
<b>Rural Recovery Package</b>	37.000	11.750	16.250		65.000

### **Structural Fund Operating Costs**

3. The Committee has requested costs on the administration of European Structural Fund Programmes. A brief costing exercise has been completed and costs have been identified totalling £10.8m. The Committee is requested to note that this is not the total cost, but the cost that is identified in the books of the National Assembly for Wales and the Welsh European Funding Office as relating to the administration of European Structural Fund Programmes. Background information is appended as Annex 1.

### **Cardiff Bay Cost Variations**

4.7 A paper submitted in response to questions raised in previous meetings is attached as Annex 2 - Note to Economic Development Committee on outstanding

## **ANNEX 1 – STRUCTURAL FUND PROGRAMMES ADMINISTRATION COSTS**

### **Background**

There are three key players involved in administering the structural fund programmes:

- Programme Monitoring Committees (PMC)
- The Welsh European Funding Office (WEFO), and
- Partnerships (15 Local, 10 Regional and 4 Strategy)

There are costs associated with the full process of applying, evaluating, approving, payment, monitoring and reporting. While examining the budget allocated to WEFO can identify some of these costs, there are others that can only be identified by an extensive costing exercise. With such an exercise, the costs may not be identifiable and we would rely on the relevant party separately accounting for these costs. Where these costs are already incurred and not marginal costs (i.e. a cost that would not be incurred without the activity), it is unlikely that they will be separately accounted for.

WEFO is forecasting to incur administration expenditure of £4m in this financial year, 2001-02. Of this £4m, £0.6m (15%) will be incurred on payment, monitoring and reporting of pre-2000 programmes. The £4m does not represent the full administration costs of WEFO, since the Government of the Assembly incurs all costs relating to accommodation and support services, such as Finance, Personnel and IT. WEFO are forecasting spend of £5m in the financial year 2002-03. WEFO also has a Programme Support budget that funds professional support, facilitating meetings, communication and programme evaluations, of £0.7m.

For each programme, technical assistance is available to help delivery of the programme. The aim is ensure efficient, transparent management of the programme. We forecast £2.8m will be spent in 2002-03, £2m Objective 1, £0.22m Objective 2, £0.37m Objective 3 and £0.25m on private sector facilitators.

Additional funding has been allocated to the Economic Development Department for Euro Facilitators. This is primarily a source of match funding against technical assistance bids under the various programmes. Total provision for the next three financial years is £0.5m per annum, of this £0.353m has been allocated in 2002-03.

The Welsh Development Agency (WDA) is incurring additional costs in its role in strategic and regional partnerships for the Structural fund Programmes. These additional costs have been funded by the National Assembly for Wales totalling £1.81m in 2002-03. The WDA supports 6 regional partnerships and 2 strategic partnerships under Objective 1, 2 partnerships under

Objective 2 and the EQUAL partnership.

WEFO is responsible for making grant payments and will be making payments of over £170m in 2002-03 and £182m in 2003-04. In addition there are many organisations that are responsible for approving and making payments regarding the match funding element of the projects.

## **ANNEX 2 - NOTE TO ECONOMIC DEVELOPMENT COMMITTEE ON OUTSTANDING CARDIFF BAY MATTERS.**

### **Cardiff County Council - Harbour Authority Business Plan**

1. The 'harbour authority' section 165 Agreement between the Council and the former Cardiff Bay Development Corporation (CBDC), which is the prime legal document in this instance, does not specifically require the submission of the Business Plan by Cardiff County Council to the national Assembly. The s165 Agreement does require the Council to supply the Assembly with such information as is reasonably required to support the Council's assessment of its anticipated costs.
2. The Memorandum of Understanding (MoU), signed on 18 October 1999, between the then First Secretary and the Lord Mayor of the Council, stated that "The Council will commission Arthur Andersen to undertake a due diligence exercise and produce a draft business plan for the Harbour Authority by 31 December 1999.
3. The draft Memorandum of Conditions of Funding, between the Assembly and the Council, requires the Council to submit a draft Business Plan which gives details of:
  - The Council's financial requirements, together with a monthly budgetary plan of expenditure and receipts, for the following financial year;
  - Estimated expenditure for the next 3 financial years;
  - Relevant performance targets and outputs for the following financial year; and
  - Relevant performance targets and outputs for next 3 financial years.

Neither this document nor the MoU have any legal force.

1. Although the Memorandum of Conditions of Funding has draft status at present, it has largely been agreed with the Council and the Council are operating in accordance with its provisions. The outstanding issue which is preventing it from being finalised is VAT and how this is to be treated. We are currently analysing VAT expenditure information provided by the Council and expect, soon, to be able to agree arrangements with the Council and finalise the VAT provisions and the Memorandum itself.
2. The Harbour Authority/Council has been working on the Business Plan throughout 2000-01 and, we understand, it was essentially finalised in April 2001. We were advised of various printing problems since which have prevented its issue. We still do not have a

clear date for its release but we have asked for it to be available in good time for EDC to consider in November 2001.

## **Expenditure Position**

3. At the end of March 2000, detailed profiles of estimated expenditure by Cardiff County Council and other successor bodies were agreed. The detailed profile for Cardiff Council, and a summary of the net funding requirements of the other bodies, was published on 19 May 2000 in a letter from the then First Secretary to Mr Alun Cairns AM responding to WAQ4839. [An electronic version of the table is not readily available, but a similar one – showing the detailed profile for Cardiff Council only, is attached to this note as Annex 1]. It should be noted that:
  - this profile was based on CBDC estimates at that time (these estimates were reviewed against CBDC final outturn information when it became available in July 2000, but the impact was marginal resulting in the estimated net funding requirement being reduced by £0.3m in 00-01 and less than £0.4m over the 5-year period);
  - No provision was made for unforeseen costs/additional claims; and
  - Certain assumptions about slippage were included.
1. In 2000-01, the Council claimed a total of £23.995m in accordance with the s165 Agreement and the draft Funding Memorandum. Subsequently, we were advised that the actual outturn was £21.884m. The difference, in accordance with the funding arrangements, has been deducted from the Council's claims in 2001-02. Slippage into 2001-02 is estimated to be approximately £3.3m (compared to original estimate of £4.75m).
2. Officials are continuing to examine the detailed final outturn data for 2001-02 provided by the Council, and current estimates of expenditure in 2002-03. Further information has been requested and the analysis is ongoing, including the VAT issue. Officials are aiming to produce, for EDC consideration on 28 November, an updated 5-year profile for Cardiff Council.
3. Our current assessment, notwithstanding the on-going analysis, is that in 2000-01, the Council spent:
  - £8.131m in relation to the Harbour Authority (Line A) against the estimate of £10.642m;
  - £7.146m in relation to the Barrage project (Line B) against the estimate of £10.906m; and
  - £5.475m against MoU and Other Projects (Line C) against the estimated £4.619m.
  - The balance (£1.132m) relates to additional claims/unforeseen costs etc.
  - VAT expenditure has yet to be factored in.



1. We shall be in a position to give a view on 2001-02, and the remaining 3 years covered by the profile, once the final position for 2000-01 is established.
2. EDC Members will be aware that the NAO, having completed a review of the Barrage Project in 2000, are currently reviewing the effectiveness of the CBDC wind-up process and the performance of the successor bodies. The NAO completed the review of the wind-up process and reported in June 2001. The second stage of the NAO review, including our analysis of the financial position in 2000-01, is on-going and further details will be presented in the context of that review.

### **Cost of Maintaining Water Quality?**

3. Cardiff Council estimate that, in addition to the Capital costs incurred from 1 April to end August 2001 totalling some £3.451m in relation to oxygenation and algae/litter collection equipment, their annual budget (including staff costs) for water quality operations is just over £1.5m. This includes water quality monitoring, algae, oxygenation, litter collection, nuisance plants and pest control.
4. Water quality comes within the wider definition of those services which would have been provided under the facilities management contract. The 'harbour authority' s165 Agreement places a cost cap on these services of just over £19.3m over the initial 3-year period.

### **Dredging – Why have costs increased?**

5. In his Report to EDC on 11 July (EDC-11-01(p 1)), the Minister explained the variance in dredging costs. He said:

"In April 2000, Cardiff Council/Harbour Authority's overall succession budget included two amounts for dredging - £4m (£2.497m in 00-01 and £1.5m in 01-02) in the context of the Barrage Project for basic dredging to meet basic water quality standards; and £1.5m (00-01) for enhanced dredging to facilitate water usage. The total was £5.5m and was based on figures obtained by CBDC the previous year.

The Harbour Authority, which assumed responsibility from CBDC, sought tenders for dredging. The projected cost, which emerged from that exercise, was about £8.m (including port dues and fees). The principal reason for the increase in costs was the strengthening of prices for dredging. In January 2001, the Council/HA requested a further increase in the dredging budget of some £0.1m to cover some of the potential additional costs identified as a result of a problem identified in the 'saline sump' area. The overall dredging budget is currently £8.2m.

Officials are examining the Council's overall out-turn figures for 2000-01, but the indications are that although the dredging costs exceeded the original budget, the out-

turn was about £7.5m - just over £0.75m below the revised budget."

6. Including some spend that slipped to 2001-02, the estimated actual total spend on dredging remains at about £7.5m.

## **CARDIFF COUNTY COUNCIL ANNUAL BUDGET PROFILE** Annex 1

	<b>2000-1</b>	<b>2001-2</b>	<b>2002-3</b>	<b>3Yr Total</b>	<b>2003-4</b>	<b>2004-5</b>	<b>5Yr Total</b>
<b>A: Harbour Authority</b>							
Fixed costs	8.182	10.961	6.391	<b>25.534</b>	6.391	6.391	<b>38.316</b>
Variable costs	2.460	2.670	2.585	<b>7.715</b>	2.585	2.585	<b>12.885</b>
<b>A: Total</b>	<b>10.642</b>	<b>13.631</b>	<b>8.976</b>	<b>33.249</b>	<b>8.976</b>	<b>8.976</b>	<b>51.201</b>
<b>B: Barrage Project *</b>							
Construction contract	1.734			<b>1.734</b>			<b>1.734</b>
Dredging	2.497	1.500		<b>3.997</b>			<b>3.997</b>
Property surveys	0.052	0.682	1.382	<b>2.116</b>			<b>2.116</b>
Landscaping	0.890	0.010		<b>0.900</b>			<b>0.900</b>
Scouring Protection etc	1.135			<b>1.135</b>			<b>1.135</b>
Other	4.598			<b>4.598</b>	-4.347		<b>0.251</b>
<b>B: Total</b>	<b>10.906</b>	<b>2.192</b>	<b>1.382</b>	<b>14.480</b>	<b>0.000</b>	<b>-4.347</b>	<b>10.133</b>
<b>C: MOU and Other Projects</b>							
<b>MOU :</b>							
Projects	4.575			<b>4.575</b>			<b>4.575</b>
Regeneration	2.350	2.000	1.750	<b>6.100</b>			<b>6.100</b>
Ferry Road Land purchase	-5.950			<b>-5.950</b>			<b>-5.950</b>
<b>Other Projects:</b>							
Enhanced Dredging	1.455			<b>1.455</b>			<b>1.455</b>
Oval Basin	0.538			<b>0.538</b>			<b>0.538</b>
Harry Ramsden	0.125			<b>0.125</b>			<b>0.125</b>
Widowlands	1.209	0.016		<b>1.225</b>			<b>1.225</b>
Graving Dock	0.178			<b>0.178</b>			<b>0.178</b>
Grangemoor Park	0.005			<b>0.005</b>			<b>0.005</b>
Ferry Road	0.297			<b>0.297</b>			<b>0.297</b>
Ground water monitoring	0.403	0.369	0.380	<b>1.152</b>	0.391	0.402	<b>1.945</b>
Bird/Fish Monitoring	0.250	0.258	0.266	<b>0.774</b>	0.274	0.282	<b>1.330</b>
Bay Edge	0.050	0.052	0.053	<b>0.155</b>	0.054	0.056	<b>0.265</b>
Pumping Station	0.121	0.124	0.127	<b>0.372</b>	0.130	0.133	<b>0.635</b>

Drainage liabilities	0.066	0.026	0.027	<b>0.119</b>	0.027	0.028	<b>0.174</b>
Other	-0.043			<b>-0.043</b>			<b>-0.043</b>
<b>Receipts:</b>	-1.010			<b>-1.010</b>			<b>-0.010</b>
<b>C:Total</b>	<b>4.619</b>	<b>2.845</b>	<b>2.603</b>	<b>10.067</b>	<b>0.876</b>	<b>0.901</b>	<b>11.844</b>

### **Budget Summary**

<b>A: Harbour Authority</b>	10.642	13.631	8.976	<b>33.249</b>	8.976	8.976	<b>51.201</b>
<b>B: Barrage Project *</b>	10.906	2.192	1.382	<b>14.480</b>		-4.347	<b>10.133</b>
<b>C: MOU, Other</b>	4.619	2.845	2.603	<b>10.067</b>	0.876	0.901	<b>11.844</b>
<b>Projects</b>							
<b>Total</b>	<b>26.167</b>	<b>18.668</b>	<b>12.961</b>	<b>57.796</b>	<b>9.852</b>	<b>5.530</b>	<b>73.178</b>
<b>Programme Slippage (net)</b>	-4.750	-1.620	2.075	<b>-4.295</b>	3.995	0.300	<b>0.000</b>
<b>Total (Net) Budget Profile</b>	21.417	17.048	15.036	<b>53.501</b>	13.847	5.830	<b>73.178</b>

## **Annex 3 : FISCAL VARIATIONS**

### **Issue**

1 This paper fulfils the undertaking the First Minister gave at the last Economic Development Committee meeting to provide an update on action to pursue Fiscal Variations, which was discussed at the meeting of 27 June 2001.

2 The Committee is invited to note progress.

### **Background**

3 Fiscal variations are variations in taxes, duties or other government levies which may be applied at different rates to business in different parts of the country. These will usually be considered to be a State Aid, and hence be subject to State Aid rules, but are not necessarily operating aids. For example, support for training counts as a training aid; capital allowances on buildings would count as an investment aid. Each type of aid is subject to its own (and different) State Aid rules.

4 Operating Aids are aids which assist a business by helping with 'general' running costs. Like any aid, they are subject to State Aid rules which specify where and in what circumstances and at what levels they are permitted. They can be provided via fiscal variations - but equally in other forms such as rent-free periods, wage or interest rate subsidies, or cash grants.

5 The PricewaterhouseCoopers (PWC) report, which was presented by Glen Massey at the

meeting, contained a number of recommendations on regional tax incentives for us to pursue with Treasury.

6 Officials have, and are still, pursuing a number of different aspects of the recommendations. This paper summarises the main points of action undertaken since the discussion in June and what further actions are planned.

### **Summary of action so far**

7 Several meetings have been held with Treasury; these covered a wide range of possibilities including a discussion on Environmental Taxes and tax incentives for broadband communications. The First Minister has also written to the UK Government making suggestions for tax incentives in the context of the forthcoming pre-Budget Report.

8 The WDA report that they have sought to persuade the European Commission's Competition Directorate that they should be permitted to make more use of their powers to assist firms in their property deals, and particularly to provide rent-free or reduced rent periods, as recommended in the PWC report. The Commission have been absolutely opposed to this.

9 Good progress has been made with rationalising the schemes of business support grants. An Action Plan is being worked up and will be presented to the Committee shortly.

### **Future action**

10 Treasury have now passed responsibility for developing the Community Investment Tax Credit to DTI and a meeting has been scheduled for next month with DTI on that subject. Further meetings will be held with Treasury following the pre-Budget Report, covering Training, Urban Regeneration Companies, Stamp Duty Exemptions, Capital Allowances and Research & Development.

**Economic Policy Division** October 2001