

MINUTES

Date 12 December
Time 9.00 – 12.30am
Venue Committee Room, 1 National Assembly for Wales, Cardiff Bay

Attendance

Members

Mick Bates
Alun Cairns
Christine Chapman
Andrew Davies (Minister for Economic Development)
Ron Davies
Christine Gwyther
Alison Halford
David Ian Jones
Elin Jones
Dafydd Wigley
Phil Williams

Constituency

Montgomeryshire
South Wales West
Cynon Valley
Swansea West

Caerphilly
Carmarthen West and South Pembrokeshire
Delyn
North Wales
Ceredigion
Caernarfon
South Wales East

Officials

Mike Clancy ICM
Emyr Roberts EPD
Ron Loveland ISG
Richard Rossington ISG
Keith Parsons EPD

In attendance

Philip Evans Chair, Wales Tourist Board
Jonathan Jones Chief Executive, Wales Tourist Board

Secretariat

Item 1: Introduction, apologies, substitutions and declarations of interest.

1. The Chair reminded members that it was now necessary to declare an interest only when it related to a particular item. During the course of the meeting declarations of interest were made by: Dafydd Wigley who is Chair of the School for Business and Regional Development Advisory Board at Bangor University, Chair of the North Wales Techniquet Board, a board member of IP Wales and Chairman Elect of Ymddiriedolaeth Hybu Gwyddoniaeth Cyf; Phil Williams who is involved in an Objective 1 application at Aberystwyth University; Andrew Davies who is a Vice-Chair of IP Wales and David Ian Jones who has a number of hotelier clients in receipt of WTB grants and also acts for the landlord of the WTB's North Wales Headquarters.
2. Members expressed their regret that the item on the Entrepreneurship Action Plan had been postponed due to the late receipt of papers. They were concerned at the serious under-performance of the key actions 5 & 6 which related to Business Growth and Birth Rate. Officials noted that the main reason for the delay in these areas was the need to resolve the state aids position on the proposed high growth companies project. The Minister agreed to look into the reasons behind the late arrival of the papers and the Chair agreed to reschedule the discussion early next term.

Item 2: Minister's Report

EDC 18-02 (p1)

1. The Minister introduced his report with a brief oral update a copy of which is attached to his report.
2. A Member expressed concern at the recent announcement of a 20% reduction in the workforce at Edison Mission Energy at Dinorwig and Blaenau Ffestiniog. This raised concerns over the long-term future of these operations and members highlighted the importance of storage facilities such as these in the light of the Committee's recent report on renewable energy. The Minister said that Dinorwig had a major role to play in the national grid, dealing with short term surges in demand. He had only just been made aware of the job losses and had asked officials to make contact with the company. He agreed to keep members informed of developments. A member added that the role of facilities such as Dinorwig should not be underestimated and this announcement highlighted the fact that

NETA was proving disastrous to the renewables sector – he hoped the Welsh Assembly Government were continuing to put pressure on the UK Government in this regard.

3. It was noted by several members that the lack of appropriate commercial buildings in some areas of Wales was a barrier to economic development and a call was made for the WDA to be much more proactive in this area. The lack of facilities in the food production and distribution sector was also highlighted. The Minister said that the WDA were looking at ways to develop the Agri-food sector and he would also discuss the issue with the appropriate Minister. Officials said that there were proposals to vire a limited amount of funding within Objective 1 priority 1 into measure 5 (promoting sites and premises for SMEs). WEFO had also asked Local Authorities and the local partnerships to prioritise their proposals within priority 1 measure 5. More substantive changes across priorities could only be made, however, at the mid-term review.
4. There was also concern that Local Authorities were prepared to convert land set aside for business purposes to residential development, the theory being that the funding from these would be used for other, business related, projects. Any downturn in the housing market would then mean that the business projects could be shelved or cancelled. The Minister said that this was primarily a planning issue and would be led by market forces.
5. Members welcomed the work done by Professor Dylan Jones Evans with the Fast Growth 50 companies and wondered whether there would be continuing support from the Welsh Assembly Government. The Minister confirmed that Finance Wales and ELWa were supporting the publication. To date, 5 of the companies in the Fast Growth 50 had received grant support from the Assembly Government. He said that the WDA and ELWa were currently reviewing their account management arrangements and that high growth businesses would be a priority in terms of a proactive approach.
6. On broadband a member said that take up in Wales as had been identified in the recent WAC report was increasing at a slower rate than in the UK. The Minister said that he was certainly not complacent on this issue and the investment by the Welsh Assembly Government of £115m was precisely to address the lack of market providers in Wales. He said that the take up of Broadband in Cardiff was presently faster than in London and that the Lifelong Learning Network was close to going live to 50% of all schools in Wales.
7. Concern was expressed that in the proposed contract for the Wales European Centre Board the term 'Team Wales' had been used. The Minister said that it had no legal definition but was a generic term used when the various economic development and employment agencies worked together.
8. In response to a question the Minister said that the Assembly Government and the WDA were continuing to target companies to attract jobs to the Cleddau Bridge call centre. They were also working across Wales to target call centres with higher value added services and had had discussions with the financial

services sector. He said that call centres had an important role in helping the economically inactive back into work.

9. The Minister said that there had been a high proportion of Welsh businesses present at the recent Financing Growth Conference and he would provide information at the next meeting about the split of attendees from the private and public sectors. **[Action: ED Minister]**
10. A member was concerned about the apparent skills shortage in the construction industry, particularly in the light of the proposed 1000 construction jobs being created at the Dragon Studios project. The Minister said that the Minister for Education had raised the issue of a skills shortage in the construction industry with the Construction Industry Training Board and ELWa. He was aware that this was an issue and said that it did not apply just to this sector.
11. Several members said that concerns existed amongst many chartered accountants regarding the services being offered by Business Connect. The Minister said that he continued to take a close interest in the restructuring of Business Connect and received regular reports from the WDA concerning progress.
12. There was concern regarding recent reports that the increase in low-cost internal flights was having a major impact on air pollution. The Minister said that there was an obvious balance to be struck between the environmental and economic effects but reminded members that this was not a devolved function. In response to a direct question he agreed to report to the Committee on whether there were any links between Bmi baby and United Airlines. **[Action: ED Minister]**
13. There was some discussion regarding the DTI consultation on Future Offshore Renewable Energy. It was felt that the UK Government did not recognise the importance of renewables and failed to recognise that renewable energy was not just about turbines. The Minister agreed that there were huge opportunities for renewable energy in Wales and that most of those were likely to be off-shore. He said he would welcome a submission from the Committee to the consultation. Some members said that the WDA did not appear to support innovation in the renewables industry and only appeared to be interested once a project had passed the prototype stage.
14. Reference was made to the Bluestone project and Members asked whether the Committee might express their support for it. The Chair was uncertain whether this would be appropriate given the Assembly's role in the planning process. She said she would take legal advice on this. **[Action: Chair/Clerk]**

Item 3: Research and Development

1. This discussion was a follow on to that on research at the meeting on 28 November which, Members had agreed, had identified some issues of crucial

importance to Wales. They recalled the references to innovation quickly drying up without research alongside it. They referred to the evidence that private sector research and development in Wales was at a very low level. A Member commented that in a recent list of the 200 fastest growing UK companies only 2 were from Wales. The recent CBI paper had not listed research as one of business's top 5 priorities. The Committee had also seen evidence of the importance that Ireland places on investment in research.

2. Members noted that in the recent discussion they had heard only a limited range of views and that the issue was of such importance there was a need to take evidence far more widely. Clearly this was not something that the Committee could look at prior to the forthcoming election but they agreed to prepare an 'interim statement' of what was required. This could then be passed on to the new Assembly and Economic Development Committee to consider as a subject for a major policy review.
3. Members also commented that while the Assembly had no formal science policy, it was important to recognise the valuable work that was going on. While it was agreed that this could not simply be relabelled as a policy, any examination of this subject should nonetheless take account of it.
4. Responding to some of the issues, the Minister said that he entirely agreed about the importance of research but emphasised that any examination of this could not involve the Economic Development portfolio alone. It would need to bring in the Education and Lifelong Learning Committee, Health and Social Services and possibly most other committees and Ministers. It also extended beyond Wales to the DTI and to funding sources from the UK and wider. On the question of private sector R & D, he said the figures that were available fluctuated from year to year and might understate the level of research going on in small companies. In addition, while he accepted that Ireland was placing a significant emphasis on research, he commented that much of their recent economic success stemmed from before they had such a policy. Nonetheless, he fully agreed that this was a priority area and one that it would be very worthwhile for the Committee to consider further. The Chair accepted his offer of a position paper for the Committee to consider. **[Action: ED Minister]**

Item 4: Innovation Action Plan

EDC 18-02 (p2)

1. The Minister spoke briefly to the paper, which he said was a draft of the plan on which he was consulting. The period of consultation ended on 5 February 2003.
2. Members reiterated the importance of innovation. Reference was made to Priority 2, Measure 3 of the Objective 1 programme, which was potentially the most oversubscribed measure. While this was an encouraging sign, there was concern that inadequate funds were available to support it. The Minister acknowledged

this but said that while there was scope to re-allocate funds within Priorities, it was necessary to obtain European Commission approval for virements between Priorities or between Funds. This meant waiting for the mid-term review.

3. Reference was made to intellectual property and the importance of encouraging businesses to take out patents to protect their ideas. The Minister acknowledged this and said that Wales was starting from a low base and there was a range of help proposed to assist companies in this regard. However, he noted that some companies, particularly small ones, chose not to take out patents because if their ideas were stolen they would not be able to afford the cost of defending them in the courts.
4. The Minister said that of the £150m by 2005-6 that was proposed for rolling out the Technium concept, roughly £100m was for capital and £50m for revenue. These proportions varied slightly between individual projects.
5. Members commented on the large number of small components that made up the plan and wondered whether this was the right way to proceed. Firstly, a plethora of schemes simply caused confusion for business. Secondly, and more importantly, what was more critical to promoting innovation was giving it a high political priority.
6. Doubt was also cast on the value of £4m for marketing the programme of schemes. The fact that so much money was required to do this seemed to confirm the fragmented nature of the plan. It highlighted the problems to be faced by small firms, who would not have the time to understand the wide range of support available. What was needed was a single contact whom they could approach with a problem and who could guide them to the best form of support. The Minister agreed with this and noted that this underlay the proposal to incorporate the various SMART schemes into a new programme.
7. Concern was also expressed about the Knowledge Exploitation Fund which had under-performed to date. The Chair reminded Members that she had written to the ED Minister urging that this be transferred to the ED Minister's portfolio as they had considered it was likely to be more effective there.
8. Members noted that one of the difficulties in promoting innovation was the poor image that science had. Much of this stemmed from poor teaching in schools, which was capable of turning people away from science at a very early age. This was not particularly a Welsh problem.
9. Concluding the discussion, the Chair said that she would write to the Minister reflecting the Committee's views to him for incorporation in the consultation.

[Action: Chair/Clerk]

Item 5: Wales Tourist Board Proposals for Statutory Registration

1. Introducing the paper, the Minister said that he had asked the WTB to come forward with proposals for a statutory registration scheme. This was presented in the paper and he would welcome the Committee's views on the proposals. He made it clear that no decisions had been taken.
2. Outlining the scheme, Philip Evans said that his Board considered it one of the most important and strategic issues for the development of tourism in Wales. He said they had done extensive research which had convinced them that consumers wanted to have confidence in the quality of accommodation booked and that being able to offer this would have significant value in marketing Wales abroad as a tourist destination. Most complaints received related to cleanliness. He wanted Wales to be regarded as the market leader for quality grading. Self-catering establishments were not included in the proposals for statutory registration. The cost of such a scheme would, initially, be between £50 and £75 per annum per business for statutory registration/inspection rising eventually to £109 per annum for those not in quality schemes. Currently the WTB employed 14 officers to run the grading system. They estimated that extending it to the whole of Wales would require roughly 10 more inspectors. Initial set up costs were estimated at £300,000 and the estimated additional annual running costs was £480,000. Enforcement costs were estimated at an additional £220,000 per annum from year 4. The WTB thought these costs were modest and reasonable and that the introduction of the scheme would be the best investment that could be made in tourism in Wales.
3. Members accepted the principle that Wales should offer high quality accommodation and that this was important to grow the tourist industry in Wales. They also recognised that the Wales Tourist Board, the Government's main advisers in this sector, had set it as a priority. They were therefore reluctant to second-guess them or their judgement that a statutory registration scheme would offer Wales significant marketing advantages. The scheme would also provide an important database for tourist accommodation in Wales.
4. In discussing the principles of the scheme, Members questioned whether the survey evidence of consumer support could be interpreted as robustly as the WTB had done and whether this was an issue that could be measured via a simple questionnaire. Some Members said that from their experience, and in some areas at least, the industry was not in favour of statutory registration.
5. Questions were also asked about whether statutory registration would actually increase standards or merely drive poor quality operators into the black economy. The view was expressed that the availability of an accreditation scheme without compulsion would avoid the latter and leave operators free to respond to consumer demand. Conversely, the view was expressed that 'market forces' were not effective in achieving standards for health and safety or food hygiene, and therefore it was difficult to see why they would promote high quality tourist accommodation.

6. There was also the fear that if it moved into a regulatory role, the WTB would no longer be seen as a source of support for tourist operators. It might also distract them from their key role function of promoting Wales as a tourist destination.
7. Concerns were also expressed about a number of aspects of the proposal. The definition of 'fit for purpose' was not adequately defined. This could be a problem, and a source of uncertainty, for operators. While ultimately definitions such as this might become issues for the courts to resolve, the WTB said the one star standard they were proposing to set for registration was very basic indeed. Operators failing to meet it would be given support and guidance and 2-3 years in which to make improvements – S4 grants would be available to help businesses upgrade. It could be argued that the loss of operators which failed to respond to this might not be a bad thing for the tourism industry.
8. Powers to introduce a statutory registration scheme were not currently available in Wales and it would be necessary for the National Assembly to seek an Order in Council. Members expressed the view that as a consequence implementation would take a number of years to achieve and there was a clear risk that the costs would have gone up significantly by then.
9. There was some discussion of the role of local authorities in the scheme. The WTB said that initially they had intended to undertake the registration themselves but having discussed this with the WLGA they had agreed to the latter's view that this should be a local authority responsibility. Members were concerned about this. First, it involved having 22 separate regulatory authorities and could lead to different operating practices across the country. Some Members commented that the local authorities in their areas were strongly opposed to such a scheme and would not take part unless they were compelled to. This in turn would require legislation. Some concern was also expressed about the potential conflict of interest if local government tourism officers were charged with enforcing the scheme alongside their role of promoting and developing tourism.
10. Doubts were also expressed that if funding for the scheme had to be split between 22 authorities then a total of £400,000 did not seem nearly adequate. Moreover, if this funding were made available via the WTB, the statutory nature of the scheme would lay them open to pressure from local authorities to increase the payments in future years.
11. Emphasising the WTB view on the importance of the scheme, Philip Evans said that currently Wales was losing £14 billion of tourism business to overseas operators and that this would be stemmed if Wales had a statutory registration scheme. He said he had evidence of this and could provide the figures for Members.
12. Summing up the discussion, the Chair said that the Committee was broadly in favour of the principle of statutory registration although there was a number of significant practical problems that needed to be addressed. The Minister agreed to provide a paper on the legislative requirements that would need to be met in order to implement such a scheme, including the likely timing. This would also

include information on the costs of such a scheme for local government as assessed by local government itself. This should clearly identify net and gross costs, and the difference between these, as this was not clear in WTB's paper.

[Action: ED Minister]

13. Jonathan Jones also agreed to write to Alison Halford about the action that would be taken if accommodation were found to be unsatisfactory **[Action: WTB]**
14. The Minister said he very much welcomed the Committee's involvement in the debate. He said that he had established a working group to look into the detail of the WTB's proposals and would very much welcome the views of the Committee to feed into this. He said that the group was chaired by Emyr Roberts and that it would include a representative from local government. The Chair said that she would write to the Minister letting him have the Committee's views. **[Action: Chair/ Clerk]**

Item 6: Sustainable Business Action Plan for Wales.

EDC 18-02(p5)

1. The Minister introduced the paper by saying that the Action Plan was designed to improve access to good practical advice, to promote and develop the environmental goods and services sector, and to help business become more competitive through the adoption of environmental best practice.
2. Members noted the potential conflict between economic development and sustainability and emphasised the importance of 'mainstreaming' sustainability. Ministers said that officials were looking to see how the recently developed sustainability tool would help do this across the whole of the Assembly.
3. Concern was expressed about the difficulty that businesses faced in coping with such a wide ranging subject area and asked whether there were specialists who might give advice on how to 'green' the business. Officials said that advice on this was available through the Business Gateway but experience in England had shown that it was not cost effective to have specialists of this type. It was far more effective to ensure that all sources of business advice had full regard to sustainability issues.
4. The view was expressed that in many ways the paper was too narrow for its title. If sustainability was to be 'mainstreamed' then it was important to move away from measures of output based solely on GDP. One such measure was the index of sustainable economic welfare and the Committee ought to have a discussion on this. The Minister said that he previously had agreed to prepare a paper for discussion on different ways of measuring output and this would be included in that paper. **[Action: ED Minister]**
5. This led on to a discussion of the recent announcement by the Office for National Statistics that the GVA estimates for 1989-1999 published on 21 November had been withdrawn and cancelled. Revised estimates would not be released until the

spring. Members expressed their very deep regret, and very great concern, about this. They noted that these figures were regularly revised and that in many ways the absolute level of GDP was not critical. What was more important was whether the gap between Wales and England was widening. They did not see why figures could not continue to be produced on the old basis in the interim. The alternative was that no information would be available on GVA for a further 3 months. The Chair agreed to write to the ONS to ask if these figures could continue to be produced, for Wales at least, while the difficulties were resolved.

Item 7: Minutes of previous meeting

EDC 16-02 Minutes (Draft)

EDC 17-02 Action Outstanding

1. The Minutes of the previous meeting were agreed as a true record.
2. The Chair advised members that after a review of the tape of the meeting of 14 November she had agreed to amend the wording in point 8.2. The final sentence would now read: *"However, he said that, while he did not feel it would be appropriate to give a guarantee that this would happen in every case, he did expect it would happen for all significant policy announcements."*

Committee Secretariat