

Council for Economic Renewal

Date: 9 March 2011
Venue: Ty Hywel, Cardiff Bay
Time: 09:30-11.30

In attendance:

Ministers

First Minister
Deputy First Minister
Minister for Business and Budget
Minister for Environment, Sustainability and Housing (joined meeting at item 9)

Stakeholders

John Bennet	(Wales Social Enterprise Coalition)
Nick Blundel	(UCATT)
Paul Byard	(Engineering Employers Forum)
John Burgham	(Unite)
Ben Cottam	(Chair of Business Wales)
Nia Davies	(FSB)
Pam Drake	(GMB)
Heather Eason	(WSPU)
John Harper	(RICS)
Peter Hughes	(CML Cymru)
Richard Jenkins	(FMB)
David Leron	(ICAEW)
Robert Lloyd Griffiths	(IoD)
Bob Macey	(IoD)
Martin Mansfield	(Wales TUC)
David Morgan	(RICS)
Graham Morgan	(Chamber Wales)
Nick Payne	(RHA)
Richard Price	(Home Builders Federation)
Non Rhys	(FSB)
David Rosser	(CBI Wales)
David Russ	(Chamber Wales)
Derek Walker	(Wales Co-op)

Welsh Assembly Government Officials

Gillian Morgan	Tracey Burke
Clive Bates	Teresa Holdsworth
James Price	Steve Layne
Bernard Galton	Jonathan Price
Lynne Hamilton	Alison Standfast
Alistair Davey	

Apologies

Ian Gallagher (Freight Transport Association)	Phil Orford (Forum of Private Business)
Richard Houdmont (CIM)	Richard Parry Jones (MAG)
Mary James (NFU)	Huw Thomas (NFU)
Leighton Jenkins (CBI)	Sir Adrian Webb (Chair of WESB)
Lowri Morgan (The Law Society)	

1. Introduction

- 1.1 The First Minister welcomed everyone to the meeting and noted the substantial agenda. He welcomed the referendum result on 3 March as a positive development and emphasised the importance of the Council's work in better understanding the problems and challenges faced and opportunities which exist for more effective working.

2. Notes and Actions from meeting held on 1st December 2010

- 2.1 The First Minister introduced the first item on the agenda. He drew the attention of members to the minutes of the last meeting and asked whether there were any issues of accuracy. No issues were raised. He then asked if members were content with the grid of actions arising from the last meeting. The Council were content.

3. Economic Update

- 3.1 The First Minister explained that there were two papers. The first was a high level summary of economic conditions from the Assembly Government. The second was a paper received from Business Wales summarising current key issues by Business Wales members. The First Minister explained that he would ask Jonathan Price to speak to the first paper and then invite Ben Cottam to outline the issues raised by Business Wales members.
- 3.2 Jonathan Price reported that there had been an economic contraction in the final quarter of 2010 but the position was difficult to interpret as business surveys in that period painted a stronger picture. Business surveys and labour market intelligence also suggest market growth in the first quarter of 2011. The labour market has stayed broadly stable over the last six months or so and over this period the position in Wales has been, if anything, a little more positive than the UK as a whole. Employment is at its highest level in two years.
- 3.3 Jonathan explained that going forward there are a range of conflicting forces and key uncertainties including the impact of the UK government fiscal consolidation; the situation in relation to oil prices; and the positive impact that interest rates and exchange rates might have.

- 3.4 The First Minister asked Jonathan Price to recap on the different measures of economic performance in GDP, GVA and GDHI and what they tell us. Jonathan responded by offering to circulate a paper to members providing additional information. He went on to explain that GDP was a useful headline measure of economic performance in most circumstances but it was an imperfect reflection of the economic income received by the residents of an area, and as a measure has several important limitations which are particularly relevant to West Wales and the Valleys. Firstly GDP/GVA per capita comparisons can be unduly influenced by demographic differences such as the proportion of children or people of retirement age who generally produce little economic output. Secondly, GDP/GVA per capita does not include wages of out-commuters even though they add to the economic income of their area. Conversely economic income earned in an area that is received by non-residents, for example business profits and the return on capital investment is included. The measure of Primary Income, published by both the ONS and Eurostat, addresses many of the limitations of GDP/GVA and presents a more positive picture of Welsh performance in relation to key UK and European comparators.

ACTION: Jonathan Price to prepare and circulate a paper outlining the different economic measures.

- 3.5 Ben Cottam reported that the general message from Business Wales members was that businesses are generally doing relatively well and the overall confidence was better than you would expect. He felt that the overall analysis was consistent with that from Jonathan Price but added that concerns had been raised about access to finance and about rising fuel costs, particularly amongst SMEs who were concerned about the disproportionate impact it would have. He suggested that there was a need to bring data gathered by the different business organisations together and use it to support the Assembly Government analysis of the economic situation.
- 3.6 David Rosser raised the issue of costs imposed through policy choices and regulation, for example employment legislation and carbon reduction regulations.
- 3.7 The First Minister asked what impact the increase in fuel duty had on road haulage and how the cost of fuel compared with other countries. Nick Payne responded that the cost was the highest in Europe and estimated that the increase in fuel duty would add costs of £1,000 per vehicle.
- 3.8 Non Rhys added that the increase in fuel duty also impacted disproportionately on small businesses in rural areas where they estimated that further increases could add costs of £2,000 over six months and many worried they may need to lay staff off. She urged the introduction at the UK level of a fuel duty stabiliser and called on the

Assembly Government to look again at the business rates for garages in rural areas.

- 3.9 Martin Mansfield drew attention to the pressures on family income and expenditure from rising fuel costs, mortgages and inflation set against real terms decreases in take home pay. He raised concerns about the impact that public sector spending cuts would have.
- 3.10 Peter Hughes pointed out that in a survey of the top fifty people influencing property prices a number were chief executives of national banks and went on to question the impact that any asset disposals would have on property prices. He concluded that the lending market was still weak as the banks dealt with the competing needs to repay Government support as well as increase lending.
- 3.11 The First Minister reflected that people were holding off making decisions on property until the position on interest rates became clearer.
- 3.12 The First Minister then queried whether the increase in oil prices alongside the economy shrinking by 0.6% had the potential to turn into stagflation (i.e. a period of low or negative economic growth combined with rising inflation) and asked Jonathan Price to comment on the similarities between this recession and that of the 1970's. Jonathan responded that though there was a risk we were a long way from that position and the lack of entrenched inflationary problems meant there were a number of differences to the situation in the 1970's.
- 3.13 David Rosser warned against being overly pessimistic pointing out that the major problem was uncertainty.
- 3.14 David Lermon reported that insolvency businesses were not busy and that positives could be drawn from this. He agreed that there was a lack of confidence about the forthcoming year and uncertainty around the impact of the referendum and election.
- 3.15 The First Minister reassured members that there was no intention to initiate legislation for its own sake and that there would be careful consideration of any legislation proposals.
- 3.16 Ben Cottam offered another barometer of positive signs, reporting that accountants were seeing high demand from SMEs for value added business services, in contrast to the drop off in demand in 2008, and that there were no indications this demand was likely to fall.

4. Review of the Business Scheme

- 4.1 The First Minister explained that, as agreed at the last meeting, a light touch approach had been adopted for the review of the Business Scheme and asked Steve Layne to introduce the paper.

- 4.2 Steve Layne explained that the paper summarised the main issues identified and recommended actions which could be taken, by the Assembly Government and by the Council, to ensure the effective implementation of the Scheme going forward. He indicated that the paper reflected the initial feedback from the Council meeting in December, subsequent discussion with Council members and Assembly Government departmental leads and that the Working Group had seen and commented on an early draft. He pointed out that it was a forward looking review and that there was a role for the strengthened Council for Economic Renewal in ensuring future delivery of the Scheme. He invited comments on the paper.
- 4.3 Ben Cottam welcomed the honesty and openness of the review and hoped the level of consultation experienced would continue on other issues. He felt it showed that the Working Group was adding value.
- 4.4 Derek Walker also welcomed the review. He commented that he would be particularly pleased to see improved cross-departmental working between Assembly Government departments, especially in regard to social enterprise, which is primarily within the remit of the Department for Social Justice and Local Government but there is a wider benefit within the economy. He offered to provide a paper for the next meeting setting out the social enterprise sector and its role within the economy.

ACTION: Derek Walker to prepare a paper on the social enterprise economy for the next meeting.

- 4.5 Martin Mansfield added his welcome for the review and agreed the Working Group was a useful tool to make progress on work in between Council meetings.

5. Minister for Budget and Business – Procurement Update

- 5.1 The First Minister explained that there were two papers – a Written Statement on public procurement in Wales and a report on the conclusions and recommendations of the EIB Procurement Taskforce *Buying Smarter in Tougher Times*. The First Minister asked the Minister for Business and Budget to introduce the papers.
- 5.2 The Minister for Business and Budget emphasised the importance of getting the best value out of the Welsh pound and in engaging business on the best way to deliver this.
- 5.3 The Minister recognised there were concerns around the schools construction framework in Powys and confirmed that she has commissioned a review to ensure that the lessons learnt can inform future policy. She was happy to report that the outcome of the framework in Rhondda Cynon Taff had a more balanced outcome with a mixture of SMEs and larger businesses being successful and had been warmly welcomed

- 5.4 The Minister outlined the main points of the Written Statement, which sets out a direction for improvement that aligns with *Economic Renewal* and is based around four areas: capability, e-procurement, collaboration, and fostering Welsh supply chains. She also drew the attention of members to the independent report of the EIB Procurement Taskforce and sought to engage members on taking forward the recommendations.
- 5.5 Before opening up the item up for discussion the First Minister added an additional issue for discussion, seeking views on the performance of Welsh businesses in securing Olympics contracts and what the factors were.
- 5.6 Robert Lloyd Griffiths suggested that the pre-qualifications process had been an issue, but that he understood that a team had since been put in place to support businesses in completing the pre-qualification questionnaire process.
- 5.7 Nia Davies said the FSB had not been engaged in the review by the EIB Procurement Taskforce and they would need to go through the paper before they would be able to endorse it. She added that in her view there had been insufficient engagement to date with the supplier reference panel and emphasised the importance of feeding in supplier views.
- 5.8 Pam Drake felt the priority was to have good government contracts which created well paid skilled work.
- 5.9 John Bennett commented that the procurement process was still perceived to be unwieldy and to favour bigger businesses. He suggested it would be good if smaller businesses could work in partnership.
- 5.10 Nick Blundell remarked that if Welsh businesses had not been successful at pre-qualification stage that would explain the low number of Olympics contracts won. He suggested that larger businesses were in an advantageous position in that they could dedicate more time and resources to this.
- 5.11 Graham Morgan also raised an issue about the ambition of Welsh businesses and suggested more thought needs to be given to how to encourage businesses with quality products and services to widen their horizons.
- 5.12 Richard Jenkins felt that some Welsh construction businesses lacked confidence, and that this reflected past experience.
- 5.13 John Bennett agreed confidence was an issue and bigger businesses had more capability. Encouraging businesses to form consortia might help rebalance the natural advantage held by larger businesses.

- 5.14 Richard Jenkins said that the Supplier Qualification Information Database was a good development but not all public sector organisations were taking it up and there were still a number of processes in place. Robert Lloyd Griffiths agreed there was intense frustration around some aspects of the procurement process.
- 5.15 Graham Morgan added that there was a cultural issue which needed to be addressed at the level at which contracts were let.
- 5.16 Paul Byard pointed out that there were significant supply chain opportunities in next generation wind energy and we should be looking to learn the lessons from the Olympics procurement process and adopt a collaborative approach to ensure that Welsh businesses had the capability to access manufacturing and maintenance opportunities.
- 5.17 David Rosser said there was more work to be done on implementation and to address the perception issue. He felt it was worth examining the Olympics contract performance in more detail.

ACTION: Further discussion on the performance of Welsh businesses in securing Olympics contracts at the next Officials Working Group meeting.

- 5.18 The First Minister agreed that confidence was a known issue and there appeared to be a cultural obstacle with SMEs not seeking to grow into bigger companies. The limited number of Welsh companies who float on the stock exchange was an example of this. He suggested that there be a discussion at the next meeting on the issue of lack of confidence, how the cultural obstacles can be overcome and address issues of competence.

ACTION: Item for discussion at next meeting of the Council.

- 5.19 The First Minister also felt there was an issue around access to contracts through procurement and remarked that many Welsh businesses were too small on their own to fulfil contracts but that this could be overcome by working together for example through consortia. He believed the impetus had to come from businesses but that they need to feel it was worth doing. He added that the “bundling” of contracts is often seen as a way to reduce costs but that this does not always equate to best value, particularly if it effectively excludes local suppliers. The First Minister commented on the need to interpret procurement rules in an innovative way.
- 5.20 The First Minister brought the discussion to a close, noting that the FSB would need to consider the EIB Procurement Taskforce report. He invited the Minister for Business and Budget to respond to the issues raised in the discussion.

5.21 The Minister for Business and Budget thanked members for a useful discussion. She responded to concerns of the Supplier Reference Panel saying that she was keen to see the make up and direction of the panel refined. She reiterated that lessons would be learnt from looking at both the Powys and RCT construction frameworks. The Minister pointed out that capability was an issue for the public as well as private sector. Finally she agreed on the business and social benefits of social clauses, offering the apprenticeships generated through social housing contracts as an example.

6. Update on the Implementation of Economic Renewal

6.1 The First Minister invited the Deputy First Minister to introduce the item.

6.2 The Deputy First Minister said he was pleased with the opportunity to present the paper and to show the progress in implementation since Economic Renewal: a new direction was announced in July last year. He emphasised the whole government nature of the approach.

6.3 The Deputy First Minister reported that major changes had been made since the policy was announced with a radical realignment of budgets and restructuring of his department to deliver the new priorities. The extent and impact of change on the department could not be underestimated but the new teams were largely in place and had already begun delivering.

6.4 The Deputy First Minister emphasised the importance of capturing private sector expertise and confirmed that the Sector Panels had been appointed and announced to provide expert advice and intelligence to the sector teams.

6.5 James Price pointed out that a great deal of the activity to date might be unseen to those outside the Department – such as putting processes, structures, budgets and products in place. Implementation was now moving into more externally visible activity with physical delivery of infrastructure, the sector panels and teams now in place, and a range of actions from a whole Government perspective being taken forward. He reported that the time taken to publish an outcomes framework reflected the complexity of the task and the desire to produce meaningful and agreed indicators which would stand the test of time.

6.6 He also informed members that a new SME Advisory Panel will be established following discussion with the FSB. This would support the Sector Panels.

6.7 David Rosser welcomed the update and agreed that if delivery was going to become more visible externally that would be helpful, and would make the change in policy more tangible to business.

- 6.8 John Harper focused on the progress on energy efficiency, he welcomed delivery but raised concerns that the 6,500 households being supported was a small proportion of the 330,000 households in fuel poverty.
- 6.9 Clive Bates responded that the energy efficiency programme was limited by the resource available and the aim was to maximise the reach of the programme on the resources available.
- 6.10 Robert Lloyd Griffiths queried the progress on the Wales Brand. The Deputy First Minister responded that now heads of sector teams were in place they and other senior officials would be looking to increase recognition about Wales in London and international areas, alongside addressing negative perceptions. The Deputy First Minister also highlighted the importance of private sector advocates acting as champions.
- 6.11 Derek Walker queried whether the emphasis in the review of the property portfolio was on income maximisation or other social and local economy considerations. James Price responded that decisions would be based on best value for money and that included economic, social and sustainable policy goals.

7. Update from Housing and Construction Task & Finish Group

- 7.1 The First Minister reminded members that at the December meeting of the Council it was agreed that a task and finish group be established. He informed members that the group, chaired by Tracey Burke, had met in January and February. He invited Tracey Burke to introduce the paper.
- 7.2 Tracey Burke outlined the approach that had been adopted by the task and finish group, looking at each of the issues raised in the original HBF/FMB paper in turn and identifying a way forward on most. She asked members to note the recommendations and the routes proposed to take these issues forward.
- 7.3 Richard Price commented that he had found it a positive process and had welcomed the chance to discuss issues in more detail.
- 7.4 Nick Payne added that he had also felt the meetings had been productive and had generated a lot of discussion. He drew particular attention to the role of Cardiff as an economic hub and the need for a consistent support and advice to the ten Local Authorities which contain travel to work areas to ensure a level playing field.
- 7.5 Peter Hughes also welcomed the work and whilst endorsing the importance of affordable housing as a category he nevertheless underlined the need for emphasis on all forms of housing tenures and whole of market solutions. It was to be recognised that there are now significant numbers who are no longer able to step on the housing ladder

due to structural changes in mortgage markets including the requirement for substantial deposits. He commended the work on the Housing Investment Trust [which had a broader remit than purely affordable housing], and sought constructive dialogue on planning obligations through Section 106.

- 7.6 The First Minister responded that as a result of the referendum the Assembly Government now had the ability amend Section 106 if it chose to.
- 7.7 John Harper endorsed the other points made and asked that the issue of pulling together housing information is not lost.
- 7.8 Clive Bates welcomed the analysis in the paper. He said that it was raising important issues that will be considered carefully and taken forward.
- 7.9 Richard Jenkins remarked on the perceived difference between the Welsh and UK construction multiplier. Jonathan Price pointed out that multipliers are usually lower for smaller geographical or economic areas as more activity tends to spill out to adjacent areas. In a larger area such as UK or EU more of the activity will be within the area. He offered to investigate the issue further.

ACTION: Jonathan Price to examine the construction multiplier and report back

- 7.10 Tracey Burke drew the discussion to a close by thanking all those involved in the task and finish group and concluding that it was a successful new way of working for the Council for Economic Renewal.

8. Evaluation of Measures introduced in connection with Economic Summits

- 8.1 The First Minister called on Jonathan Price to introduce the paper on the evaluation of the Economic Summits.
- 8.2 Jonathan Price outlined the approach being adopted, which comprises of an initial review of the economic summit process; the independent evaluations of the largest initiatives like ReACT and ProACT; and an overall evaluation of outcomes.
- 8.3 Jonathan explained that the overall evaluation was a significant task and needed to be carefully timed to allow for time lag in relevant data. The evaluation will be managed by the Economic Research Advisory Panel and will be undertaken on an independent basis.
- 8.4 John Burgham commended the impact that ReACT and ProACT had had and hoped they would continue.

8.5 The First Minister responded that the Assembly Government was looking to build on them through Skills Growth Wales. Bernard Galton added that a public sector equivalent Adapt had just been launched, and would be subject to a similar evaluation process.

9. Minister for Environment, Sustainability and Housing – Oral update and discussion

9.1 The First Minister introduced the item by explaining that the Minister for Environment, Sustainability and Housing would provide an oral update and that Business Wales had also submitted a paper on the Wales planning system. Before inviting the Minister to speak he asked if Non Rhys had anything to say in relation to the Business Wales paper.

9.2 Non Rhys introduced the Business Wales paper, explaining that the FSB and CBI had felt it was a good time to prepare a paper setting out clear expectations of the next government and calling for a joint working going forward.

9.3 The Minister for Environment, Sustainability and Housing provided a brief outline of the work underway in areas that had previously been raised as concerns by the business community.

9.4 The Minister reminded members that a review of the planning application process had resulted in a number of recommendations which had been accepted and were now being taken forward through a two year programme of work. An update on progress would be published on the Assembly Government website shortly. A review of planning policy has also been commissioned to ensure that future planning policy is aligned with economic renewal.

9.5 The Minister reflected on the positive engagement with the business community on innovative ways to embed sustainable development in the planning system and the different ways in which the business community had been engaged including the informal stakeholder group informing the review of the planning process; membership of the technical advisory group and the issuing of a number of consultations seeking stakeholder views on the development of policy. She also drew attention to the role of Local Development Plans which have a greater emphasis on delivery and include a requirement to engage the business sector.

9.6 The Minister welcomed the views in the Business Wales paper on the proposed infrastructure plan and confirmed the commitment to a spatial approach in critical infrastructure areas. However she stressed that developing an infrastructure plan is a long term proposition requiring careful consultation and so is a matter for the new government.

9.7 The Minister moved on to the issue of charging for single carrier bag use which will come into effect on 1 October 2011, following consultation with business on the timetable, and the key role businesses will play in

implementation. She emphasised that it will apply to all retailers and all types of bags to ensure a level playing field. She informed members that guidance would be available soon.

9.8 On the issue of waste the Minister pointed out that waste costs us all money and for businesses cost is typically up to 4% of turnover. The new waste strategy for Wales has ambitious plans to achieve zero waste to landfill by 2025. The Minister advised that to achieve this target businesses need to be involved in the production of sector plans with commitment to meet the strategy. She also referred to the Green Jobs Strategy which has been established to develop green jobs in the context of a transition to a more sustainable economy.

9.9 The Minister informed members that a business sector summary of the Climate Change Strategy for Wales was being produced which will be available in the coming weeks. In addition, a small grant scheme, open to smaller businesses, has been launched to help drive the move to more sustainable ways of living.

The First Minister invited comments.

9.10 David Rosser raised the issue of marine licensing, reporting that he had positive response from ports on the streamlined process to issue consents and licences at the same time. On planning he welcomed what was said but felt it wasn't completely in line with feedback he had received. He felt there was a gap between policy and how it was being interpreted and delivered.

9.11 The Minister for Environment, Sustainability and Housing agreed that bringing the consent and licensing systems together on marine licensing had been successful and was looking for other areas where an integrated approach could be applied. On existing practice she recognised that a new mechanism takes different organisations a different amount of time to come up to speed. Local Development Plans (LDPs) will need to be based on sound and robust evidence and any element of an LDP unable to provide that evidence will be declared unsound by the Inspectorate.

9.12 Richard Price agreed that the LDPs need to be sound and robust but commented that the Inspectors are ignoring issues of deliverability in draft plans and still putting them in place on a 'lets see' basis.

9.13 The First Minister apologised for the need to leave the meeting due to another commitment, and asked the Deputy First Meeting to chair the remainder of the meeting.

9.14 The Minister for Environment, Sustainability and Housing said that in the context of rapid change it was not possible to expect certainty on longer term elements but that the plans would still provide a useful framework and enable businesses to plan against the outcomes in it.

- 9.15 John Harper stated that the Wales Spatial Plan was a long way from being a National Infrastructure Plan and enquired when the National Infrastructure Plan would be produced. The Minister said on its own the Spatial Plan would not deliver a national infrastructure plan but that the lessons learnt from the Spatial Plan would inform the work to develop one. She pointed out that responsibility for the Spatial Plan fell to the Minister for Business and Budget as a reflection of its cross cutting approach.
- 9.16 The Deputy First Minister added that work on a national infrastructure plan was progressing, involving every Department, and it was important to make sure it was robust and consulted on. It would be an early action for the next government.
- 9.17 Richard Price queried whether there was a need for a better regional approach to planning, particularly housing growth, and scope for a regional planning body.
- 9.18 The Minister for Environment, Sustainability and Housing responded that given the size of Wales an additional regional body was not necessary.
- 9.19 The Minister was confident that the changes being made allied with the economic renewal agenda and a new Technical Advice Note would lead to a tangible difference in the planning system.
- 9.20 The Deputy First Minister brought the discussion to a close and suggested that further consideration could be given to the issues raised at the next meeting of the Working Group.

ACTION: Planning issues to be discussed at the next meeting of the Working Group.

10. Close

- 7.1 The Deputy First Minister thanked members for their attendance and commenting that he felt that the format was proving successful. He informed the Council that in line with the precedent set by Business Partnership Council, future papers would be published on the Assembly Government website following each Council meeting. He reminded the Council that the next meeting will take place on 6 July.

END

Summary of Action Points

1. Jonathan Price to prepare and circulate a paper outlining the different economic measures.
2. Derek Walker to prepare a paper on social enterprise and its role in the economy for the next meeting.
3. Further discussion on the performance of Welsh businesses in securing Olympics contracts at the next Officials Working Group meeting.
4. Item for Agenda at the next meeting - discussion on how business can overcome cultural obstacles and address issues of confidence and competence.
5. Jonathan Price to examine the multiplier and report back
6. Planning issues to be discussed at the next meeting of the Working Group.