

Council for Economic Renewal Meeting

Notes of the meeting held at 11:00am on Monday 1 June in Conference Room 6, Welsh Government Offices, Cathays Park, Cardiff.

Ministers in Attendance

First Minister

Minister for Economy Science and Transport

Minister for Finance and Government Business (Agenda item 4)

Minister for Communities and Tackling Poverty (Agenda item 5)

Minister for Public Services (Agenda item 6)

Stakeholders in Attendance

ACCA – Ben Cottam

CBI – Emma Watkins

CBI – Leighton Jenkins

Chair of Commerce Cymru – Paul Byard

CIM – Richard Houdmont

FMB – Ifan Glyn

FSB – Iestyn Davies

ICAEW – Martin Warren

IoD – Robert Lloyd Griffiths

RICS – David Morgan

South Wales Chamber of Commerce – Keith Palmer

The Law Society – Lowri Morgan

Wales Coop – Derek Walker

Wales TUC – Alex Bevan

Wales TUC – Martin Mansfield

Wales TUC – Nick Ireland

WSPU – Heather Eason (Observer)

WSPU – Mark Judd (Observer)

WSPU – Nigel Keane

Apologies

CML – Peter Hughes

FPB – Phil Orford

IoD – Huw Roberts

HBF – Mark Harris

RHA – Nick Payne

FTA - Ian Gallagher

Welsh Government special advisors and officials attending

Derek Jones, Permanent Secretary

Andrew Bold

Kerry Stephens – Agenda item 4 only

Maureen Howell – Agenda item 5 only

Daniel Jones – Agenda item 6 only

Melanie Kinsey – Note taker

James Price

Tracey Burke

Andrew Jeffreys

Huw Morris

Jonathan Price

Huw Griffiths – Note taker

1. Introduction and opening remarks

- 1.1 The First Minister opened the meeting by welcoming members and set out the main agenda items:-
- Notes and actions from the last meeting.
 - Economic round-up
 - Procurement
 - Tackling poverty
 - Local Government reform and economic development
- 1.2 There was one paper to note on the Welsh Ministers' Business Scheme.
- 1.3 The First Minister explained that the Finance Minister would attend for agenda item 4 on procurement, the Minister for Communities and Tackling Poverty would attend for item 5 on tackling poverty, and the Minister for Public Services would attend for item 6 on Local Government reform and economic development.

2. Notes and actions from meeting held on 9 February 2015

- 2.1 The First Minister asked for any comments on the notes and if any issues of accuracy arose - none were reported.
- 2.2 The notes were accepted as an accurate record of the last meeting.
- 2.3 The following comments were made on the actions of the last meeting:
- 2.3.1 The First Minister noted that the action for Jonathan Price and Iestyn Davies to discuss sub regional variation in the UK context and the potential for exploring a NUTS level 3 analysis to build an economic picture is yet to be completed.

Action Point: Ongoing action on Jonathan Price and Iestyn Davies to discuss sub regional variation.

- 2.3.2 **Welfare Reform** – The First Minister commented that this is an on-going action and that with the UK Government's budget statement expected on the 8 July there may welfare changes outlined. The First Minister suggested that the Executive Working Group consider this as an agenda item for the Council meeting in October.

Action Point: Executive Working Group to consider Welfare Reform as an agenda item for the Council meeting in October.

3. Economic round-up discussion

- 3.1 The First Minister introduced this item commenting that the growth in GDHI was very encouraging, but that there are still challenges associated with raising productivity levels.

- 3.2 The First Minister asked Jonathan Price to offer his views on the report.
- 3.3 Jonathan Price cautioned members on the use of labour market data as it can be volatile and there is a need to focus on longer term trends. He noted that, despite a run of weaker months, Wales has been broadly tracking UK performance over the last couple of years. If viewed over the medium to long term, Wales has closed the gap in labour market performance with the UK and this is reflected in the positive figures for household income growth. He noted that we are not doing so well in terms of the GDP figures, but even here, Wales had been broadly keeping pace with the UK over the medium term.
- 3.4 Jonathan Price highlighted that productivity growth remains a big issue going forward at both Welsh and UK levels and questioned when productivity would improve. He said that any intelligence members have on this would be gratefully received.
- 3.5 The First Minister referred to Lord Bamford's comments on the impact on business of the EU's regulations and policies. The First Minister also commented that the construction sector is currently seeing a positive economic impact and expressed concern that construction sector growth might not be reflected in other economic sectors.
- 3.6 Jonathan Price noted that the official data on construction sector growth was mixed, although intelligence from the construction industry that the sector is doing well would probably be the better indicator. He noted there are signs of revival in business services but manufacturing and export figures are disappointing, reflecting current weaknesses in the Eurozone.
- 3.7 The First Minister opened up this item for wider discussion. Emma Watkins echoed the concerns raised around productivity. She reported growth across the board, highlighting that there are differences in sectors, with strong retail and services growth and the construction sector is doing well. She noted concern over manufacturing and exports.
- 3.8 Derek Walker reported on findings of the research into the mutual, co-operative and social enterprise sector in Wales. He outlined that a comparison can't be made as the last time this information was compiled was six years ago, and noted that the findings will provide a baseline to measure the future success of interventions. The findings highlighted a higher number of start ups in the sector compared with SMEs more generally. He attributed this to the positive policy environment in Wales, which demonstrates a clear intention to support and a growing awareness of the sector.
- 3.9 Richard Houdmont noted that recent research highlighted that often SMEs just wanted to maintain their current situation, and do not want to pursue growth. He noted that Government might need to promote growth.
- 3.10 The First Minister noted previous work to look at cultural barriers to growth. He said that barriers to business are not as high as some might think, and that there is a need to encourage those that want to grow.

- 3.11 Keith Palmer noted the latest quarterly economic survey, which identified no distinction in the confidence in the construction sector to other sectors. He reported that fifty per cent of businesses had noted an increase on orders, and an increase in exports.
- 3.12 Ifan Glyn referred to the growth in the construction sector. He commented on the large pipeline of projects and for the need for SMEs to be in a position to respond to the opportunities offered by these. He noted a gap in skills as a significant issue for FMB members. He referred to the expectation of micro businesses for support to be provided for apprenticeships, and that perhaps the current policy position is not fully understood. He suggested that the message needs to be given that taking on apprenticeships is a joint endeavour, and companies should be encouraged to do their part.
- 3.13 The First Minister referred to comments made by construction companies on the difficulty in accessing specialist construction skills, with some companies looking to other countries for skilled labour. He invited thoughts on whether specialist skills need to be developed in Wales.
- 3.14 Ifan Glyn identified the Swansea Bay Tidal Lagoon as an example of a large project in the pipeline which would require specialist skills. He hoped that colleges would be training people to provide the skilled people needed for this project.

Procurement

- 4.1 The First Minister introduced the paper on Procurement, noting that the content of the paper had been shaped by input and challenge from the Executive Working Group. The First Minister introduced the Minister for Finance and Government Business, who presented the paper.
- 4.2 The Minister for Finance and Government Business thanked members who had contributed to discussions on this issue, and provided an update on procurement in Wales. She outlined that this is a time of change for procurement, with a new EU Directive being implemented to provide regulatory support and new public sector tools to maximise economic development opportunities. She noted that we are close to formally receiving the powers to regulate. The Minister confirmed that she intends to present an updated statement on procurement policy to the Assembly on 16 June.
- 4.3 The Minister highlighted the main developments, including:
- the principle of proportionality being built into law, which will help to reduce bureaucracy;
 - SME friendliness of the new regulations, with a need to justify when measures to make contracts suitable for SMEs are not applied and a requirement in favour of smaller lots;
 - Clearer rules, including around early engagement with business at the start of the process and a new Innovative Partnership procedure;

- Extension of contract provision extended, with the potential to widen access for companies in the third sector and supported businesses.
- 4.4 The Minister noted that she is expecting new powers to be in place by Autumn and her officials are developing regulatory advice to drive forward adoption of policies.
- 4.5 The Minister also noted that the Community Benefits approach is a good example of Wales leading the way, with tangible examples of the benefits of this approach, including almost 800 new jobs, 21,000 weeks of training and 84% of spend re-invested in Wales. She noted that all Ministers are engaged, with the approach built into a number of programmes, for example 21st Century Schools and the Welsh Housing Standards programmes.
- 4.6 The Minister noted that a Task and Finish Group is being established to develop a way forward for major procurements and grant funded projects.
- 4.7 The Minister noted that these developments were occurring against a backdrop of challenging public funding pressures. She commented on the National Procurement Service which had exceeded its targets, with £6m cashable savings reported within the last financial year.
- 4.8 The Minister noted successes, for example, in the Occupational Health and Associated Services framework, where 15 of the 20 suppliers are Welsh SMEs. In addition, the Minister noted that, as part of a four year business plan which will be launched next month, plans are in place to extend contract categories to over £2bn during this financial year.
- 4.9 The Minister noted that there will be greater transparency and opportunities for companies to plan ahead. The Minister noted that Wales has come a long way in the last five years and these growing powers have the potential to create jobs and training opportunities in key areas.
- 4.10 The First Minister opened up the discussion on this topic. Iestyn Davies welcomed the longstanding work to deliver against this policy area. He asked to what extent the frameworks realise benefits for both companies and the community.
- 4.11 Iestyn Davies noted previous concerns over the ability of Welsh companies to bid for contracts, and asked whether we are now seeing greater capacity. He also suggested the approach should look more qualitatively at the framework and strategy in place and looked forward to working co-operatively with Welsh Government on this area.
- 4.12 Martin Mansfield welcomed the opportunity to consider the paper, provide challenge and explore the issues. He noted that the paper responded to the questions raised by the Executive Working Group. He welcomed the progress on community benefits and noted the comment in a UK strategic study by the Society of Industrial Lawyers that Welsh Government had moved further than other parts of the UK on this issue. He suggested there was still room for

improvement, and commented that the measuring tool is not used as widely as it could be.

- 4.13 He noted that the General Designation provides the opportunity to make further progress and give community benefits regulatory standing. This could provide a huge opportunity for Welsh Government to tackle poverty and provide economic development opportunities in areas of deprivation. He noted that reservation of contracts could enable policy ambitions for getting disadvantaged groups into employment and tackling poverty in areas like the Heads of Valleys, where government intervention is of greater importance.
- 4.14 Richard Houdmont commented that we should also consider the skills associated with selling, and noted a recent survey which highlighted a lack of specific marketing skills in some businesses. He suggested that companies need to be able to market themselves well, and there is a limit to the support Government can provide.
- 4.15 Robert Lloyd Griffiths suggested that Business Wales has a role in supporting the development of these skills.
- 4.16 The First Minister noted that there is sometime a lack of businesses able to supply contracts. An example of this is food contracts, where the problem has been resolved by SMEs working together. He added it is not just about Government offering the opportunity to bid; companies also have to be in a position to supply.
- 4.17 Iestyn Davies raised a point about understanding the next level of data, and if some SMEs lack marketing skills then these should be targeted. He noted that if businesses want to be part of economic success they need the right skills and approaches, for example business to business supply chains.
- 4.18 David Morgan suggested that transport links also need to be examined.
- 4.19 The Minister for Economy, Science and Transport raised a point about how companies procure with each other. The Minister noted that the NHS is a large procurer and indicated that the Minister for Health is looking at procurement in this sector. The Minister suggested that a more proactive approach to procurement could avoid the risk averse approach of contracts being automatically awarded to large suppliers, and suggested an enhanced role for Business Wales. The Minister recognised marketing and transport issues, but recognised that some companies do not want to grow. The Minister noted the opportunities associated with a community benefits approach for employment in areas of need. The Minister suggested there are areas where we could be more proactive, for example by identifying lists of Welsh suppliers for sectors that could be considered in the first instance. The Minister noted that we need to learn from the lessons of other countries on this issue.
- 4.20 Derek Walker noted that it would be useful to receive information on the extent to which consortia arrangements have been successful as a tool to help SMEs win contracts.

- 4.21 The Minister for Finance and Government Business echoed Iestyn Davies's comments on the value of qualitative analysis, and noted that there is no question that we are moving forward. She noted that the general designations will be a huge step and will allow us to regulate effectively on a number of fronts. She noted the need to work with business support organisations to help develop a procurement strategy.
- 4.22 The Minister agreed that we should not be complacent on the issue of community benefits. She noted that there is a time lag associated with recording progress using the tool and that true benefits are likely being underestimated. She suggested that new powers could be used to regulate on the use of the community benefits approach. The Minister recognised the need to take into account traditions, for example in the NHS, and to look at different ways of doing things. She noted the importance of communicating and publicising information on new opportunities.
- 4.23 The Minister noted the points raised by members on skills, and agreed that the development of relevant skills is essential. She also noted the need to remove barriers, and commented on the work undertaken to update the Supplier Qualification Information Database (SQiD).
- 4.24 The Minister referred to consortia and joint bidding approaches and the usefulness of guidance produced by the WCVA and Wales Co-operative Centre on joint bidding. The Minister agreed to provide a note to the Council on joint bidding arrangements and new consortia established.

Action Point: Minister for Finance and Government Business to provide a note to the Council on joint bidding arrangements and new consortia established

- 4.25 The Minister noted work being taken forward in relation to the British Food Plan and opportunities for the private sector in this sector. The Minister noted that she would provide a further update to the Council on the new powers and associated opportunities in the Autumn.

Action Point: Minister for Finance and Government Business to provide a further update on procurement to the Council in the Autumn.

5 Tackling Poverty

- 5.1 The First Minister welcomed the Minister for Communities and Tackling Poverty to the meeting.
- 5.2 The Minister for Communities and Tackling Poverty introduced this item stressing the importance of engaging with the private sector and working together to improve low income households in Wales. The Minister noted that tackling poverty is a key priority driven by all Cabinet Members.

- 5.3 The Minister referred to the poverty figures in Wales and the multiple factors at work influencing poverty, such as the tax and benefit system, and Welsh Government work to prevent, reduce and mitigate the impacts of poverty.
- 5.4 The Minister noted that a key theme emerging from the evaluation of the Child Poverty Strategy was the need to work with external partners, and highlighted the vital work being taken forward with public providers and the third sector. She commented that the organisations represented by Council Members are already making an important contribution in this area, and highlighted support to schemes such as Lift, Apprenticeships and Jobs Growth Wales.
- 5.5 The Minister referred to the commitment in the Revised Child Poverty Strategy to engage with a range of different representatives and identify opportunities for collaborative working. The Minister referred Members to the Paper, which sets out the Welsh Government's approach to tackling poverty and identifies a number of questions for consideration by Members. The Minister invited views on these questions.
- 5.6 Ben Cottam commented on discussions being taken forward by his organisation on social mobility, and highlighted concerns in relation to terminology. He suggested there is an opportunity to improve engagement between businesses and schools and colleges on social mobility. He noted that only 8 percent of businesses currently deliver internships, and invited Ministers and colleagues to consider whether more could be done to promote internships. He referred to career ready and champion programmes as other examples for schools and colleges to engage with business and introduce people to the world of work.
- 5.7 Nick Ireland commented on the issue of underemployment, and how a living wage is not sufficient to address low earnings if people are unable to secure enough hours of work. He noted that surveys of his organisation's members have identified that people are struggling to make ends meet. He noted issues in relation to transport, particularly for people on shift patterns. He suggested that there are areas where improvements could be made, for example around the use of conditions of state support. He also commented on the role of trade unions and how improvements in collective bargaining could support this area.
- 5.8 Paul Byard suggested the Council revisit the Economic Framework for Investment, to look at how European Union funds can be better used to solve some of these issues. He also commented that we need to consider the bigger picture and tackle some of the root causes of poverty.
- 5.9 In relation to the point on EU funds, Iestyn Davies suggested that the PMC would be best placed to consider this issue. He echoed Paul Byard's concerns and agreed a longer term consideration is needed to achieve structural reform. He recognised the Welsh Government is not in charge of fiscal policy but there are things the Welsh Government can do. He mentioned the work of the Resolution Foundation on wage growth and pension planning. He advocated caution as there is a more profound problem than short term responses like the Living Wage can address.

- 5.10 Emma Watkins reported on work taken forward by the CBI to ensure growth benefits all and how business can support this. She commented on the importance of labour market flexibility for employers and employees through shift changes and handovers, and suggested that the Council will need to discuss the issue of the Living Wage. She also recognised that some levers are outside Welsh Government control. She commented on the need to increase free childcare provision and work on reducing NI for certain employees and offered to continue this discussion with officials.
- 5.11 Emma Watkins supported Ben Cottam's point on social mobility and commented it is important to consider the role of schools.
- 5.12 David Morgan added his support to comments on social mobility.
- 5.13 Martin Mansfield suggested a change in terminology around community benefits. These are often associated with general community support, such as sponsorship for local sports teams. He stressed it should be absolutely clear this is about local employment benefits, and jobs and training. Martin Mansfield said the Wellbeing of Future Generations Bill and its indicators provide opportunities to make the public sector deliver locally on tackling poverty. He added that they also provide opportunities to support decent employment opportunities. He suggested that, to achieve this, goals and indicators would need to be carefully defined and applied.
- 5.14 Keith Parker commented on the result of a survey carried out by his organisation. This identified that fifty per cent had recruited additional staff in the last three months, with another third planning to recruit in the next three months. He noted that the report highlighted a lack of skills as a barrier to recruitment, with sixty five per cent of respondents reporting this as an issue. He commented on the importance of people being work ready with relevant skills.
- 5.15 Paul Byard suggested that the number of projects improved through Welsh Government support could be identified. He also suggested incentivising sectors to provide a certain number of opportunities. He referred to European Commission's call for raising the share of manufacturing GDP from 16 percent to 20 percent and suggested there could be opportunities through EU funding.
- 5.16 The Minister for Communities and Tackling Poverty noted that a lack of skills has come through as a clear issue, and that this had been discussed with the Minister for Education and Skills. She referred to the work of the Tackling Poverty Implementation Board, and noted that the Board will be considering the issue of transport at their next meeting. The Board will also be looking at how EU funding is being used to tackle poverty. The Minister commented on the broad definition of social mobility, and the need to use all our levers to get more people into sustainable work. The Minister commented on the work social partners are taking forward to support people and confirmed that she would be interested to know how issues relating to tackling poverty are being considered. On the issue of people getting to work, the Minister referred to the LIFT scheme, which is providing opportunities for people who aren't work ready to support them into employment. She commented on the importance of engagement

between businesses and schools and HEs and the value of internships, and highlighted work being taken forward by Airbus. She asked whether there is an appetite for the organisations represented by Council Members to engage in this way. The Minister said there is a role for private sector partners to help people in lower income households and the Minister would be interested to learn how zero hours and living wage are being considered by Council. The Minister noted the point made by Paul Byard on successful projects and agreed to provide more information on this at the Council's next meeting.

Action Point: Information to be provided on successful projects.

6. Local Government Reform and Economic Development

- 6.1 The First Minister welcomed the Minister for Public Services to the meeting noting that this item was requested by the Council's Executive working group.
- 6.2 The Minister for Public Services introduced the paper noting the compelling case made by the Williams Commission for local government reform, which was accepted by Welsh Government. He said he is moving ahead on legislation, and the Local Government (Wales) Bill has completed Stage 1 in the Assembly. In the autumn a draft Local Government Mergers Bill will be issued. He confirmed that if consensus cannot be secured on local government reform, the Government will publish its own map. This will be in line with the preferred Option 1 in the Williams Commission report, unless a compelling case is made for other approaches.
- 6.3 The Minister reminded Council Members of other important reforms as published in the February White Paper, which will give powers to local authorities to shape communities and innovate. He referred to the awaited Keith Edwards report on mutuals and cooperatives and said there would be opportunities for local authorities to respond to the current financial situation using innovative delivery mechanisms.
- 6.4 The Minister referred to the KPMG report on the cost and administration of local government, and how this will have implications for the business community. He noted how this work could be used to explore how community councils can support service delivery and economic development.
- 6.5 The First Minister opened up the discussion. Iestyn Davies welcomed the section of the report on reform and economic development, and that it will be important to focus on the economy of place. This is changing and taking new shape and form, for example, through City Regions. He noted the focus on the social sector in regards the provision of services, and hoped to also see a genuine partnership with the private sector moving forward. He confirmed that there is often an expectation amongst SMEs that local authorities will provide assistance for growth. He asked whether any consideration had been given to placing a statutory responsibility for economic development on local authorities.
- 6.6 The First Minister said this had not been considered, and under the present structure delivery on economic development had not been consistent across

local authorities. He noted that local authorities' boundaries do not align with economic development boundaries. We would need to carefully examine what could be delivered and avoid overlap with Welsh Government activity.

- 6.7 Iestyn Davies said the future shape and form of local authorities should better match economic development boundaries. He added that he would value more focus on support for small businesses.
- 6.8 Derek Walker said he is pleased with the emphasis on mutuals and co-operatives in the White Paper. He suggested assets could be transferred to social business to provide collateral for loans which could strengthen the sector.
- 6.9 Emma Watkins wished to put on record CBI support for the reform of local government, and noted this is not without its challenges. She recommended caution for statutory development powers for local authorities, suggesting that this could lead to confusion over who has responsibility for delivery.
- 6.10 Robert Lloyd Griffiths added his support, and indicated he is keen to work with Welsh Government to achieve a successful outcome in this area.
- 6.11 Martin Mansfield noted the importance of direct public sector employment for some areas in Wales for local employment and living standards. The paper provides the opportunity to reorganise local authorities and provide clarity of what is being done and by whom.
- 6.12 Paul Byard confirmed support for reform. He noted that the difficult choices that often need to be made, and suggested lessons could be learnt from methods employed by industry, for example the approach to incremental efficiencies.
- 6.13 The Minister noted the critical role local government reform will play in place shaping. He reported on cooperation between social enterprises and the local business community, such as RCT Homes engaging with Penygraig businesses to provide free town centre wifi. He added that there is scope for joint working with small businesses. As part of the delivery of local government reform the Minister said we are rebuilding the relationship between central government and local government since we inherited a 22 local authority structure.
- 6.14 The Minister expressed a view that local authority reform provides an opportunity to get the balance between Welsh Government and local government right on the approach to economic development. He referred to internal discussions on this, and how he would be grateful for the Council's support with this issue. The Minister echoed Martin Mansfield's comment on the importance of public sector employment to certain areas, and highlighted the importance of better workforce planning. The Minister agreed that there will be value in learning from examples of managing efficiencies in the private sector, and how they could apply to certain functions in the public sector, and from data and best practice identified in the KPMG report when this study is published.

7. Any other business

- 7.1 The First Minister asked if there was any other business.
- 7.2 The First Minister referred to the paper to note – the Welsh Ministers’ Business Scheme - commenting that this had been refreshed in consultation with the social partners and would now be published.
- 7.3 The First Minister commented that consideration would be given as to whether a communique should be issued.
- 7.4 The date of the next meeting was confirmed for the 5 October 2015.
- 7.5 The First Minister closed the meeting and thanked the Council Members for their contribution and attendance.