



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 12 Mehefin 2013
Wednesday, 12 June 2013

Cynnwys **Contents**

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

Ymchwiliad i Ardaloedd Menter yng Nghymru—Panel o Fusnesau
Inquiry into Enterprise Zones in Wales—Panel of Businesses

Goblygiadau Ariannol y Bil Addysg Bellach ac Uwch (Llywodraethu a Gwybodaeth)
(Cymru)—Tystiolaeth gan y Gweinidog Addysg a Sgiliau
Financial Implications of the Further and Higher Education (Governance and Information)
(Wales) Bill—Evidence from the Minister for Education and Skills

Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from the Meeting

Ymchwiliad i Ardaloedd Menter yng Nghymru—Cadeiryddion y Byrddau Ardaloedd Menter
Inquiry into Enterprise Zones in Wales—Chairs of the Enterprise Zone Boards

Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir
trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In

addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Ieuan Wyn Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour

Eraill yn bresennol
Others in attendance

Leighton Andrews	Aelod Cynulliad, Llafur (Y Gweinidog Addysg a Sgiliau) Assembly Member, Labour (Minister for Education and Skills)
Lucas Boissevain	Cyfarwyddwr Cyllid, Mustang Marine Finance Director, Mustang Marine
Nick Bourne	Cadeirydd Ardal Fenter Dyfrffordd y Ddau Gleddau Chair of the Haven Waterway Enterprise Zone
Mike Corne	Partner a Chyfarwyddwr Masnachol, eCube Solutions Partner and Commercial Director, eCube Solutions
Gareth Jenkins	Cadeirydd Ardal Fenter Glynebwy Chair of the Ebbw Vale Enterprise Zone
Carla Lyne	Dirprwy Gyfarwyddwr Cyllid a Gwasanaethau Corfforaethol Deputy Director of Finance and Corporate Services

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Helen Jones	Y Gwasanaeth Ymchwil Research Service
Mike Lewis	Dirprwy Glerc Deputy Clerk
Gareth Price	Clerc Clerk
Ben Stokes	Y Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 9.00 a.m.
The meeting began at 9.00 a.m.

**Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Jocelyn Davies:** Welcome to this meeting of the Finance Committee. I remind Members that we have started and that we are now in public session. Please switch off any mobile or electronic equipment because it interferes with the translation equipment. We are not expecting a fire drill, so, if you hear the alarm, please follow the direction of the ushers. We have not had any apologies for absence, and Chris Chapman will be joining us shortly. We therefore move directly to the second and substantive item on the agenda, which is our inquiry into enterprise zones in Wales.

**Ymchwiliad i Ardaloedd Menter yng Nghymru—Panel o Fusnesau
Inquiry into Enterprise Zones in Wales—Panel of Businesses**

[2] **Jocelyn Davies:** I am very pleased that we have representatives from eCube Solutions and Mustang Marine here. We have received your papers, and the Members will have read them. Would you like to introduce yourselves for the record? We will then go straight into questions.

[3] **Mr Corne:** My name is Mike Corne, partner of eCube Solutions.

[4] **Mr Boissevain:** My name is Lucas Boissevain, and I am the finance director at Mustang Marine.

[5] **Jocelyn Davies:** Thank you very much. Moving straight to questions, perhaps you would like to outline for us the most important benefits for your business of being located within an enterprise zone. Mike, would you like to take that question first?

[6] **Mr Corne:** Yes, certainly. We have benefited only from rate abatement in a financial sense; so, if I were to look for the tangible benefit, that would be the sole advantage. The intangible benefit, which I think is fairly substantial, is that an agency on site—the Welsh Government—located at the enterprise zone, has been very supportive in helping us to identify synergies with other businesses and other facets of how we could co-operate and work with the Welsh Government to help the growth of the business. So, I would suggest that, from our perspective, the benefit has been more intangible. One of the reasons I say that is because we set the business up just prior to the inception of the enterprise zone, and consequently we had to form it based around the assumption that we would not be availing ourselves of any tangible enterprise zone benefits.

[7] **Jocelyn Davies:** So, you are a relatively new business within the enterprise zone, and it is the input from and the skills of the Government officials based there—even though that is not easy to quantify in terms of money and resources—that you find the most useful.

[8] **Mr Corne:** Yes, we do.

[9] **Jocelyn Davies:** That is probably because of the type of business. What about you, Lucas?

[10] **Mr Boissevain:** Again, the most tangible benefit that we have had is business rates relief, and thank you very much for the assistance there; it was well received. We have been aware of the policy levers for only the last six months or so, whereas the enterprise zone had been mooted well before that. The actual policy levers and the way that the instruments were going to come in had not been defined until fairly recently. My one gripe is that they are a little bit random. You have a window of opportunity to apply—obviously, rates relief is quite

straightforward, but the other instruments, like the grant assistance, come out in tranches. If you do not have a capital expenditure project running in tandem with that, getting the match right between applying for the grant and the commercial reality is a difficult juggle. Obviously, we are an existing business. It is a coincidence that we sit within the enterprise zone. It is an energy zone. Some of the work that we do is loosely associated with the energy sector in terms of marine renewables building vessels to support the supply chain. However, other businesses have come into the energy sector and end up working with us, such as Tidal Energy Ltd, for example, with which we have just signed a contract to get its prototype off the ground. So, loosely, a secondary benefit is picking up value-added work as a result of the location of other people within that marine renewables sector. So, we do see the marine renewables sector as something that we want to play in. To the extent that Wales is now active, with some projects rolling out in that sector, we do see a fair degree of tangible benefit coming as a supply chain business within the sector.

[11] **Jocelyn Davies:** Shall we go on to your question, Julie?

[12] **Julie Morgan:** To follow that up, what were your expectations when you heard that the Welsh Government was going to create an enterprise zone where you were located? Have your expectations been met?

[13] **Mr Corne:** From our perspective, we selected St Athan as the location that was best suited to run our business, and, while other enterprise zones were available, Newquay being one of them, we saw the benefits to our customers from creating a business in St Athan, in being able to hire people with appropriate skills and having the supply base—all of those facets meant that being located at this particular spot in south Wales was far more beneficial for the business. So, we actually selected the location first and foremost based on the fact that it is an optimum location for the nature of the business we were trying to start. We were informed at the time that we first interacted, in late 2011, that an enterprise zone was envisaged and there would be capital allowances and rate abatement. The capital allowances were not a major swinger for us, and, in fact, we availed ourselves of an enterprise growth fund that gave us support on the capital expenditure anyway, and the rate abatement came through. I would say that, in terms of expectations, they were certainly met. Was it the key reason why we selected St Athan? I think the practicalities of running the business, which led us to south Wales as somewhere with a strong aerospace sector, were probably more influential.

[14] **Julie Morgan:** So you would have gone to St Athan anyway for the skill base.

[15] **Mr Corne:** In the negotiation phase, I certainly did not announce that, but I would say so today. [*Laughter.*]

[16] **Julie Morgan:** I think you have covered that issue. Have you got anything to add, Mr Boissevain?

[17] **Mr Boissevain:** We are in the zone in Pembrokeshire, because that was where we were based already. Obviously with the petrochemical industry, there are synergies with some of the skill sets of metal bashing, and, because of the petrochemical industry, it is also well supported in terms of the supply chain downstream. The capital allowance is an interesting one, because accelerated capital allowance is a beef of mine—primarily because of our clients. They are building large capital assets, which attract capital allowances, and the 100% capital allowances pertain only to assets retained within the enterprise zone, whereas the majority of our assets for most of our clients are situated outside the enterprise zone.

[18] **Julie Morgan:** So, you see that as a disadvantage.

[19] **Mr Boissevain:** No, not a disadvantage. It is a great advantage, but it should be applied uniformly, not just across Wales, but the UK. In terms of the enterprise zone, it is great that we have it, because we are spending a fair amount of money in this current year, and obviously that will attract the 100% capital allowance, which does enhance your return, because it defers tax, effectively, and you would not be investing unless you were anticipating making taxable profits going forward. So, it just accelerates the return, basically.

[20] **Julie Morgan:** In terms of the locality, have you seen any changes since the enterprise zone came in?

[21] **Mr Boissevain:** Not discernible changes, but the enterprise zone has been in situ for only a short time. While it was announced 18 months ago, the policy levers have been known only more recently. There is therefore inertia, in that business has to absorb the policy levers and then adapt them into their business plans. That also applies to local authorities, not just us. So, I would not anticipate seeing any discernible benefits until 18 months downstream.

[22] **Julie Morgan:** It is too soon to say.

[23] **Mr Boissevain:** Yes, it is too soon to say.

[24] **Julie Morgan:** Is that your view as well, Mr Corne?

[25] **Mr Corne:** I agree with the comment about momentum and that there is inertia to overcome. However, there is certainly a sense that a commercial aerospace business park is under development at St Athan, and I think the aerospace market is recognising that. There has not been a dramatic change in employment levels there to date. It has been in the tens rather than the hundreds so far. However, there is a sense that the creation of that zone and the concept of an aerospace business park is slowly making its way to yielding results.

[26] **Jocelyn Davies:** You are aware that there is a board governing the work in the enterprise zone. Are you involved in the work of the board?

[27] **Mr Corne:** No.

[28] **Jocelyn Davies:** Each of the boards has been asked to develop a strategic plan for the zones. Do you know what the strategic objectives for your zone are? It is not an exam question; I am just wondering whether you have been made aware of them. So, you have not seen the plan and you are not aware of the objectives, but you know that there is a board.

[29] **Mr Corne:** That is correct, yes.

[30] **Mr Boissevain:** Yes.

[31] **Jocelyn Davies:** Peter, shall we go on to your questions?

[32] **Peter Black:** Yes, thank you. Thank you for coming to give evidence, it is really helpful. On the way in which the Welsh Government is managing the enterprise zones, we are interested in what level of resource it is putting into your respective zones. Are you aware of that at all? Apart from the help with business rates, are you aware of the Welsh Government putting in any additional resource?

[33] **Mr Boissevain:** It seems rather ignorant, but no.

[34] **Mr Corne:** No. I go back to my original comments about how we formed ahead of the enterprise zone benefits being formally developed. We simply pushed on with the creation

of our business. We went through the first year of business, frankly, looking around for alternative resources, which have not been there. I do not know whether you are only referring to resources in terms of tangible financial benefits, or the Welsh Government resources that benefit us on site.

[35] **Peter Black:** I am thinking of infrastructure, for example, in terms of enhanced broadband, enhanced road networks and that sort of thing—are you aware of any plans of that sort going on?

[36] **Mr Boissevain:** Yes. The improvement of the road from St Clears to Pembroke Dock, for example, is a major road enhancement, which will be significant. The gradual improvement over the years of the roads down to west Wales has been superb. We have clients coming from Bristol, for example; we do work for the Ministry of Defence. It is as easy for them to get to Pembroke Dock as it is to go to businesses in Portsmouth and Southampton—in fact, it is easier.

[37] **Peter Black:** That is not directly related to the enterprise zone, though.

[38] **Mr Boissevain:** No, of course. However, we were in business prior to the enterprise zone. Fast broadband is a real beef. We have just put in a 10 by 10 spine with one-to-one contention to modernise our phone facilities. That enables us to co-operate with design houses outside of Pembrokeshire, because, although I do not want to go into too much detail, you do not draw in paper space anymore, you draw in what is called model space. So, you need people to collaborate to your model. That needs to be in real time, otherwise there is no benefit. So, working around that, you have to have fast broadband to do that. We have had to pay £14,000 per annum to buy into that. In Swansea or Cardiff the same facility would have cost £6,000 to £8,000. So, it is a postcode lottery.

[39] **Peter Black:** You would expect, perhaps, because you are in an enterprise zone, the Welsh Government to start putting those sorts of facilities in.

[40] **Mr Boissevain:** I would like to think so. When we were looking at it, we were looking at BT Infinity, which is primarily not a business related broadband, but domestic. We were thinking, ‘Hang on, we’re rolling out domestic, but what about business? What are the primary drivers there?’ I find it a little frustrating, personally, that we do not have the same level playing field as businesses in Cardiff or Swansea. I do not mind paying for it, it is not a huge element of expenditure, but it would be nice to have the same level playing field.

[41] **Jocelyn Davies:** Peter, have you finished?

[42] **Peter Black:** I think that we have covered most of it.

[43] **Jocelyn Davies:** Okay. Mike is next.

[44] **Mike Hedges:** If there was not an enterprise zone where you are, would you have made different decisions? That is, has having an enterprise zone altered your investment and employment strategies?

9.15 a.m.

[45] **Mr Corne:** When we decided on the location, I looked at every airfield in the UK. I have a very specific business, it requires a runway, and so there are probably only 50 or so locations in the UK to go to. I was looking for a secondary field, and I shortlisted a dozen; some of them were enterprise zones—Prestwick, Newquay and St Athan were the prime ones—and I also looked at conventional airfields and airports, such as East Midlands and

Bournemouth. I therefore evaluated all the different options. It is conceivable that I could have selected one that was not within an enterprise zone, and, as I said at the outset, that was not the primary consideration. One of my bugbears is companies that pursue enterprise zones as the primary business consideration, and then, as a secondary consideration, try to find what is ideal as a location from which to develop their business. It felt for us that St Athan was both the optimum location for the business and had the enterprise zone benefits, so we were in that fortunate position. However, if there was a significant downside to the location, for whatever reason—perhaps no locally skilled aircraft maintenance mechanics were available, for instance—it would not have mattered what the enterprise zone benefits would have been, because we simply would not have had the basis on which to build the business.

[46] **Jocelyn Davies:** At that time, you would not have been entirely certain what those benefits would have been. You could not have listed them, could you? As you say, for you, the greatest benefits have been the intangible ones, and you could not possibly have weighed that up at the time, I suppose.

[47] **Mr Corne:** No, that is true. We were told, again, that capital allowances and rate abatement would be available at some point, but we could not build that into a business plan, that is for sure. Therefore, the ultimate decision was made without having those details. We did not build those into our business plan at the outset, that is true.

[48] **Jocelyn Davies:** How about you, Lucas?

[49] **Mr Boissevain:** We have been based in Pembroke Dock. The aspects of what Pembroke Dock represent are key to us, namely access to deep water, waterfront facilities, relatively modest real estate costs in comparison with some other areas, and proximity to domestic occupants, who we want to be as far away from as possible so that we can work late at night, and bang and clatter, without causing a nuisance. That is, basically, one of the primary concerns. However, I have to say that the investment—the levers—are worthwhile, and they are assisting us to make judgments about our expansion, and in-house expansion. However, it is the other businesses that it is attracting in terms of marine renewables. Tidal power and wave power are the two exciting options that are going on at present. We will have to wait and see whether they take off, but some of the things that we have been presented with are very innovative. I am not sure of the practicalities, but time will tell once the full-scale tests are in place. It is great; it is interesting to be involved in that. As I say, it is getting us attuned to the business, and it also sets our eye going forward as to the potential for marine renewables. In terms of wind power, we have missed the boat, because that was established on the east coast, and in the Mersey basin, up there. Therefore, if we want to play in that market, we need to think about co-operating with other businesses in the UK, which may be sited on the east coast, or in Merseyside.

[50] **Jocelyn Davies:** Do you have any further questions, Mike?

[51] **Mike Hedges:** No, I am happy with that.

[52] **Jocelyn Davies:** Okay. Ieuan has the next questions.

[53] **Ieuan Wyn Jones:** I will be asking my questions in Welsh.

[54] Mae'r ddau ohonoch wedi dweud eich bod wedi cael help drwy'r cynllun ardrethi busnes. A oeddech yn cael hwnnw'n awtomatig oherwydd eich bod yn y parth menter, neu a oeddech yn gorfod gwneud cais amdano? Os oeddech yn gorfod gwneud cais You have both said that you have received assistance through the business rates scheme. Was that made automatically available to you, because you were within the enterprise zone, or did you have to apply for that? If you had to apply for that, how easy was it to

amdano, pa mor hawdd oedd hi i sicrhau'r secure that assistance?
cymorth hwnnw?

[55] **Mr Corne:** For us, it was relatively straightforward. It required an application, a submission of a business plan and a forecast going forward. However, it was relatively simply achieved, with the exception that there were certain associated issues with being on the Ministry of Defence estate there, and we had to pay out the rates before we could receive the rebate. We struggled to be able to pay our rates or to receive a request to pay the rates. It was a subtlety that does not really matter. However, the reality is that it was a relatively easy scheme to avail ourselves of that we applied for.

[56] **Ieuan Wyn Jones:** A oedd eich **Ieuan Wyn Jones:** Was your experience the profiad chi'r un fath? same?

[57] **Mr Boissevain:** Pretty much. The window that was open was very short, so we had to get our application in fairly rapidly. It was dealt with promptly once we got it in and the award was made. Again, we had a slightly different experience because we had one site that was outside the enterprise zone and one site that was inside the enterprise zone, and also we have new sites coming on stream, so we had to build forward in terms of forecasting what the rates were likely to be. In addition, it was within the port that had been on the old cumulo method, so some of the buildings had not been rated before, so they had to be broken out of the cumulo and rated. There was a little bit of inertia there trying to get that resolved within the timeline. I hope that the forecasts that we put in place are realistic and that the Government will be understanding of our dilemma.

[58] **Ieuan Wyn Jones:** Mae'r cynllun **Ieuan Wyn Jones:** The scheme has been wedi cael ei gapio ar uchafswm o £55,000 y capped at a maximum of £55,000 per annum. flwyddyn. A yw hynny wedi bod yn broblem Has that caused any issues for you or do you i chi, neu a ydych yn teimlo y gallai fod yn believe that it could be problematic for other broblem i gwmnïau eraill a fyddai eisiau companies that might want to establish sefydlu yn y parth? themselves in the enterprise zone?

[59] **Mr Boissevain:** I will answer that. We have some property that is outside and some that is inside. The £55,000 cap is, virtually, where we are going to in terms of rates. Maybe larger enterprises would have an issue, but, for us, it is at the top limit of where we are going to, so it was not a problem.

[60] **Mr Corne:** Similarly, for us, it was sufficient for our needs. There are assets on the estate such as the superhangar—the old Red Dragon hangar—that if somebody had stepped in to rent them, or to rent a substantial proportion of them, I am sure that they would hit the cap. However, frankly, I do not see anybody who is currently on the MOD or the St Athan site that would suffer from that cap.

[61] **Jocelyn Davies:** I call on Ann—oh, I am sorry, Mike, you wanted to ask a supplementary question.

[62] **Mike Hedges:** I do not know whether you own your buildings or whether you rent them, and if so, whether you rent them from the public sector, but there is some evidence from the last set of enterprise zones that when rate relief was brought in, rents in the private sector went up, not to match it, but the total cost with rent and rates got close, but it was only rent. I do not know whether you have seen any of that or have been affected by any of that or whether you would like to comment on it.

[63] **Mr Corne:** As a tenant of the Welsh Government, we did not have any such problem. *[Laughter.]*

[64] **Mr Boissevain:** It is early days. We would robustly defend our position if we saw that sort of activity going on. The rents are commercial rents and align broadly with the rating authority's view on the rents.

[65] **Mike Hedges:** The point that I was trying to make is that if it is a commercial rent, but if there are no rates, the total outgoing goes down and, therefore, the commercial rentable value may well be considered to be higher.

[66] **Mr Boissevain:** That is something that may come in in time, but I do not think that the windmill will be open long enough for that to be a major issue. I do not know.

[67] **Ann Jones:** I wanted to talk about supply chains a little and their impact on local areas. Has the creation of the enterprise zones that both of you are in led to any changes in your supply chains, and the amount that you now use local suppliers that are based outside the enterprise zone?

[68] **Mr Boissevain:** Our supply chain base is wide and varied. A lot of it is determined by our customers, who may determine what type of engines that they want. The majority of our steel, plate and aluminium comes in from the continent, and some is domestically produced. Mostly, our local supply chain is supporting local factors. So, although we buy our aluminium in Ammanford or our steel in Llanelli, we know that it is not produced there. However, we are benefiting as part of the supply chain the people who are moving into the enterprise zone.

[69] **Mr Corne:** We have developed our supply chain from a standing start in the last 12 months. We seek to keep it local to the extent that we can, and we are looking forward to the development of a broader aerospace business park, where we will have closer interaction with other companies on the site with which we have some level of synergy. It is difficult to compare against other benchmarks as to how it has affected us, but our—

[70] **Ann Jones:** So, you would be looking for your supply chain to be part of the enterprise zone, rather than looking outside an enterprise zone to develop your supply chain. Is that the model that you prefer?

[71] **Mr Corne:** Just in terms of co-location. We are looking at an innovative recycling business potentially going on to the Picketson site adjacent to St Athan. If that was the case, we would help to manage it and we would use the services of this non-metallic recycling technology. That would be an ideal example of someone who is attracted to locate there. He is not locating there specifically for us, and if he does come at the end of this year, it would be to provide services for a wider south Wales market, but there would be an excellent interaction. Broadly, the co-location of the supply chain is very important; there is responsiveness of being in close proximity.

[72] **Ann Jones:** Regarding the enterprise zones that are set up in Wales, there are people outside the enterprise zones who are attempting to operate. Do you think that enough is being done to ensure that the positive economic impacts from enterprise zones can be widely spread outside those zones? I think that what I am asking is: is the enterprise zone able to assist those outside of the zone to be able to continue?

[73] **Mr Corne:** To build on a previous comment, our suppliers are all from outside the enterprise zone, and they have benefited from our presence, as have the employees that we have taken on board. So, there has generally been a benefit to the broader community.

[74] **Mr Boissevain:** The cluster of investment is helping local suppliers, whether they are

in the zone or outside of it.

[75] **Jocelyn Davies:** Paul, shall we cut to your questions?

[76] **Paul Davies:** You have both touched on enhanced capital allowances. Does it really make a difference that this incentive is on offer to businesses? Lucas, I think that you mentioned earlier that your clients benefit from it, but do you as a business benefit from enhanced capital allowances?

[77] **Mr Boissevain:** Only to the extent that we are investing. We are a tenant, and I do not want to go into the nuances because I have lambasted the Treasury. Those are my views on capital allowances. A lot of our investment would be in industrial buildings, but industrial building allowances went west a long time ago. Our capital expenditure within the zone that would qualify for the 100% capital allowances means that we are making a considerable amount of investment and it will attract those allowances. Yes, it is well received, thank you, and it makes a substantial difference to the internal rate of return on a project. You would not be investing unless you were looking to make a profit. Ultimately, the internal rate of return is scaled up as gross domestic product, so it rolls into the economy. I would say that having 100% capital allowances puts possibly 2% to 2.5% on your internal rate of return, but only if you have profits with which you can offset the tax. I presume that the capital allowance regime will be the same as the previous one, so that you can carry forward losses for six years, or whatever it was.

9.30 a.m.

[78] I am a strong believer that the accelerated capital allowance scheme that was rolled out in 1981-82, and came down from 75% to 50% to 25%, was one of the primary drivers for pulling us out of the tail end of the 1970s. It is easily understood and available in equal measure to all, or it was at the time, and finance directors and commercial directors of businesses could understand it. You understood the window of opportunity that it represented and it accelerated investment at a difficult time. So, yes, it is a useful policy lever, but having it geographically constrained to investment within the enterprise zone is a little—

[79] **Paul Davies:** Yes, but would it attract you into an enterprise zone, as a business?

[80] **Mr Boissevain:** If we had a massive capital expenditure, then, yes, it would be an issue. However, there are initial allowances to small SMEs such as ourselves of up to £100,000, and it is very rare that we annually invest in excess of £100,000. So, I look to our clients as the driver for that, because they are spending on major capital expenditure projects, therefore they would definitely be attracted by the allowances.

[81] **Mr Corne:** As I said, we did not take advantage of capital allowances directly. However, as a self-funded start-up, we have fewer options to raise the money and a fairly significant capital investment to start up such an aviation business. We either seek debt to buy the equipment that allows us to operate, share out equity, or take the benefits of a scheme, which we did in 2012 with the Welsh economic growth fund. If all else is equal, when I evaluate different locations at which we could base ourselves, there is no question that the support for capital expenditure, which we receive through that particular fund, becomes very influential. If it had not been available, it would not have stopped us from entering this business, but it has pulled forward the growth of the business substantially. So, without it, inevitably, we would have been loaning and leasing equipment, which would have just slowed the growth of the business and put us on quite a different path. However, because we had that support in those critical first 12 months, we are looking at a fairly steep growth path. So, again, I should voice my thanks for that fund being available.

[82] **Jocelyn Davies:** Okay, just—

[83] **Mike Hedges:** Chair?

[84] **Jocelyn Davies:** Yes; sorry, Mike, you wanted to ask a supplementary question on this issue.

[85] **Mike Hedges:** Yes, on enhanced capital allowances. In the 1980s, enhanced capital allowances were available for industrial and commercial buildings, excluding the cost of land, in all the enterprise zones. Would you like to see that within the enterprise zones as they are set up at the moment?

[86] **Mr Boissevain:** Yes. Primarily, our investment is in large industrial buildings, and as we are a tenant, I am sure that our landlord would benefit from the introduction of enhanced allowances on industrial buildings. It would make a lot of sense.

[87] **Jocelyn Davies:** The enhanced capital allowance, as you probably know, is only available in designated sites within the zones, and from what you have said, I guess that you would agree that there would be merit in making more zones eligible for these allowances. You would fully support that.

[88] **Mr Boissevain:** Yes. You know where I stand. I would prefer to see it globally applied rather than just being applied to a narrow, geographical field. There is a limitation. For example, we build vessels, and if we were to build vessels to service windfarms, which happened to be on the east coast, we could not claim the capital allowances on those vessels, because they would be operating outside the enterprise zone. However, that is only our particular industry and our particular take on it. I will not colour it with my vested interest, but, generally, as Mike indicated, industrial buildings that do not attract any allowances whatsoever at the moment, basically, from a capital point of view—it is a sunk cost when you are investing in sheds.

[89] **Jocelyn Davies:** Yes. Mike, do you have a view on this?

[90] **Mr Corne:** No. I am not as familiar with capital allowances. As with any start-up business, the support given on capital expenditure is very valuable, because, at that phase, you really are extremely careful about where you place your investment. So, any associated financial support that comes with the capital expenditure encourages you to make that investment. That is just a generic comment.

[91] **Jocelyn Davies:** Lucas, you find this a bit inflexible at the moment, in that having it based just on strict geographic locations might not accommodate all the business—

[92] **Mr Boissevain:** That is an issue for the Treasury per se, not necessarily the Welsh Government, because—

[93] **Jocelyn Davies:** No, but we are still interested in your views.

[94] **Mr Boissevain:** Okay. Yes, I would like to see it universally applied across the UK, because I think it is a very valid and useful tool.

[95] **Jocelyn Davies:** Okay. Is there anything that we have not covered today that you would like us to take into consideration? Did you come here to tell us something that you have not managed to tell us?

[96] **Mr Corne:** Interestingly, in my paper, I commented on a free trade zone.

Subsequently, thinking about it, those benefits do exist through customs regimes, such as inward processing relief, which we actually have authorisation for. That is an EU scheme that in effect provides a free trade zone capability to trade in the EU with suspended tax environments. That is the sole example that I was going to raise, but frankly, on reflection, I find I was effectively in such an environment in any case.

[97] **Jocelyn Davies:** I see. Right; okay. We will note that. Lucas, do you have anything?

[98] **Mr Boissevain:** Generally, we have seen a period in which the Welsh Government had stepped back from assistance to business—or there was a period of 18 months to two years in which everything changed. Really, with businesses, it is difficult to look at the economic drivers to see what assistance is required, but, quite often, it is not just at a Welsh level, but at a national level that you are finding that policies are put in place for hardly long enough for you as a business to want to find out about them and then act on them to find the business and commercial reality that connects with them. We are looking at an 18-month to two-year downscale, and people have said, ‘Well, nobody has taken it up, therefore we will abandon it’, and you find yourself saying, ‘Hang on’, because you have just woken up to the reality, and when you have just made it fit your business, you find it is plucked from beneath you, you know? That is a frustration.

[99] **Jocelyn Davies:** What, that schemes do not perhaps last long enough? Primarily, you are running a business because you are in the business, without watching what Government is doing all the time, and then you have to be able to find out about those things and devote time and effort to exploring and applying and whatever, and perhaps not every business would have a member of staff available or the time to do that. So, you sometimes find that a bit difficult; the length of time.

[100] **Mr Boissevain:** Well, they need to be open for longer. Just because people are not drawing them down—we applied for an Assembly investment grant, then the recession hit and our sales plummeted. We created the jobs, but we did not have the confidence to maintain them, so we did not draw the AIG down, although we could have, because we had qualified for it. We were not satisfied that we could get into a situation where we would have to pay it back. The Welsh Government very kindly held it open for 18 months, but those 18 months were not long enough to get through to the other side, to get on the bounce back, by which time it had expired. There is a part of me that said, ‘We should have drawn it down and be damned’, because we are where we are now, but the trouble is that you cannot determine exactly where you are going to be. If you are an honest businessman, you do not want to be in a situation where you have to pay something back. We have created more jobs than when we had the AIG. However, it is irrelevant now. It is what it is and we are where we are.

[101] **Mr Corne:** In relation to your observation there, it is one of the substantial benefits of having—by good fortune—a small Welsh Government office on-site at St Athan with, if not daily, then weekly interactions, that we do not sit there looking for those opportunities, but they are brought to our attention. So, that is a substantial benefit and I think that it may be unique to the circumstances that we have at St Athan to have that situation where, due to the nature of the operation, we are in touch with that office on a very regular basis.

[102] **Jocelyn Davies:** It brings to your attention the things that otherwise you would not have known about.

[103] **Mr Corne:** That is quite right.

[104] **Jocelyn Davies:** There is nothing unique about your businesses in terms of that aspect, but other businesses would be in exactly the same position as you. We can generalise from what you have told us.

[105] **Mr Boissevain:** The good thing, I have to say, is that we have a fairly proactive case officer now, who is newly appointed—I think Jane has been around for the last six months. There was a gap. Prior to that, about three or four years ago, another case officer was allocated to our business, then there was that gap, and now we are back on track and things are much clearer. As a result of our involvement with the case officer, we are much more proactive in, I will not say harvesting grants, but in being cognisant of what grants are available and the assistance that is available, and we have had some very good initiatives. We are grateful for the assistance.

[106] **Jocelyn Davies:** So, personal contact with officials is highly valued.

[107] **Mr Boissevain:** Yes, as is that official having an understanding of your business, or making the effort to get inside your business and understand it. They know the policy levers; we do not necessarily know them. That interaction is massive.

[108] **Jocelyn Davies:** Okay; thank you. Is everybody content? I see that you are. Thank you very much for taking the time to come in to see us today. You have got us off to a very good start with our inquiry. Thank you. We will send you a transcript and if there are any factual inaccuracies, let us know and we can make an alteration. Thank you very much.

[109] We have the Minister coming in at 10.00 a.m. so we shall break until then and come back on enterprise zones in session 3.

*Gohiriwyd y cyfarfod rhwng 9.42 a.m. a 9.59 a.m.
The meeting adjourned between 9.42 a.m. and 9.59 a.m.*

**Goblygiadau Ariannol y Bil Addysg Bellach ac Uwch (Llywodraethu a Gwybodaeth) (Cymru)—Tystiolaeth gan y Gweinidog Addysg a Sgiliau
Financial Implications of the Further and Higher Education (Governance and Information) (Wales) Bill—Evidence from the Minister for Education and Skills**

[110] **Jocelyn Davies:** Welcome back to a meeting of the Finance Committee. We will move on to our scrutiny of the financial implications of the further and higher education Bill. This morning, we are taking evidence from the Minister for Education and Skills. Would you like to introduce yourself and your official for the record, Minister? Then I will go straight into questions.

[111] **The Minister for Education and Skills (Leighton Andrews):** I am the Minister for Education and Skills, Leighton Andrews. Carla Lyne has policy responsibility in this area. Would you like to give your description?

[112] **Ms Lyne:** I am Carla Lyne, deputy director of finance and corporate services in the Department for Education and Skills.

[113] **Jocelyn Davies:** Thank you. We have had the paper and we have looked at your proposal. Under option 3, the explanatory memorandum states that there will be no costs to the Welsh Government or further education institutions in the creation of these new provisions. Are you sure that the Bill will not lead to any additional costs?

10.00 a.m.

[114] **Leighton Andrews:** As far as we can see, any costs in implementation will be absorbed by us within our existing budgets. We think that colleges will have less to do under

the options that we are putting forward, so there should not be additional costs for them.

[115] **Jocelyn Davies:** You are confident and satisfied that that will be the case under option 3. Mike, shall we go on to your question?

[116] **Mike Hedges:** Under option 1, you indicate additional auditing costs of £72,600, and £4,700 for auditing additional financial returns. Would those not also be absorbed—you would not employ additional people to do that work? Or would you employ additional people to do it?

[117] **Leighton Andrews:** I am not sure that it is about employing additional people. Carla, do you want to say a word?

[118] **Ms Lyne:** We should not have to employ additional people. We would have the expertise within our own department. Further education institutions should also have the appropriate expertise, because they have been preparing their own accounts and so on up until now. So, there should not be additional issues.

[119] **Mike Hedges:** So, option 1 would not cost real money.

[120] **Ms Lyne:** It should not.

[121] **Mike Hedges:** In option 2, you go through the annual running costs, but you do not indicate any set-up costs. Does that mean that set-up costs would be zero, that you do not know what they would be, or that they have not been put in?

[122] **Leighton Andrews:** What we have assessed there, as you say, are the running costs. There would likely be some costs of transfer and there might be new functions that the body would have to take on. So, it is rather difficult to calculate. We are not attracted to that option, so I have not given you too much detail on that.

[123] **Ieuan Wyn Jones:** Byddaf yn gofyn fy nghwestiynau yn Gymraeg; efallai y bydd angen yr offer cyfieithu arnoch. **Ieuan Wyn Jones:** I will ask my questions in Welsh; you may need the interpretation equipment.

[124] A allwch roi manylion eich trafodaethau gyda'r Trysorlys, os mai chi oedd yn gyfrifol am hynny, ynglŷn â'r posibilrwydd o gynyddu'r terfyn gwariant adrannol cyfalaf i lefel gwariant y sefydliadau addysg bellach pe na bai aiddosbarthiad y Swyddfa Ystadegau Gwladol yn cael ei wrydroi? Can you provide details of your discussions with the Treasury, if you were responsible for that, with regard to the possibility of an uplift to the capital departmental expenditure limit to the level of planned spend by FEIs if the Office for National Statistics reclassification is not reversed?

[125] **Leighton Andrews:** Discussions with the Treasury would be for central finance rather than my department, but we are not going to get an uplift in the capital DEL. Bluntly, our capital budgets have been cut by 40% by the UK Government. We are well aware of what is likely to happen. There has been no uplift for the relevant department in England in respect of what it is doing. We know that England has had to reverse three classifications, so I do not think that this is really a route that is open to us.

[126] **Ieuan Wyn Jones:** Nid oedd yn opsiwn ystyrllon i chi mewn gwirionedd, felly. Gofynnaf gwestiwn arall ynglŷn ag arian dros ben y sefydliadau addysg bellach. **Ieuan Wyn Jones:** It was not, therefore, a real option for you. I will ask another question on FEI surpluses. Have you discussed with the Treasury the possibility of

A ydych wedi trafod gyda'r Trysorlys y FEIs retaining their surpluses under the posibilrwydd o'r sefydliadau yn cadw eu system as it currently exists? harian dros ben o dan y drefn fel ag y mae hi ar hyn o bryd?

[127] **Leighton Andrews:** No, we have not done that. There is a general issue here about the overall risk to us. I would not be optimistic about conversations with the Treasury, given what has already taken place in England. You will understand, having been in Government, that there are sometimes questions that you do not want to open up because they could result in consequences that you do not want to receive.

[128] **Jocelyn Davies:** Do you feel that, because of what has already happened in England, you would just be going over old ground and that you would be fighting a battle that has already been lost?

[129] **Leighton Andrews:** It is clear from the direction of travel in England that it has gone down a particular route. It may have been more philosophically inclined to that; I do not know. However, from our point of view, we are very clear about what the risks are and the climate within which our discussions with the Treasury have taken place in recent years, in relation to capital. I would not be optimistic of success in this area.

[130] **Jocelyn Davies:** You do not want to be in danger of being in a worse position by starting that.

[131] **Leighton Andrews:** Indeed.

[132] **Jocelyn Davies:** Ieuan, are you happy with that?

[133] **Ieuan Wyn Jones:** Yes.

[134] **Jocelyn Davies:** Okay. Paul, shall we go on to your questions?

[135] **Paul Davies:** Weinidog, a allwch ddweud wrthym pryd y daethoch yn ymwybodol o'r ailddosbarthiad, a phryd y gwnaethoch ddechrau trafod gyda'r Trysorlys, o ystyried y gallai'r newidiadau hyn gael eu rhoi ar waith ymhen llai na blwyddyn? **Paul Davies:** Minister, can you tell us when you became aware of the reclassification, and when you started discussions with the Treasury, given that these changes could be implemented within less than a year?

[136] **Leighton Andrews:** I believe that you mean to ask when did we start talks with the ONS, rather than with the Treasury, in this respect. I will just answer the point on the Treasury. We became aware of the reclassification, as such, in the autumn of 2010, but the implications of reclassification probably did not become clear until sometime in 2011.

[137] **Paul Davies:** Pam oedd hynny? **Paul Davies:** Why was that?

[138] **Leighton Andrews:** Essentially, these are complicated issues. We have had to work through them, and we have obviously had to have meetings with the ONS to understand what it means by the implications. That resulted in our having to determine the course of action that we have now taken.

[139] **Paul Davies:** Mewn sesiwn dystiolaeth i'r Pwyllgor Plant a Phobl Ifanc, Children and Young People Committee, a dywedodd un o swyddogion Llywodraeth Welsh Government officer, Andrew Clark,

Cymru, Andrew Clark, mewn perthynas â benthycu, nad oes ceisiadau wedi eu gwrthod dros y degawd ddiwethaf; mae un neu ddau o geisiadau yn cael eu derbyn bob blwyddyn. Sawl cais ydych chi wedi ei gael gan sefydliadau addysg bellach i fenthycu arian, a pha gyfanswm a fenthycwyd yn ystod y tair blynedd diwethaf?

said in relation to borrowing that no requests had been turned down over the last decade; one or two requests are received every year. How many requests have you had from further education institutions to borrow money, and what has been the total amount borrowed over the last three years?

[140] **Leighton Andrews:** I believe that we have had two requests over the last three years. In 2010, there was a request from Coleg Morgannwg, which was around £3 million, and, in 2011, we had a request from Neath Port Talbot College, which I think was £6.5 million.

[141] **Jocelyn Davies:** We will now move on to questions from Peter Black.

[142] **Peter Black:** I want to ask about the national accounts classification committee decision. We have a copy of the letter from the Office for National Statistics explaining that decision. The final paragraph of that letter says that:

[143] ‘ONS is content that the Further and Higher Education (Governance and Information) (Wales) Bill as it stands is sufficient to remove the legislative controls over FECs, and therefore, as long as any other non-legislative public sector controls are also removed, FECs will be reclassified.’

[144] It is that issue of ‘any other controls’ that I am asking you about. Are you confident that what you have in the Bill is sufficient to meet that criterion, as set out in that paragraph?

[145] **Leighton Andrews:** Yes.

[146] **Peter Black:** Are there any other controls that you need to look at to meet that criterion?

[147] **Leighton Andrews:** We may need to look at the financial memorandum and conditions of funding. However, those are points of detail that I believe we can resolve, assuming that the legislation will be passed.

[148] **Peter Black:** Was legislation the only option open to you to reverse this reclassification?

[149] **Leighton Andrews:** Yes, I believe that it was. We went through this in some detail. The advantage of legislation is that it is a clear marker to ONS—it is more than a statement of intent; it is very firm, and it cannot suddenly be reversed by a ministerial decision. Therefore, I believe that it puts it firmly on the statute book, and there is absolute clarity about the position.

[150] **Ms Lyne:** The power to dissolve an institution, which is one of the key elements, is set in primary legislation, so it is the only way that we could have done that. We have to get rid of that power, as it is a key one that the ONS looks at.

[151] **Jocelyn Davies:** Minister, you mentioned the conditions of funding, which is one of the levers that you have with this sector in terms of delivering Government policy. How will you deliver your Government policy if you find yourself then lacking the necessary levers? Your conditions of funding allow you to attach conditions to the funding that you are giving.

[152] **Leighton Andrews:** We would still have conditions of funding. You need to explain

to me what you think I could not do.

[153] **Jocelyn Davies:** Apart from this legislation, you have just told us that you were going to have to look at the conditions of funding, so you are obviously considering making changes that would be necessary so that ONS is satisfied that the reclassification is sound. Are you satisfied that you will still be able to deliver your policies through conditions of funding?

[154] **Leighton Andrews:** Yes.

[155] **Jocelyn Davies:** Okay. Will you also still be in line with the ONS requirements in terms of what you are attempting to achieve now?

[156] **Leighton Andrews:** Yes.

[157] **Jocelyn Davies:** Okay. We know that, in recent times, there has been one college that has had financial difficulties. What will your financial responsibilities be in relation to this sector once the Bill goes through?

[158] **Leighton Andrews:** The financial responsibilities would not be significantly different. Take the situation when a college runs into financial difficulties, where we have the right to withhold funding. In the example you gave, which I assume to be Coleg Harlech, we saw our responsibility as being less a financial responsibility and more a responsibility to the learners, trying to ensure that existing learners saw their courses through. Support was put in place from another institution. We could still make arrangements to ensure that all learners are protected in that situation. It would be open to us to do that through the funding we have.

[159] **Jocelyn Davies:** I see. So you would not have financial responsibility for institutions; you would see your responsibility as being directly to the learners, rather than financially.

[160] **Leighton Andrews:** We do not have any financial responsibility to Coleg Harlech at the present time other than the contractual responsibility that we had entered into with it. That will continue to be the case after this legislation is passed.

[161] **Jocelyn Davies:** Minister, when you make changes to the conditions of funding, which you have just told us you are considering, will you let this committee know what those changes are so that they are clear to us?

[162] **Leighton Andrews:** The key element will be around borrowing. We could happily give you a note, if you like, on those.

[163] **Jocelyn Davies:** Thank you; that would be most helpful. Ann, shall we move on to your questions?

[164] **Ann Jones:** On new post-16 planning and funding systems, you have indicated that you would tend to use funding arrangements to ensure co-operation, which is the whole point of the new national planning and funding regime. So, does the Bill's aim of reducing control over FEIs fit with the national planning and funding system's aims of greater collaboration?

[165] **Leighton Andrews:** It does not change anything that we would want to do with the NPFS. What we want to do with the NPFS is move from a regime that essentially rewards institutions for the number of courses they put on and the number of learners they attract to one that looks at programmes of study overall and is designed very much to reduce that competition at the moment. The system, essentially, almost rewards competition; you get rewards for the number of courses and the number of learners that you attract.

[166] **Ann Jones:** Funding allocations for the academic year of 2014-15 are due to be published in January of next year. However, from April 2014, FEIs will need to change their budgetary report and accounting practices to align with those of general Government organisations—namely, aligning with the financial year. So, should the Bill not result in the reclassification of FEIs, how will that affect the implementation of new post-16 funding?

[167] **Leighton Andrews:** If the Bill did not go through, would that have an impact on the NPFS? No, not as such. I am not sure whether you are asking a question about accounting improvements.

[168] **Ann Jones:** If the Bill goes through, they will have to align with general Government organisations. That leads me to my question about organisations changing their financial year. Colleges run on the academic year of September to August, while it is April to March for general Government organisations. My question was about that. If the Bill does not go through, how will that affect the new funding scheme?

[169] **Leighton Andrews:** I do not know if it affects the new funding scheme, but it does affect the position of colleges. One of the advantages and flexibilities that colleges have is that their financial year goes across two Government financial years—that gives them greater flexibility and that would be lost.

[170] **Jocelyn Davies:** Mike, did you want to come in on this particular point?

[171] **Mike Hedges:** On the point that the Minister made about the competition et cetera, has not the growth in mergers that has taken place across Wales reduced an awful lot of the competition between colleges?

[172] **Leighton Andrews:** What that has done is made a stronger and more sustainable sector. Obviously, there is less scope for competition within FE institutions, but there is still, in the context of the NPFS, scope for competition between FEIs and sixth forms.

[173] 10.15 a.m.

[174] **Mike Hedges:** Just for the record, I used to work in Coleg Morgannwg.

[175] **Jocelyn Davies:** Of course.

[176] **Mike Hedges:** That has grown substantially now. It covers the old council area of Caerphilly, Rhondda, as you know, and Pontypridd. It covers a fairly substantial area. Apart from Bridgend—for some of the people who live in Pontypridd—there are very few areas of competition, whereas before, when you had three colleges, Rhondda, Pontypridd and Ystrad Mynach were substantially in competition for students.

[177] **Jocelyn Davies:** Minister, do not feel pressurised to answer that. [*Laughter.*]

[178] **Leighton Andrews:** That is certainly true, but some would argue that there is still competition between the FEIs and the sixth forms of particular schools.

[179] **Mike Hedges:** There is.

[180] **Jocelyn Davies:** It does not really have anything to do with this particular Bill.

[181] **Mike Hedges:** It is my interest.

[182] **Jocelyn Davies:** Yes, it is. I now call on Ann Jones.

[183] **Ann Jones:** I have one final question. You have said that you do not think that there will be any cost implications for this Bill. However, should FEIs have to change their accounting years, do you consider that transitional costs would be significant for them to do that?

[184] **Ms Lyne:** They should not be. If the classification is not reversed, they would need to prepare a consolidation pack for us. At the moment, that is prepared according to a different set of accounting rules. So, that would certainly be a complication for them. Also, if they did not change their year end, they would have to do that at the end of March and then, obviously, prepare their published accounts at the end of July, which, again, is complicated and likely to be costly.

[185] **Ann Jones:** So, would you see them having to produce two sets of accounts?

[186] **Ms Lyne:** They should not have to produce two sets of public accounts, but the consolidation pack is likely to be pretty detailed because it would need to come into our own accounts, and that would be subject to audit.

[187] **Ann Jones:** Okay. Thank you.

[188] **Jocelyn Davies:** Peter, did you want to come in on this?

[189] **Peter Black:** In terms of the outcome of this, you said that you will be able to pursue your policy through the grant conditions. So, there is still a link between the FEIs and the Government in that respect. However, they are effectively creating stand-alone institutions outside the public sector as a result of this Bill—if they can get that status.

[190] **Leighton Andrews:** They were stand-alone institutions outside the public sector in terms of classification.

[191] **Peter Black:** Okay, but even more so in terms of reclassification.

[192] **Leighton Andrews:** The reclassification returns things to where they were.

[193] **Peter Black:** Do you have any idea whether this will have an impact in terms of ensuring terms and conditions for staff across Wales? Are we likely to have differences because of this?

[194] **Leighton Andrews:** No; we went into this subject in more detail at a previous committee hearing, and I think that we answered those questions then.

[195] **Jocelyn Davies:** We will move on. Do you have another question, Peter?

[196] **Peter Black:** Just for the record here, would you be willing to say ‘yes’ or ‘no’?

[197] **Leighton Andrews:** I said ‘no’.

[198] **Peter Black:** Okay. Thank you.

[199] **Jocelyn Davies:** Okay. That is fine. Perhaps we could circulate to Members the transcript of the previous session. Which committee was that?

[200] **Ann Jones:** It was the Children and Young People Committee.

[201] **Jocelyn Davies:** Of course, which is also looking at the policy implications of this Bill. Did you want to come in on this point, Mike?

[202] **Mike Hedges:** I have a very simple question. What percentage of further education colleges' income comes from funding from the Welsh Government?

[203] **Jocelyn Davies:** Do you know the proportions roughly?

[204] **Ms Lyne:** It is around 60% or 70%.

[205] **Leighton Andrews:** Yes; it is the vast bulk. Can we give you an accurate figure rather than speculate?

[206] **Jocelyn Davies:** Yes. I presume that we are not talking of 98%, but that we think that it is somewhere in the region of two thirds.

[207] **Mike Hedges:** The figure that I had was around 70%, with European money being the next largest income stream.

[208] **Jocelyn Davies:** If you do have the information or breakdown on that, that would be quite useful.

[209] **Leighton Andrews:** Yes, we will give you that information.

[210] **Jocelyn Davies:** Shall we go on to your question, Julie?

[211] **Julie Morgan:** The other aim of the Bill is to establish a data-sharing link between HMRC and Welsh Ministers. I think that there is the hope that this would possibly reduce fraudulent claims. The regulatory impact assessment comes forward with two options. Option 2 notes that,

[212] 'HMRC have estimated that annual running costs of the SFW part of the process to be £30,000 based on the planning assumption of handling 23,500 income checks of sponsors per annum.'

[213] How can you explain the assumptions behind the number of referrals and how the costing has been estimated?

[214] **Leighton Andrews:** That is an estimate that HMRC has provided. It is based on a proportion of the costs currently allocated to Student Finance England. It has used its experience of operating the system in England to provide the estimated number of referrals for Wales. It has assumed that 75% of applications will have their income levels verified by the data-sharing link. That means that they could be approved within 24 hours of receipt by the Student Loans Company.

[215] **Julie Morgan:** So, you think that that is a pretty accurate estimate, do you?

[216] **Leighton Andrews:** As far as we can tell. Do you have anything to add?

[217] **Ms Lyne:** It is an estimate—[*Inaudible.*]

[218] **Julie Morgan:** It is estimated that there will be a fraud rate of 1% that could potentially cost the Welsh Government £7 million per annum. Can you say what the assumptions behind this fraud rate are and how that has been calculated?

[219] **Leighton Andrews:** The figure that I have, in fact, is about £1.5 million. That comes from the annual fraud indicator of the National Fraud Authority, which talks about student finance fraud at a UK level as being around £31 million a year. Therefore, based on a Barnettised assumption, it would be around £1.5 million in Wales. It might be worth my saying, Chair, that I have asked the Wales Audit Office to develop a pilot scheme to include student finance in the national fraud initiative, and work is under way on that at the present time.

[220] **Jocelyn Davies:** I notice that you—

[221] **Leighton Andrews:** I am sorry, Jocelyn, but I cannot hear you properly because of this noise.

[222] **Jocelyn Davies:** I am sorry; I know. I do not know what that constant noise is, and I have a bit of a cold. Have we got the fraud rate of 1% wrong?

[223] **Ms Lyne:** All that that figure in the explanatory memorandum is saying is that every 1% of fraud would cost £7 million. It does not actually say that we think that the fraud rate is 1%.

[224] **Jocelyn Davies:** We have misinterpreted the explanatory memorandum. So, in fact, it is not a fraud rate, but if there was a fraud rate of 1%—

[225] **Ms Lyne:** It is an indication.

[226] **Jocelyn Davies:** However, you expect it to not be £7 million, but something in the region of £1.5 million.

[227] **Leighton Andrews:** Yes.

[228] **Jocelyn Davies:** I was going to ask the Minister for his workings out, but there is no need.

[229] **Julie Morgan:** I think that you have remarked in the Children and Young People Committee that this will make it easier for you to chase debt. Do you have any further observations on that?

[230] **Leighton Andrews:** No. We have looked into that, and we are not clear that it will make it easier to chase debt.

[231] **Julie Morgan:** You do not think that it will.

[232] **Leighton Andrews:** No, I do not.

[233] **Jocelyn Davies:** It will not make it harder. It will make no significant difference either way on that. Does anybody else have any questions on this? I see that you do not. Thank you very much, Minister, for coming in and explaining the financial aspects of this Bill. You promised to send us two notes.

[234] **Leighton Andrews:** That is fine; if you could follow that up with my office.

10.23 a.m.

**Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**
**Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from
the Meeting**

[235] **Jocelyn Davies:** At this point, in order for us to discuss the evidence that we have received, we will go into private session, because we are running slightly ahead of time, and that will save us a bit of time at the end.

[236] I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42.

[237] I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.23 a.m.
The public part of the meeting ended at 10.23 a.m.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 11.00 a.m.
The committee reconvened in public at 11.00 a.m.*

**Ymchwiliad i Ardaloedd Menter yng Nghymru—Cadeiryddion y Byrddau
Ardaloedd Menter**
Inquiry into Enterprise Zones in Wales—Chairs of the Enterprise Zone Boards

[238] **Jocelyn Davies:** Welcome back to the meeting of the Finance Committee. We will now move to agenda item 4, which returns to our inquiry into enterprise zones. We are very lucky that we have been able to acquire the services of two chairs of enterprise zone boards. Please introduce yourselves for the record, and then we will go straight to questions.

[239] **Professor Bourne:** I am Nick Bourne, chair of the Haven waterway enterprise zone.

[240] **Mr Jenkins:** I am Gareth Jenkins, chair of the Ebbw Vale enterprise zone. I also chair the sector panel for advanced materials and manufacturing.

[241] **Jocelyn Davies:** We are very grateful for the information that you have already given us and for appearing today. We know that each of the zones' boards has developed a strategic plan to set out the vision and priorities, and so on. Could you share with the committee what the main priorities for your particular zones are? Shall we start with you, Nick?

[242] **Professor Bourne:** We submitted strategic plans last September. I think that all seven enterprise zones were asked by the Minister to submit a strategic plan setting out their goals and to talk about the future. As far as Haven waterway enterprise zone is concerned, it is obviously energy related. Twenty five per cent of the UK's refined oil is produced in Milford Haven, which is a massive amount, by the Murco and Valero refineries. About 25% of the UK's gas also comes in via the two liquefied natural gas plants, South Hook and Dragon, in the zone. So, clearly, that is the focus of it. We have about 2,500 energy-related jobs in the Haven, and about 1,000 supply chain jobs are dependent on that. So, our focus has been on energy—not on just the traditional oil and gas sectors, but also renewables. That is important to us. You will have seen the investment in Ramsey sound that is going in, which is just

outside of the zone, and some work is going on in the zone that is related to that.

[243] However, we are not exclusively committed to energy. We are also looking at the growth of the cruise market. It might seem strange in a way to think of cruise ships coming into Milford Haven, but they do already quite a lot, and it is an increasing number. They come into Milford and the people on the cruise go off to St David's, the coast, to Tenby, and so on. So, we are also looking at that, which also seems to be a growth area—as I say, the numbers are increasing. We are looking at the training aspects of that in conjunction with the training aspects for the energy sector. There is some overlap because of the marine engineers and people doing engineering on the cruise vessel, so there is synergy there. So, that is another area.

[244] We took the view very early on that an important thing for business, from speaking to the small and medium-sized enterprises, was, as you would expect, money and finance. The business rate relief scheme was key to us to get money back to businesses, because it is essentially a refund scheme, so that they could safeguard existing jobs and encourage new ones. There is some evidence of that working.

[245] So, essentially the strategy is to protect existing jobs, to encourage new jobs via the mechanisms that are available both here and, to some extent, at Westminster with the enhanced capital allowances from the Treasury, which were negotiated between the Minister and the UK Government.

[246] **Mr Jenkins:** As I said in my notes, Ebbw Vale is a unique challenge in terms of an enterprise zone and an area generally. It was originally announced that this was going to be automotive-related, which was incorrect. It is primarily targeted at manufacturing, but not exclusively so. One of the unusual aspects of the Ebbw Vale enterprise zone is that it has five sites, not one, and they all have their own unique characteristics that lend themselves to potentially different investment projects. The largest site, Rhyd-y-Blew, which is a significant site, is the primary focus of development, but has the longest lead time. It will be at least another year, because of the environmental studies that are required, before that will be shovel-ready.

[247] The other key function of the board, in compiling the plan, was to look at what the global experience of enterprise zones has been. It is not a new concept; it has been around for 40 or 50 years and tried by a number of companies around the world. So, we sent some academics off to find out what were the strengths and weaknesses of what had been done before. We did not want to fall into any of the traps that others around the world have fallen in to; we wanted to take the good bits of what they had done. I think that we have captured those really well in the strategic plan. The strategic plan sets out how the five sites will come to the point where they are employment-ready over a period of time.

[248] **Jocelyn Davies:** Okay. Who do you share the strategic plans with? They are not public documents, are they?

[249] **Professor Bourne:** No.

[250] **Mr Jenkins:** No.

[251] **Jocelyn Davies:** So, obviously, you share them with the Welsh Government.

[252] **Professor Bourne:** Yes.

[253] **Jocelyn Davies:** Do you share them with businesses within the zone, or—

[254] **Professor Bourne:** Not really, Jocelyn. There is quite a lot of stuff in there that is very commercially sensitive, and probably price sensitive in relation to the market. That is certainly true with regard to the Haven, and I suspect that it is also true with regard to the other zones. We are talking about potential investors and, certainly in our case, about a specific site where there are enhanced capital allowances and businesses that are interested. So, yes, we share it with the Minister and it is composed by the board with the assistance of Welsh Government officials, but I do not think—

[255] **Jocelyn Davies:** It does not go any further than that.

[256] **Professor Bourne:** No, it would not be a public document.

[257] **Jocelyn Davies:** No. Is it the same for you, Gareth?

[258] **Mr Jenkins:** The same is true, but I am more than happy to answer any questions, or relay information orally, as much as possible, because the objective for me today is to get as much help as possible from everybody.

[259] **Jocelyn Davies:** Of course. So, the plans, apart from having high-level strategic vision, also contain information that would be commercially sensitive.

[260] **Professor Bourne:** That is certainly right in our case. I suspect that it is true of the other zones, as well. There is quite a lot that I am more than happy to share, but some of it—

[261] **Jocelyn Davies:** Yes, okay.

[262] **Mr Jenkins:** All of my board members are chief executives of businesses in the area and they are obviously bound by confidentiality, but it also works the other way. I think that we need to protect some of their input into the high-level plan.

[263] **Jocelyn Davies:** Right, okay. You mentioned in your papers that you have no visibility at all with regard to the Welsh Government budgets. So, how are you able to develop your plans without knowing the information in terms of resources that you would have available to you from the Welsh Government? How does that synergy work?

[264] **Professor Bourne:** That is a fair question. We do not hold budgets. Essentially, we are pretty much an advisory committee to the Minister, and that works very well. As you can imagine, she is a very hands-on Minister, so there is certainly close contact with her to discuss the spending needs. There is not a specific budget, but we would be able to point out where spending has occurred, such as on business rate relief and superfast broadband, which is prioritised for the enterprise zones, and we know the value of the enhanced capital allowances, and so on. However, there is no budget because we do not hold a budget; we just give advice to the Minister after consulting with our partners and with the private sector expertise that we have on the board.

[265] **Jocelyn Davies:** Okay. And you are in the same position, Gareth?

[266] **Mr Jenkins:** It is slightly different for me, because I chair the sector panel, so I have a slightly different perspective in terms of some of the initiatives that are going on in terms of skills development and research and development. We are not budget holders and it does not influence our thinking, but I have some line of sight.

[267] **Jocelyn Davies:** Okay. So, when you are putting your plans together, you do not put spending commitments in the plan. It is not a plan of that nature.

[268] **Professor Bourne:** We certainly do not attach a budgetary figure to it, or get a budgetary response from the Minister, but we identify what we think is important, both in terms of revenue spend and capital spend. There are no surprises on the capital spend—the dualling of the A40 and improvements to the railways and so on. So, we identify those, but not with a figure.

[269] **Christine Chapman:** Moving on from that, would you both say that the plans have been fully costed?

[270] **Professor Bourne:** Again, Chris, it is this same point that we do not hold a budget. Certainly, in my case, I was not expecting a response saying, ‘This is what the costs are’. I have had discussions with the Minister and with officials acting on behalf of the Minister as to what money is available and the business rates scheme in a general sense, but we have not been given a specific figure; for example, ‘This is what we are going to spend in your zone on X, Y or Z’.

[271] **Mr Jenkins:** That is the same for Ebbw Vale, really. We have had some reasonable feedback in terms of marketing spend and one or two other areas, but in the larger sense, I agree with Nick.

[272] **Christine Chapman:** As a supplementary to that, are you reasonably happy that the Welsh Government has targeted sufficient resources at your enterprise zone so that you can achieve your strategic aims?

[273] **Professor Bourne:** I would be foolish to say ‘yes’. We could always do with more, no matter how much is available, but what I can say is that the board’s relationship with the Welsh Government and the Minister has worked well, and we have a very good partnership with Pembrokeshire County Council as well. We involve other entities, such as Communities First, which is chaired by Chris Gwyther locally, the national park, and the port authority. Have we had a good response from the Government? I think that we work well together. Could we do with more money? Yes, of course we could.

[274] **Mr Jenkins:** For me, and for Ebbw Vale, it is not really all about money at this stage; it has been more about other things. It has been about identifying the uniqueness of what we are offering here, because, obviously, it is in a tier 1 assisted area and, therefore, the take from companies in terms of looking at ECAs relative to other funding is different in Ebbw Vale. At this stage, we have been satisfied by the fact that, in terms of getting a major site ready, and the marketing work done, there has been no consideration in terms of cost. That has all been actioned and we have had very little discussion in terms of cost. Most of the discussion has been about the offer—what is going to make companies come to this area. At this stage, it is not so much about Welsh Government funding, welcome though it is; it is about a lot of other things.

[275] **Christine Chapman:** This was touched on a bit earlier: in your paper, Gareth, you said that the enterprise zone boards are influencing the Welsh Government’s resources in line with the board’s strategic plans. I just wonder how you provide advice to the Minister to inform her budget planning. Do you provide advice on a regular basis? How does it work? You said there is a good relationship, but I just wonder whether we could dig a bit deeper than that.

[276] **Mr Jenkins:** I would never criticise the Minister for not wanting to make decisions, that is for sure. Given my role on the sector panel, I am in a unique situation because we have been working together for the last two years or so. The advice given by the sector panel and the Ebbw Vale enterprise zone, in a lot of respects, is very similar, in that there is a skills gap in the industry and in the area. Therefore, Government has a role in bridging that gap,

recognising that it takes quite a long time. The advice tends to be very similar in that sense, and this work needs to go on prior to sites becoming ready. I am fortunate from that point of view that the advice is very similar.

[277] **Professor Bourne:** Similarly, in a sense, certainly on specific things, it is often firefighting. We did quite a bit of lobbying to extend the zone boundary, which the Minister was very responsive to, because wherever you draw the line, you know there will always be a business just the other side of it. That happened with us in a fairly graphic way, as there was an industrial estate where businesses on one side got it, and some on the other side did not. We put that right.

[278] Mostly, in our case, it is related to money. It is not money pure and simple; it is what you can do with the money in terms of training, and improving the offer in the zone. It is generally down to that, but on specific issues, I have certainly spoken to the Minister, and to the energy sector team and the new chair, David Williams, whom I know a bit and who is very good—he has just taken over as energy sector chair, so that is a useful link as well.

[279] **Mr Jenkins:** One example that came out of the study of enterprise zones over the last 40 years was that there is always a possibility that you will disenfranchise the indigenous businesses that are already in the area. Therefore, the advice was, ‘Look, if we are going to do something by way of rate relief, then we ought to take that point into consideration in terms of stimulating and encouraging the indigenous businesses’.

11.15 a.m.

[280] **Jocelyn Davies:** Do you have regular meetings with the Minister?

[281] **Professor Bourne:** Not regular in the sense of diaried meetings. All the chairs are meeting her at the beginning of July, but it tends more to be contact by telephone or e-mail, rather than regular meetings.

[282] **Jocelyn Davies:** I see—and is it the same for you?

[283] **Mr Jenkins:** Yes. I have perhaps been at it for slightly longer than Nick, but yes, we do meet periodically. It is not set in a particular pattern; it is on a needs basis, really. We have another meeting scheduled for next month.

[284] **Jocelyn Davies:** Certainly, your board minutes would go to the Minister.

[285] **Professor Bourne:** Very much so.

[286] **Mr Jenkins:** Again, they are not in the public domain, but, yes, they do go to the Minister.

[287] **Jocelyn Davies:** Well, you know, you would not be meeting in public, would you?

[288] **Professor Bourne:** No, absolutely not.

[289] **Jocelyn Davies:** Okay. Mike, shall we go on to your questions?

[290] **Mike Hedges:** What approaches are being taken to ensure that enterprise zones in Wales create as much additional economic activity as possible?

[291] **Professor Bourne:** We try to act as a catalyst, and not just for activity within the zone, as there is a cascading element, in that, if jobs are created, particularly by the large

employers, the supply chain would expect to benefit from that, not just within the zone, but in wider Pembrokeshire and beyond. So, we are certainly making efforts to consult small and medium-sized enterprises in Pembrokeshire. We have set up a business breakfast, where they come to see us, to tell us what concerns them. We have had one of those, but we have others diaried, and that has proven to be quite useful. Clearly, that is important. As Paul will know, there is a wider Pembrokeshire business panel, which I sometimes attend, and I give a report on what is happening within the zone and talk to people on the wider front about what we can be doing.

[292] There has not been a real issue, I do not think, about businesses outside the zone not getting rate relief. Some that are just outside are asking for the boundary to be moved—you can understand that; I would be doing exactly the same. [*Laughter.*] However, that is not with resentment; I think that people in Pembrokeshire generally—businessmen and businesswomen—are very supportive of what we are doing. As I say, I think that it will act as a catalyst for economic activity generally, hopefully. Some of the benefits that we hope to see, in the form of improvements to superfast broadband and some of the capital expenditure that we hope will come forward on roads and rail, should benefit all businesses. That clearly will not be exclusively for the enterprise zone; all businesses could expect to benefit from that, Mike.

[293] **Mr Jenkins:** I think that one of the tricks for me was to form a board that was made up of at least 50% chief executives of indigenous businesses. Obviously, they live and work in the area, so they have a vested interest in the local area. Within the sector, we have appointed a private sector supply chain champion for manufacturing companies. That team's task is to ensure that as much as possible of the supply chain activity for Welsh-based companies is retained in Wales.

[294] **Professor Bourne:** Perhaps I could just add to that, as what Gareth said has just sparked a memory. We are keeping in touch with partners like Communities First—some of it is in the zone, although some of Communities First Pembrokeshire is outside it. Obviously, we are keeping in touch with the schools and the training needs of broader Pembrokeshire as well, and also, people who live outside the zone may well work inside it. There are unemployment black spots, particularly Pembroke Dock, and, to some extent, Haverfordwest, and, if we are able to grow employment, we would expect those areas to benefit, although they do not fall within the zone.

[295] **Mike Hedges:** There is a lot of movement by people in Pembrokeshire, as much as anywhere else.

[296] **Professor Bourne:** Absolutely.

[297] **Mike Hedges:** Travel-to-work areas can be a lot longer, speaking as someone who travels from Swansea to Cardiff every day.

[298] **Professor Bourne:** Imagine. [*Laughter.*]

[299] **Mike Hedges:** Under the last set of enterprise zones, thinking of the lessons to be learned from that, almost 40% of new enterprises were local transfers. Have you seen many local transfers in, as opposed to start-ups and subsidiary businesses?

[300] **Professor Bourne:** Certainly, we have not seen that so far. I do not think that there is any evidence of that happening so far. Obviously, we have the site in Waterston, which is in receipt of enhanced capital allowances, and, as you know, there is some interest in that—I will not say more than that. However, I do not think that it would necessarily involve a large-scale transfer of businesses from outside the zone to inside it. We are looking at growth inside

it and new businesses from outside the area, largely.

[301] **Mike Hedges:** I was looking at the Swansea enterprise zone, where there was an awful lot of internal Swansea movement.

[302] **Professor Bourne:** I remember that happening. We have no evidence of that so far, Mike.

[303] **Jocelyn Davies:** Are you collecting evidence so that, if somebody asked you that in five years' time, you would be able to tell?

[304] **Professor Bourne:** I think that I would have the evidence. I might not have it at my fingertips, but, if it was happening on a large scale, it would become an issue. I can pretty confidently say at the moment that that has not happened. We have been going not quite a year, mind you; we are one of the two newer enterprise zones. However, it is obviously something that you would want to keep a handle on.

[305] **Mr Jenkins:** We are keeping a very close eye on the pipeline of enquiries for exactly that reason. We have adopted the view at the moment that a transfer in, if you can call it that, would probably need to be because the company is doubling in size and therefore could not stay where it was based. In the current supply pipeline, there are a couple of examples of that, which we feel are legitimate enquiries because they cannot maintain their growth in their current location. However, the majority of the pipeline of enquiries, I am pleased to say, come from outside Wales and outside the UK.

[306] **Jocelyn Davies:** So, some of those companies who are moving because of their size were going to move anyway. That is, if they were doubling in size, they were going to move anyway and then the enterprise zone is seen as an opportunity. So, they might think, 'We are going to move anyway, let's see what the advantages are there'.

[307] **Mr Jenkins:** Yes, and I think that that is where Ebbw Vale has a unique selling point in terms of being able to offer a substantial site for one particular company that wishes to double in size, but also very discrete sites that may satisfy other requirements. So, we have that unique offering. However, because of the rate of change in the manufacturing sector at the moment and the growth characteristics, that is where some companies are. We have a number of enquiries saying, 'I will need space, but I will need 100% growth space alongside it'. So, once again, we have something that may be able to accommodate that.

[308] **Professor Bourne:** I cannot let that go without putting in a plug for our area as well, because we have some sites that, once again, have a USP in terms of the enhanced capital allowances on a very large site and, indeed, other sites that are the last on the waterfront. They could be the beneficiaries of substantial employment opportunities for large businesses.

[309] **Mike Hedges:** What happens if one company employs four people, and will continue to employ four people, but wishes to move a mile down the road so that it can get the advantages of being in an enterprise zone? That is, not paying any rates. What happens in that situation?

[310] **Professor Bourne:** It is not automatic that you get business rate relief if you are inside the zone; you have to show that you are planning to take on employees, and so on, and every application is scrutinised on an individual basis. We had 17 successful ones in the last round, but we had some unsuccessful ones. They also have to be serving more than the local market, and so on. So, there are conditions attached to it.

[311] To come back to Jocelyn's earlier question, a lot of the benefits of the enterprise

zone, as you would expect, do not stop at the enterprise zone boundaries—the capital spend and, to some extent, the training spend. You are right to say that, obviously, the business rate relief is different and the enhanced capital allowance, which is specific to a site, is within the enterprise zone, but a lot of the benefits would be available on a much broader front, in a sense.

[312] **Jocelyn Davies:** Gareth, you mentioned that you were keeping a particular eye on this issue of businesses moving inside the zone. Is that because you did this bit of research about what was good from elsewhere and what was to be avoided from elsewhere?

[313] **Mr Jenkins:** Yes, that is true. It is also true that I understand that Ebbw Vale is a unique challenge. It is very much about the pipeline of enquiries and the companies that we can attract to that area that have sufficient traction and gravitas to make it worthwhile. I am very confident that the offering of the tier 1 assistance and some of the other work that is being done on skills is competitive in the UK, if not in Europe. However, we still have to attract a large number of enquiries. I recognised immediately that that is the trick here. At the start, there was very little interest, and we have had to try to generate that interest, given that we are looking for major players. We are not looking for somebody who has four jobs, although that would be welcome; we are looking more for 400.

[314] **Jocelyn Davies:** Julie, shall we move on to your questions?

[315] **Julie Morgan:** Yes, thank you. It is obviously very important for us to be able to evaluate the impact of setting up the enterprise zones, and I know that the Minister is seeking views about how we can measure, and what indicators should be used to measure how the zones are doing. So, do you have any views on what those indicators should be?

[316] **Professor Bourne:** You are right that the Minister has asked for views. There is some difficulty in getting the data on job creation, because they are obviously collected on a different basis, but the jobs created within the zone would certainly be a very useful indicator of what successes there are. It is more difficult to identify jobs that have been safeguarded; I suppose it is the ReAct and ProAct programmes, which Ieuan would certainly be very familiar with. It is doing both of those things, hopefully, namely safeguarding existing jobs and creating new ones. On the success of businesses in getting business rate relief, there should perhaps be a read-across to those that have business rate relief to ask, in particular, whether they have created new jobs. We should probably go back to those businesses after a period of time and say, ‘Look, you’ve had your business rate relief; can you tell us how you spent it?’ I think that is a very legitimate question to ask and it would be a guide to how that particular lever is working.

[317] Also, we are obviously consulting with businesses and asking them what they find important and what they see as barriers to job creation. The usual things crop up, namely finance, broadband, training and so on. So, we have these particular areas that, again, we will try to identify, and ask businesses whether they think that the training programme we have developed has helped them create jobs or safeguard jobs, and, if so, how. So, it is probably, Julie—to cut a long story short—about going back to businesses and asking what jobs they have created in response to the points that they raised with us and that we have been able to deal with.

[318] **Julie Morgan:** What about private sector investment that may not necessarily be measurable by jobs?

[319] **Professor Bourne:** I think it is also very legitimate that we ask not just about jobs, but about what they have done with the money. Some of that, as you say, will have gone on things other than the direct creation of jobs, although the criterion of the enterprise zone was

the creation of jobs, so, when we are looking at some of these sites, it is not just about getting substantial investment in them, it is really about how many jobs you are creating, because that is, ultimately, what we want to do. They need to be lasting jobs; construction jobs are important, but we want to know how many jobs will be available once the building has gone up and how long-term they are going to be.

[320] **Mr Jenkins:** I have a slightly different view in terms of the benefits that we are trying to create here, which is borne out of my experience in manufacturing and, in particular, with the sector panel in the last two years. There is a slight fixation, if I can be allowed to say so, with jobs. That is fine, but I am more interested in economic growth. I think that is because I recognise that, in the manufacturing sector, we have a thing that is called ‘underemployment’, which is a wonderful word that means that some companies are carrying more labour than they actually need in order to be optimum in terms of production. That is because they have looked to the future and said, ‘Well, I need to be geared up for whenever the serious upturn comes’. So, I am less concerned about jobs, important though they are, than about the economic impact. If a company could double its export sales, for instance, or treble its research and development activity, but the impact on jobs is fairly small, then that for me is a good thing, because, eventually, that will knock through in the supply chain and so on. So, that is where I would say to the Minister that in the way that you are going to measure this—and it is the same in the sector—there are number of things that we need to look at here on the dashboard. Jobs is one, and gross value added can be a little misleading, but there are a range of other indicators that are extremely important, such as our research and development activity and our economic development.

[321] **Julie Morgan:** So, would you expect to have those as indicators for your enterprise zone?

[322] **Mr Jenkins:** Yes. A lot of the key performance indicators are sector KPIs, and again, this doubles over into Ebbw Vale quite nicely, but yes.

[323] **Julie Morgan:** You say in your papers that you do not have any targets, but do you have any expectations at this stage?

[324] **Mr Jenkins:** There are targets and there are targets. We have a timeline in terms of when things need to happen, with regard to bringing these sites to particular points in their cycle. Therefore, we have some pretty firm timelines—environmental impact study permitting—of when things need to happen. I believe that the same is also true of the skills element, because we know that the skills development cycle is six years. Therefore, I believe that we have a good understanding of some of those hurdles.

11.30 a.m.

[325] **Professor Bourne:** We are certainly keeping a close watch on jobs that are created within the zone and, indeed, on a broader front, just outside of it. I accept that it is not just about jobs, but I believe that that would be the No. 1 priority, although we certainly look at research and development and gross value added as well. However, initially, it is about creating lasting jobs.

[326] **Jocelyn Davies:** Chris and Ieuan have supplementary questions.

[327] **Julie Morgan:** May I ask another question first? I know that you do not have targets, but do you have any expectations of what might come from all this?

[328] **Professor Bourne:** Yes, we do.

[329] **Jocelyn Davies:** Do you mean a tangible figure, Julie?

[330] **Julie Morgan:** Yes, or a rough figure.

[331] **Professor Bourne:** You are asking about jobs within the zone, but in how long a period? We have only been going a year. I think that you saw that Mustang Marine, for example, is in the process of creating about 100 additional jobs; it already has a substantial increase from January this year. Therefore, I do not have a particular figure in mind. I must say that it is somewhat difficult to get the data, anyway, because they are not collected on an enterprise zone basis—if they were, it would be easier to gauge. However, I do not have a specific figure in mind.

[332] **Jocelyn Davies:** Okay. Chris and Ieuan have the next questions.

[333] **Christine Chapman:** You mentioned jobs, underemployment and growth, Gareth. Is any work being done with the enterprise zones on quality of life indicators? I am thinking in particular about Ebbw Vale, which is a fairly deprived area. With growth, are you looking at quality of life indicators as well, or is that not your remit at all?

[334] **Mr Jenkins:** No, I do not think that it is our remit. However, one interesting thing in the plan, when we have looked at what would attract people to the area, is the reverse of what you have just said. The area is close to the Brecon Beacons national park, and Crickhowell is probably one of the most attractive locations in which to live. Therefore, we have done the reverse of that, and have looked at what we would need to put forward to companies that would say, 'Ebbw Vale—where is that?' Therefore, we have done the reverse. We have also looked at some of the successful regeneration work that has been carried out in the area, and we have tried to flip that to say, 'The area has a track record of doing this, so look at this'. Therefore, we have and we have not—it is not directly in our remit, but we have had to think about it because of the scale of what it is that we are trying to do. If a company wanted to come in with 800 people, for instance, what sorts of things would they be thinking about?

[335] **Professor Bourne:** I have a slightly different link from that. Obviously, Pembrokeshire has many fantastic things in terms of quality of life, but there are also areas of massive deprivation—in Pembroke Dock and Haverfordwest—which impact on the area. The synergy that we have with Communities First, which is working on a broader front since it has been refocused on the three key areas of health, education and jobs, is perhaps helping us to decide where potential help in terms of training might be best focused. That would then help to deal with some of these other deep-rooted issues. Therefore, I believe that there is a read-across from the enterprise zones to some of the other social, health and educational issues that exist.

[336] **Jocelyn Davies:** Did you wish to come in on this issue, Ieuan?

[337] **Ieuan Wyn Jones:** Yes. I will ask my question in Welsh, Gareth, so you may need to use the translation equipment.

[338] Yr oeddech yn cyfeirio, Gareth, at y tyndra parhaol mewn mesuriadau—hynny yw, sut ydych chi'n mesur llwyddiant: a ydych yn ei fesur o ran nifer y swyddi, neu a ydych yn ei fesur yn nhermau twf economaidd a datblygu'r economi? Mae'r tyndra hwnnw wedi bod yn rhan o fod mewn Llywodraeth ers tro. Pa mor llwyddiannus ydych chi wedi bod o ran perswadio You have referred, Gareth, to the continuous tension in terms of assessments—namely, how you assess success: do you assess it in terms of the number of jobs, or do you assess it in terms of economic growth and economic development? That tension has been an inherent part of being in Government for a long time. How successful have you been in persuading Government officials to look at

swyddogion y Llywodraeth i edrych ar y those broader assessment tools that you have
mesuriadau ehangach hynny yr ydych wedi mentioned, rather than just concentrating on
sôn amdanynt, yn hytrach na dim ond jobs?
canolbwyntio ar swyddi?

[339] **Mr Jenkins:** That is an interesting question. In fairness to officials, they have been very receptive, and have probably been slightly ahead of us from that point of view. When businessmen think of key performance indicators, they tend to all think of the same things. One area on which there has been tension is GVA. We have dug deep and have learned that it can be quite a misleading indicator, with a significant time lag. Given that we are in real time, it is not really a good measure from that point of view. During the discussions that we have had on employment, the officials came to us with data and said, 'These data look a bit odd, because it seems that we are becoming less productive but employment is on the up'. We, from the private sector, managed to explain that to them. We said that we thought that that was probably because companies are sitting on head count, realising that if they shed it—a bit like the ProAct argument that we have had many times—it is an awfully difficult thing to get back in manufacturing. It can take 10 years. So, we have had some fun. There has been creative tension in analysing the data. Businesspeople tend to look forward and officials, with the greatest respect, like accountants, tend to look slightly backwards. I have learned a lot from it; that is for sure.

[340] **Ieuan Wyn Jones:** Rwy'n falch eich **Ieuan Wyn Jones:** I am pleased that you
bod wedi cyfeirio at hynny. Pan fyddwch yn mentioned that. When you look at what are
edrych ar fesuriadau llwyddiant, both the measures of success, what would you like
byddech yn hoffi ei weld ar ôl rhyw dair neu to see after about three or four years of being
bedair blynedd o fod yn y parth? Beth in the zone? What would you consider to be
fyddech yn ei ystyried fel llwyddiant—ai success—a growth in the value of the local
tyfiant yng ngwerth yr economi leol neu nifer economy or the number of people employed?
y bobl sy'n cael eu cyflogi?

[341] **Mr Jenkins:** Success for me, in my opinion as the chair, would be a number of things. The first thing would be other examples of the private and public sector working together—local authorities, the Welsh Government and indigenous business in Wales. That would be a plus. The real first prize would go to significant inward investment from a manufacturing-based company with a significant research and development component. That would be the first prize because it would answer a lot of the things that we feel we are weak on. We have very large companies in the sector in Wales, but they do not always have the R&D facility—that is done somewhere else. So, I think that it would be large inward investment with a large supply chain—we are not wishing for much here, are we?

[342] **Ieuan Wyn Jones:** There is nothing like being ambitious, though, is there?

[343] **Mr Jenkins:** No. That is where it needs to be. A big bang is needed. There is a need to say, 'Yes, we're serious about balancing the economy by growing the manufacturing sector. Here is a large level of employment, and, by the way, we've thought about it because we're not going to raid the skills base of the indigenous businesses. We've thought of that, and we've all these people who are ready to enter into the sector.' That is what success would look like for me. However, I recognise that it may come in a different form. If there were four or five other small, clustered projects with some synergy, that would probably have the second prize, but it is still a prize.

[344] **Ieuan Wyn Jones:** Nick, roeddech **Ieuan Wyn Jones:** Nick, you suggested that
yn awgrymu bod nifer o gwmnïau yn eich a number of companies in your area have
ardal wedi gwneud cais am y cynllun ardrethi made bids to the business rates scheme. How
busnes. Pa mor bwysig yw'r cynllun ardrethi important is the business rates scheme for

busnes ar gyfer eich parth?

your zone?

[345] **Professor Bourne:** So far, it is early days in seeing what the response to that is in terms of jobs created. However, in terms of talking to small and medium-sized businesses at business panels, when we have the breakfasts, and when we go around seeing businesses, they all talk about the availability of finance as a bar to protecting jobs and creating new ones. I am sure that that is of importance. I am sure that Mustang Marine will have borne that out; it is a beneficiary of it. So, it is very important. Two things have to be borne in mind: the issue about jobs in the Haven and the question of R&D. Both are important, but Pembrokeshire, as Paul will know, is not within a commutable distance to anywhere else. Would it not be great if we could improve the road and rail links? I am ambitious on that, but, knowing the cost, I am not holding my breath at the moment—you know, you have been there. It has been on the agenda for so long. So, creating jobs in Pembrokeshire is vital for what we are doing. I believe that the absence of money is going to be massive bar. We do not have the evidence yet because these are early days, but Mustang Marine perhaps is a straw in the wind of what may well happen.

[346] **Ieuan Wyn Jones:** Yr ydych wedi awgrymu bod yna bethau eraill a allai fod yr un mor bwysig â'r cynllun ardrethi busnes; er enghraifft, buddsoddi mewn rheilffyrdd, y ffyrdd, sgiliau, ac ati. Ymhle y mae'r cynllun ardrethi busnes yn ffitio i mewn yn y *mix* hwnnw?
Ieuan Wyn Jones: You have suggested that there are other things that could be just as important as the business rates scheme; for example, investment in railways, roads, skills, and so on. Where does the business rates scheme fit into that mix?

[347] **Professor Bourne:** They are certainly important, but the big capital schemes are obviously much more costly. All of the evidence on nation building suggests that improving your communications makes a massive difference to the economy generally. Clearly, that would happen all along that corridor from St Clears going west, if that was to be an investment. It is an important part of the mix, but I am realistic enough to know that the business rate relief scheme will probably be the most important tool. That is certainly the case in the short term. I suspect that that is a much more long-term project.

[348] **Ieuan Wyn Jones:** A ydyw hynny yn wir i chithau?
Ieuan Wyn Jones: Is that also true for you?

[349] **Mr Jenkins:** Yes. It certainly is. The interesting thing about business rate relief is that, in the first phase, the uptake was quite poor.

[350] **Ieuan Wyn Jones:** Yes. You have said that.

[351] **Mr Jenkins:** That is quite surprising. I am still not sure that I totally understand it. In fairness, I think that officials have taken a more proactive approach to try to draw out the inquiries from the indigenous businesses, with the assistance of some of the board members, to make them feel part of what is actually going on. We are fortunate in that the main enterprise zone area will sit alongside the new road, which is absolutely perfect. Obviously, because of the motorsport project, we are getting a lot of public relations attention and a lot of footfall. At certain points in Rhyd-y-Blew you cannot move for environmental study people. They are queuing up to get on there. Some interesting things have gone on in terms of business rate relief and we are fortunate that we have other things that are already in process for us.

[352] **Jocelyn Davies:** Shall we go to your questions, Mike?

[353] **Mike Hedges:** The first thing that I will say is that you only have to look along the

M4 and other motorways to see the growth in business et cetera around the junctions. Good road links are obviously very important. I keep harking back to the 1980s, perhaps not least because I live about a mile away from Swansea enterprise zone. However, in the 1980s, the enterprise zones offered all industrial and commercial properties, including retail on those zones, complete exemption from local authority rates. The current scheme is much more choosy about who gets them. Are you sure that the balance is right, given that the current system has a limit and makes people apply, and given that it is all discretionary?

[354] **Professor Bourne:** I think so. You are right; I think that the criteria this time around are more sensible. Like you, I can remember—as does Peter, no doubt—some of the issues relating to the Swansea enterprise zone. By making it much more selective, I think that we have probably got it right. The businesses that have it in the Haven are businesses that well deserve it. Probably one or two that did not get it are also well deserving. From experience, we had a pretty good uptake of it, and that was just by making sure that businesses knew about it and by keeping on asking, ‘Do you need assistance in filling the forms?’ The forms, I think, have perhaps become a little bit more complicated, but we are saying to them, ‘If you need assistance to fill in the forms, we are there to give it’. I think that that is perhaps how we managed it in the Haven. In terms of the criteria, I think that, probably, the evidence is that it is geared towards the businesses that should be getting it.

[355] **Mr Jenkins:** I think that, at the outset, I felt that we probably did have it right, in that we were looking at companies of a particular size and characteristic. However, I would have to honestly say that the interest and the uptake of that then tended to cut across what we felt at the outset, which is why we have been trying to drill down and find out what the problem is, what the apathy is, and what is driving it. There is a fear among companies that when they interact with the Welsh Government it will be quite complicated. I see that quite a lot in terms of some of the other initiatives to do with skills and so forth. Nothing comes for nothing, and there is an entry price to pay. Sometimes, it can look worse than what it is. I make no secret of the fact that I would have liked to have extended the business rate relief to the whole county and given the whole area a lift, but I was probably being a bit unrealistic. However, it is one of the key features of the study that we did.

11.45 a.m.

[356] If there were two criticisms of enterprise zones in the 1980s, they were that they were not looking after indigenous businesses and that they were creating transient behaviour. Likewise, there was a lot of criticism of Government for not letting go of the reins in the enterprise zones, thereby restricting some of the activity that could take place.

[357] **Mike Hedges:** I have two questions following on from that. A lot of what we saw in the 1980s, and a lot of what happened in Swansea, was increased retailer profit margins without their doing a great deal for the local economy. The second question is: you talked about extending it, but is there not a problem with people getting rate relief when they are renting from a third party? There is an upward pressure on rents, because the combined rent and rates are treated as one; in some areas, the rent and rates are charged as one for a property and, the only one who benefits from rate relief is the owner of the building.

[358] **Mr Jenkins:** I must admit that I have not come across that.

[359] **Jocelyn Davies:** His first question was not a question.

[360] **Mr Jenkins:** There has not been any evidence, as yet, of that characteristic.

[361] **Jocelyn Davies:** So, you have not seen rents artificially pushed up.

[362] **Mr Jenkins:** No. That may be because the manufacturing sector, which a lot of indigenous businesses in the area belong to, has a different make-up. The business probably owns the building or it is owned by the parent company. It is an interesting observation, but I have not seen any evidence of it.

[363] **Jocelyn Davies:** Is it something that you will be able to keep an eye on?

[364] **Professor Bourne:** I think so. In our area, the Welsh Government and Pembrokeshire are substantial landlords, which helps with that particular issue. However, coming back to the points that Gareth made, the partnership with Pembrokeshire County Council has been key to us in terms of the business rate relief scheme, because we have used the county council rather than the Welsh Government to make sure that that was a local success, and the Welsh Government has been fine about that. It is that partnership that has helped.

[365] To come back to Mike's first point, there is no evidence of retail moving into Milford Haven as a consequence of this, and I think that it would be picked up on by the business rate relief scheme anyway, because you have to be a small or medium-sized business to benefit and you have to satisfy other criteria as well.

[366] **Jocelyn Davies:** In the data that you are collecting, would you pick up these unintended consequences if they occurred over a period of time?

[367] **Professor Bourne:** I am not sure that we are picking up data on that basis, at the moment, but because we meet with the businesses on such a frequent basis, I think that they would soon tell us.

[368] **Jocelyn Davies:** They would tell you, and you would have intelligence on—

[369] **Professor Bourne:** They would tell us, and if it were happening, we would certainly seek the data on a wider basis.

[370] **Jocelyn Davies:** Is it the same for you, Gareth?

[371] **Mr Jenkins:** Yes, because of the strong presence of the local authority on the board—I have the chief executive and the head of planning as board members—and because I have captured on the board most of the large manufacturing employers in the area, I am confident that we would find it. It is an interesting point; perhaps that is something that we should watch for. However, I would be confident of finding it.

[372] **Jocelyn Davies:** Are you happy, Mike? I see that you are. Paul, we will turn to your questions.

[373] **Paul Davies:** I want to ask some questions about enhanced capital allowances. I know that both of you have touched upon this already. Gareth, in your paper, you state that it is an advantage to have this lever of enhanced capital allowances, but that it may be of lesser importance than some of the other benefits and Nick, in your paper, you say that a more widespread use of enhanced capital allowances depends on representations to the Treasury. Is this a real tool? Will providing this benefit make a difference to businesses?

[374] **Mr Jenkins:** From an Ebbw Vale perspective, we think that it would probably be a secondary consideration, but it very much depends on the nature of the businesses, what their tax positions are and what their investment ratios will be. It may well be that some of the other things that could be offered under tier 1 are more attractive, but there is not enough evidence yet for us to test that theory. However, all the board members feel that that probably lies in other areas, namely that the incentives are more attractive than enhanced capital

allowances—good as they are. For instance, Deeside may disagree because of its geographic location and the nature of the businesses that are coming in.

[375] **Ieuan Wyn Jones:** They are not tier 1 either.

[376] **Mr Jenkins:** Yes; by geographical location, that is what I mean. I am never sure whether to call it Objective 1 or tier 1, but that is something that is unique to this area. We suspect that it will be a significant competitive edge, but I could say that now and the first one through the door will want to take advantage of something else, because their tax position is such that they want the enhanced capital allowances above all else.

[377] **Professor Bourne:** We also have tier 1 assistance in Pembrokeshire, but the short answer to it is that we do not know yet just how successful it is going to be. We only need one company to say, ‘That’s right for us’, to move in to take benefit of the enhanced capital allowances, which can be up to £125 million. So, it is significant. Admittedly, that is cashflow, but it is significant. We have interest in our site, and it is very important to us, so we are spending quite a lot of time and energy on making recommendations to the Minister about what we think needs to be done to that site to help, on the marketing side and so on. We have a project board looking at that. However, I agree with Gareth that it is not the only show in town—there are many other important things.

[378] On the broader front, if I could just slip in something on enhanced capital allowances with another hat on, the Silk commission part one recommended that the UK Treasury should negotiate with Welsh Government the possibility of creating more areas. There will obviously be a cost associated with that. We have done well up until now, in that we have got more than our Barnett share—it is not Barnettised, but using that as a rough criteria. We have three sites in Wales—that would be more than we would have in a Barnett-type share—so we are unlikely to get any others as of right, as it were. However, if the Welsh Government was willing to pay an agreed price, which would have to be negotiable, if it felt it was sensible, we recommended that that should happen. We are awaiting a response. I know that David, the Secretary of State for Wales, is looking at that at the moment.

[379] **Mr Jenkins:** The companies in our sector are very sophisticated. They tend to come to the table knowing exactly what they want, and that is exactly where we are. We are able to test it, because everyone is pretty clear about where they want to go.

[380] **Paul Davies:** How many businesses have made use of the enhanced capital allowances in your respective zones?

[381] **Mr Jenkins:** At this point, none, because we do not have any moving into the area at this point in time. We are playing a catch-up game of ‘build it and they will come’—getting the sites ready and then, hopefully, the pipeline will fill it. At that point, we will be able to test the ECAs. That would be a good question for some of the other enterprise zone areas, given where they are in their cycle, as to how effective a measure that is.

[382] **Professor Bourne:** None so far. It is site-specific, so it is likely to be just one, and the same probably applies to Deeside, although I am not absolutely certain. It is likely to be one substantial company—hopefully a substantial employer as well—that takes the benefit of it. It is a bit more long-term, because there will be massive planning application issues as well, EU procurement rules to comply with and state aid principles to be considered. The ECAs are time-limited—as depreciating assets—so, we have to push quite hard, because they are only available until the end of March 2017. No-one has signed on the dotted line so far, but we could not realistically expect that.

[383] **Mr Jenkins:** The research is mixed on this. It says that it works well in some

countries but not in others. So, the historical evidence is useful, but not terribly useful. There are so many other things in the tax mix for manufacturers, such as the research and development tax credit and so on, that we will have to judge each case on its merits as we go forward.

[384] **Peter Black:** Gareth's paper identifies the importance of infrastructure for the long-term sustainable development of the enterprise zones. What is your assessment of the speed with which infrastructure improvements are taking place within the zones, and has the Welsh Government put sufficient resources into delivering what needs to be done?

[385] **Mr Jenkins:** It is painfully slow, Peter, but I cannot criticise Welsh Government for that, and that is because of the amount of environmental study work that needs to be done to comply with current legislation. It takes a long time before you can get on to site and do what is required. Speaking as a businessman and a manufacturer, I find that frustrating, but it happens to be where we are in terms of legislation. It is frustrating from that point of view, and it is the primary activity—until that is resolved, not much else can happen. We have been very good at identifying the other things that companies will want, in terms of road access, ICT availability and energy in particular. Pardon the pun, but energy is a hot topic for manufacturers at the moment, because some manufacturers might have a product mix that is 40% or 50% energy; in some cases it can be a huge amount. The UK Government needs to be clear about the strategy for energy in the medium and long term, and we need to have something ready in this area—some combined heat and power scheme, or something—that could support the energy requirement of the manufacturers that we attract to the area. It is bound to be a key consideration when it comes to the time to say, 'We are going to Ebbw Vale,' or, 'We are going to Turkey,' or somewhere else. So, it is frustrating, but there is a lot of good work, and energy is something that we are looking closely at at this point in time.

[386] **Peter Black:** What about the Haven? Mustang was very critical of broadband when it spoke to us earlier on.

[387] **Professor Bourne:** Superfast broadband is scheduled for the beginning of next year, which could mean up until March. That is the date that we have been given, and I have no reason to doubt that. Ebbw Vale was first on the list of enterprise zones that would have superfast broadband delivered. Clearly, some of the other capital spend is important. We have some projects within the zone—road and rail—that are more achievable than the one that is, in my view, truly important for Wales, which is dualling of the A40.

[388] **Peter Black:** The issue is that, when you have these enterprise zones, which are there to attract businesses, the Welsh Government, if it is to make them a success, needs to identify the infrastructure that needs to go around those. Is the Welsh Government directing resources specifically in that direction for that reason, or is it just part of the mix across the whole of Wales?

[389] **Professor Bourne:** That is a fair question. On broadband, the Government is prioritising the enterprise zones. I suspect that it is probably a factor, although that is just me putting a finger in the wind; the Welsh Government is making decisions about capital spend on road and rail, but that is a matter the Minister would have to clarify.

[390] **Mr Jenkins:** The Welsh Government has done everything that it can at this point. It has looked at the total energy availability in the area and helped to secure that, potentially, for the future. It has also recognised advice from the board that that may not be enough, depending again on the type of companies that we can attract to the area. At this point it has done as much as possible, given the environmental work, and the restriction in the area on energy, although there is spare capacity. However, manufacturing businesses are energy intensive, and could consume that very quickly. So, it has done as much as it can at this stage.

[391] **Peter Black:** I want to move on to supply chains, and the impact on the local economy. What approach are you taking to maximise the economic impact of your zone, and to ensure that this is spread as widely as possible outside the zone?

12.00 p.m.

[392] **Mr Jenkins:** I said earlier that, within the manufacturing sector, we have appointed a private sector lead—a champion—for supply chain activity. Nobody likes the term ‘supply chain’, but nobody has come up with a better one yet. I am sure that we will. That is because we recognise that, if we were to attract a major company to the site, the impact of the supply chain works on a ratio of about 4:1. So, for every job that you create at the target company, there are likely to be four in the supply chain, if we get it right. Speaking from the private sector, there is nothing wrong with Government raising awareness with companies of the desire to localise the supply chain and the support available for that. We should not be embarrassed about that, and the private sector will take it on board. There has never been a better time to identify the weaknesses of having a global supply chain. A global supply chain is great, and we live in a global environment, but it has significant weaknesses. You can wake up tomorrow, for example, and there has been an earthquake in Japan—God forbid—and you have lost three important suppliers, so you have to stop your facility. That has happened. So, there has never been a better time. The advice to Government is to not be shy about pressurising companies to look at what they can do by localising, and the trick for Government is to actually provide the right levers and support to let that happen. That might happen within the enterprise zone by having these different sites, if somebody wants a local supplier. So, certainly with me, Peter, you are pushing against an open door, because this is right at the top of the agenda for me. I would love to see a figure for what we import into Wales for this sector. I have never been able to find one, but I can bet you that it is easily a seven-figure sum.

[393] **Professor Bourne:** Similarly, it is key to what we do that the supply chain is properly represented, which it is on the board, and also, as I have mentioned, we have regular supply chain breakfasts. There is the Pembrokeshire business panel, which gets regular reports from us and to which I sometimes go to take questions. That is key. The business rate relief scheme is essentially geared specifically towards small and medium-sized businesses, which tend to be supply chain businesses, so they get the proper recognition, which is important. I agree entirely with Gareth that it really is for them and the preponderance of businesses. Although we have some large companies that are represented on the board, certainly Murco and Valero, we also have to recognise that a lot of the jobs are in the small and medium-sized supply chain sector.

[394] **Jocelyn Davies:** Chris, you had a supplementary question on this.

[395] **Christine Chapman:** Funnily enough, Gareth mentioned Japan and, obviously, the Minister is there this week. There are limitations with the local economy, but is there any scope with the enterprise zones in terms of overseas investment or links? Have you had these discussions with the Minister, bearing in mind that she is in Japan this week—

[396] **Mr Jenkins:** Yes, my comment was badly timed, I think. I will probably pay for that later. Send me a cake with a file in it when I need to get out. *[Laughter.]*

[397] **Professor Bourne:** With a map on the top.

[398] **Mr Jenkins:** Yes.

[399] We have tried to make Ebbw Vale enterprise zone globally competitive. That might

sound a bit pompous, but we recognise that it has to be the best location in the UK for this to succeed. It has to have a competitive advantage over Northern Ireland, Scotland and England, which I am pleased to say I think we have. That will be tested in the future.

[400] We are recognising that we are probably going to attract people from outside the UK. That is quite possible. We are very fortunate, being in the manufacturing sector, that we have some people in Welsh Government who are excellent at foreign direct investment. My message to them is that I do not care what the question is, but the answer is ‘Ebbw Vale’; just remember that. There is more to be done with our presence in the rest of the world. We need to up our game and we have an identity. We recognise that that is where something is likely to come from, unless it is from somewhere else in the UK, and then it goes back to a relocation argument. So, we are looking outside. But, I say to you, Christine, that I do not feel totally confident in this regard, because the WDA and the brand identity and presence that we had was a very strong influence. You could go anywhere in the world and they would know where you were from. I think that we have lost a bit of that and we need to recapture it, while recognising that the world has moved on.

[401] **Jocelyn Davies:** Okay, we—

[402] **Mike Hedges:** I have one last question.

[403] **Jocelyn Davies:** Is it a question, Mike?

[404] **Mike Hedges:** It is definitely a question.

[405] **Jocelyn Davies:** Okay.

[406] **Mike Hedges:** We have talked about supply chains, but there is also the issue of companies clustering. The Silicon Valley is one that we talk about a lot, but the lower Swansea valley had copper clustering and there was steel clustering in Merthyr. Do you see benefits in trying to bring clusters together?

[407] **Mr Jenkins:** Have you been coming to my meetings and I have missed you? [*Laughter.*]

[408] That is an excellent point, Mike, because that is why I said about it not being called a ‘supply chain’ necessarily, and we tried to come up with another title. There is a strong body of opinion that says, ‘Yes, the supply chain is a constant activity’, and we have been through it before with the Accelerate programme, but we also may need to bring SMEs together—to cluster—to do more research and development and to do more export sales development. That is a possible outcome of this project, which is why we decided to have the private sector lead. Obviously, the private sector lead was able to watch for this requirement. It may well be not simple supply chain work, as nice as it is, and there might be some other things. If we are going to boost our research and development and our export percentages, it is not always easy for smaller companies—and I lead a small SME—but it is easier if there are three or four of you working together to the same objective, and that is what Wales should be good at. Please come up with another title for the project.

[409] **Professor Bourne:** Just on that, very quickly—and thank you for the trigger for this answer—we are looking to do that in terms of shared apprenticeships, so that people will spend a period of time with different employers around the Haven. There is a lot of support for that. May I just mention one thing that has not been brought up in questions, Jocelyn?

[410] **Jocelyn Davies:** Yes, of course.

[411] **Professor Bourne:** It is marketing. The Minister, quite rightly, has said that marketing is important. There is a very good portal website for all the enterprise zones, and you can also get into the specific enterprise zones. This is global and, to be interesting, that is something that we will be able to track in terms of the number of hits and the success of that, from people saying afterwards, ‘We found you on the website’. That is important. Just picking up on Chris’s point about Japan, the global nature of all of this—certainly for the Haven, and I suspect for Gareth and the other enterprise zones also—has brought home to me that there was a massive impact on the oil market in Pembrokeshire because of the nuclear accident or disaster in Japan. It altered the oil price significantly and overnight transformed the situation adversely in the UK and more broadly, generally, but certainly in Pembrokeshire. It had a massive impact. So, all of the efforts that we make can be affected in one direction or another by something like that.

[412] **Jocelyn Davies:** That is a good point.

[413] **Mr Jenkins:** The only other thing that I would say to sum up—and I hope that I have captured this in my notes—is that I have a board of people who are not paid for what they do. We all volunteer to do it. They do it because they want to do it. They have a vested interest in the success and, I think, driving the recognition that Government or the private sector cannot do these things alone. So, whether we like it or not, we need to work together to get the job done.

[414] **Jocelyn Davies:** Okay. Thank you very much. I think that we are visiting your zone quite soon.

[415] **Professor Bourne:** Yes; next Friday, I think.

[416] **Mr Jenkins:** Cancel that. You are coming to Ebbw Vale. [*Laughter.*]

[417] **Jocelyn Davies:** I come to Ebbw Vale regularly, actually, because I am from Newbridge. I know that Chris mentioned earlier that it is a deprived area, but it is absolutely beautiful.

[418] **Mr Jenkins:** Just watch out for environmental inspectors.

[419] **Jocelyn Davies:** Yes, I will.

[420] **Mr Jenkins:** Parking is at a premium at the moment.

[421] **Jocelyn Davies:** However, it is stunning there. There we are; thank you very much. We will send you a transcript and then, if there are any factual inaccuracies, please let us know and we will be happy to alter them.

12.08 p.m.

**Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd o’r
Cyfarfod
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public from
the Meeting**

[422] **Jocelyn Davies:** We will now move to a private session so that we can quickly discuss this evidence along with our visits next week.

[423] I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[424] I see that the committee is in agreement.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 12.08 p.m.

The public part of the meeting ended at 12.08 p.m.