



Cynulliad National  
Cenedlaethol Assembly for  
Cymru Wales

## **Enterprise and Learning Committee**

### **The Welsh Assembly Government's Response to the Current International Economic Downturn**

#### **Background**

1. Given the turbulence in the UK and global economies, we wished to scrutinise the Welsh Assembly Government's response to the current international economic downturn. In particular we wished to examine the support being provided to businesses by drawing on experiences on the ground: whether support was timely, appropriate, and effective in responding to the fiscal challenges of recent months.
2. We wished to conduct our inquiry relatively quickly in order to report our findings and recommendations in a way which would influence decision making at the heart of Government at this testing time. We scrutinised witnesses over the course of five Committee hearings during February and March 2009. We are grateful to all who assisted us by providing written and oral evidence.
3. We began by scrutinising the Deputy First Minister and Minister for the Economy and Transport on 12 February 2009. Representatives of various sizes and types of businesses and employees provided evidence on 26 February 2009 and 12 March, namely, the Federation

of Small Businesses FSB; Venture Wales; CBI Cymru; and the Wales TUC. Since we believe that training and upskilling the workforce, and ensuring availability of the right skills to meet the needs of the future knowledge economy will be crucial when Wales and the UK emerge from recession, we also questioned the Alliance of Sector Skills Councils Wales at a hearing on 5 March 2009 on its role in articulating the voice of employers on skills issues. Finally, we were interested to learn of the opinions of leading academics and economic commentators on the steps being taken in Wales to mitigate the effects of the downturn. At a hearing on 19 March, we questioned academic economists from Swansea University and the University of Glamorgan.

4. The witnesses provided written memoranda, the links to which are attached at Annex 1. The transcripts of oral evidence are at Annex 2. As a result of our scrutiny, the Deputy First Minister and Minister for Economy and Transport undertook to provide additional evidence, which is reproduced in full at Annex 3.
5. The report which follows summarises the evidence examined and makes recommendations, where appropriate. A summary of the recommendations is on pp.23-25.

## **Introduction**

6. CBI Wales enunciated the thoughts of many when they stated that this was probably, 'the worst recession that most of us can remember', given that it had affected so many sectors and that it appears to be truly global.
7. It must be clear to all but the most cursory of commentators and observers that international financial institutions such as the World Bank and the International Monetary Fund proved inadequate in both foreseeing and alleviating the effects of the current downturn. The causes are voiced on an almost daily basis in the media, press, and

political circles: failures of corporate governance; systems of remuneration and incentives – the “greed is good” philosophy of city bankers chasing huge bonuses while leaving their clients and institutions unable to service their debts; risk identification and management; accounting and financial reporting; and financial regulation. Much of this has caused public outcry, and opinion now demands robust reforms of the banking sector in particular.

8. Financial markets have collapsed and there have been dramatic changes to economic forecasts of future growth and prosperity in the last weeks and months. Some commentators estimate that the UK economy may contract by as much as 5 per cent by the end of 2009, resulting in unemployment of around 3 million, with a jobless figure of anything between 130,000 to 150,000 predicted for Wales.
9. In a Plenary debate on leading Wales out of the recession, the Deputy First Minister and Minister for Economy and Transport summarised a recent Bank of England statement:

...companies have scaled back their investment plans, confidence has dropped, uncertainty has increased, and the financial situation has deteriorated.
10. Most of our witnesses emphasised that somewhat surprisingly Wales had been hit hard by the recession. Given the size and influence of its public sector, it might have been expected to escape the worst effects. However, the Welsh economy still relies heavily on the manufacturing sector, which is where most productivity and jobs have been lost. Also our economy has many small and medium-sized enterprises (SMEs), which suffer particularly badly as a result of a withdrawal of credit. The Federation of Small Businesses (FSB) told us that a third of its members were based at home, with many financing their businesses by personal borrowing, leaving them in a precarious position at present.

11. Governments are emphasising and putting pressure on banks and building societies to ensure that lending is made available and interest rate cuts passed on to personal and business customers. From evidence publicly available, the evidence suggests that there is a mismatch of information from banks and companies – banks say that they have a national policy to free up lending, while companies say that local branches are far more risk averse. A better provision of overdrafts, the most common form of finance for all types of businesses, is clearly required in order to underpin short-term cash flow liquidity.

### **The Response of the Welsh Assembly Government**

12. We realise that the Welsh Assembly Government has few levers at its disposal at the macroeconomic level. The important levers that are available to it tend to be those which can influence longer-term growth rather than mitigate short-term problems.
13. We would note that many witnesses commended the Welsh Assembly Government for the rapidity and flexibility of its response, though some raised fundamental issues of policy implementation and evaluation.
14. In the following paragraphs we consider the nature of the support and leadership provided to businesses by the Department for Economy and Transport.
15. CBI Wales spoke for many witnesses when it commented:

We fully support the Welsh Assembly Government's direction of travel in terms of the actions that it has taken and we have been pleased to participate in the economic summit process.

16. Among the initiatives and policies that have been either introduced or strengthened in recent months, we note in particular: the introduction of the ProAct scheme and widening of ReAct; revenue support grant payments being made much earlier to local authorities, thus improving the cash flow position of an important economic development arm of government in Wales; the Welsh Assembly Government paying 92.5 per cent of invoices within 10 days, which is a significant improvement on previous performance and will underpin the viability of many businesses. Some of these, and others, are discussed in this report.
17. We wondered what impact all of this support and improvement was having on the Minister's departmental budget. He told us that every budget line was under intense scrutiny, so as to ensure the most appropriate delivery of his policies during these extraordinary times.
18. Given the plethora of recent announcements on support for businesses and other aspects of economic development, we felt that the issue of whether new and established initiatives were delivering on time and budget should be examined. **We recommend that the Welsh Assembly Government begins publishing immediately information on the implementation of recent and established initiatives for business support, so that the effectiveness of its actions may be scrutinised more easily, openly, and transparently.**
19. While the structure and operation of the Department for the Economy and Transport was not directly the subject of our inquiry, a number of witnesses – experienced business people among them – took the opportunity to share their opinion of the department's effectiveness. A number of positive suggestions emerged, including the recommendation that Welsh Assembly Government should employ a small business champion.
20. Some referred to the merger of the former Welsh Development Agency as a loss of visibility and presence in the business world in Wales;

others noted the difficulty of criticising economic policy, which now became a direct criticism of Government. Many emphasised that civil servants might not be the best predictors or creators of economic growth, given the service's culture of being risk averse and bureaucratic. **We ask the Welsh Assembly Government to note, consider, and respond to these observations. We understand that the Auditor General for Wales is planning a related review and we look forward to receiving the Welsh Assembly Government's response to this also in due course.**

21. We scrutinised the relationships between government departments in order to ascertain whether joined-up thinking was delivering appropriately. A number of witnesses hinted or stated that the Department for Children Education Lifelong Learning and Skills was not as open, effective and responsive as the Department for Economy and Transport. This could be because the latter had been thrust headlong into a major national crisis and had had to adapt its working practices and policies accordingly. However, we would be worried if we thought that there might be fractured lines of responsibility at the heart of Government. For example, education policy on apprenticeships and the role of the further education sector at this time seemed to lag behind the Department for Economy and Transport's vision for these. We were also concerned to hear from Skillset that there had been situations when they had 'had to explain Welsh Assembly Government strategies to members of staff within the Assembly Government'. **We recommend that the Welsh Assembly Government invites an independent review of its cross-portfolio working across all areas of Government responsibility, but with particular reference to the performance of the Department for Economy and Transport and the Department for Children, Education, Lifelong Learning and Skills.**
22. As stated above, the issue of the effectiveness of policy development and implementation arose in a number of our sessions. At this stage, and given our desire to present a robust report and penetrating

analysis of the Welsh Assembly Government's response to the current international economic downturn, we set this issue aside, undertaking to return to more fundamental and wide-ranging scrutiny of economic policy development and implementation at a later date. We would however note that deficiencies in monitoring and evaluating Government policy are a consistent theme of most areas of our scrutiny work.

### **The Economic Summits**

23. A feature of the Welsh Assembly Government's response to the current economic downturn has been the economic summits it has held with key partners and stakeholders. These began in October with four having been held to date; a fifth is expected at the beginning of April. As one Assembly Member put it, 'The summit series has injected a rapid-reaction ethos into government in Wales'. In a Plenary debate, she went further:

Pulling all of the relevant economic players together into one room to address what action was needed collectively, and at such a critical juncture, was important and continues to be vital with regard to the way in which Wales steers its way through the next few months and beyond.

24. The summits have been widely welcomed and have galvanised some key social partners into closer working than their traditional positions on economic matters would normally permit. For example, CBI Wales and the Wales TUC came together to present proposals which they felt would most benefit the economic now. Both acknowledged that this was not easy and that fundamental differences remain on key issues, nevertheless, their cooperation in sharing and expressing broader concerns in this way is most laudable – the summit process was clearly the catalyst for this.

25. Some witnesses questioned the openness of the summits; at the time of our hearings, little was known about who had attended the events and how and why the gatherings had been configured in the way that they had. Perhaps it is inevitable that some sectors feel aggrieved at their lack of inclusion or representation, although some have lobbied us vociferously so that their voice might be heard.
26. There has been a suggestion that the summits are now producing a declining return. A number of witnesses suggested to us that the fourth summit had not been as effective and productive as previous events. This may be inevitable, following the rush of announcements and financial packages which appeared after the first three summits. However, we would urge the Welsh Assembly Government to carefully manage the preparation, execution, and evaluation of its fifth summit, which will feature the banking sector.
27. In the main, it is clear to most that the summits have been an innovative and effective way of garnering support and opinion and stimulating ideas and action at the height of the immediate impact of the downturn. As an emergency response they have no doubt been beneficial. We believe however, that it would now be apposite for the Welsh Assembly Government to begin to plan for the longer term and how Wales might emerge from the recession, as well as developing its current emergency response. **We recommend that, following the fifth summit, the Welsh Assembly Government begins to focus on longer-term planning, and how it might use those economic levers which are at its disposal to underpin a post-recession economy for Wales.**

### **The Operation of the Reference Groups**

28. As part of the summit process, reference groups were established to oversee implementation of announcements and to take on the role of pre-summit meetings. Some witnesses were not happy that these

groups' functionality was satisfactory and that there was a need for them to develop their monitoring role. **We recommend that, ahead of future summits, the Welsh Assembly Government evaluates the operation of the reference groups and where necessary produces guidance on expected operation and outcomes.**

### **ProAct and ReAct**

29. If Wales is to face the challenges of the post-recession period, much will need to be done now to build on the skills base of employees and to ensure that some skills are not lost completely to the economy.
30. We encountered almost universal support for the new ProAct scheme, which was announced by the Welsh Assembly Government on 14 January 2009.
31. The ProAct scheme is worth £68 million and is intended to retain and develop skills for the post-recession economy before the need for redundancies arises. Up to £2,000 training costs and £2,000 wage support will be available per employee. It is hoped to provide assistance to some 12,000 employees.
32. The Welsh Assembly Government is to be commended for the rapidity with which it brought the ProAct scheme on stream. However, we examined little evidence that suggested that a substantial number of companies were yet benefiting from it. We were told that some businesses have already noted that the application process is overly bureaucratic, a criticism we often hear when assessing the effectiveness of Welsh Assembly Government policies. CBI Wales stated:

We would be keen for the implementation to be as speedy and effective as the decision to set up the ProAct scheme.

33. While we would not wish to detract from the Welsh Assembly Government's achievements to date with its new ProAct scheme, we would nevertheless now wish to see evidence of positive results on the ground, helping businesses and employees. **We recommend that the Welsh Assembly Government, as soon as possible, publishes details of the implementation of its ProAct scheme, and where necessary considers how it might simplify the application process for businesses by providing further advice and guidance.**
34. The ReAct programme provides a package of support to people who have recently been made redundant or are currently facing redundancy. The programme is intended to help individuals gain new skills, overcome obstacles and improve their chances of returning to work in the shortest time possible.
35. The Welsh Assembly Government has increased the programme's capacity by 50 per cent. However in the period to 21 January 2009, the ReAct team processed 1,716 applications, a 110 per cent increase on the same period in the previous year. The Minister assured us that he would do everything possible to ensure that the ReAct scheme was well supported and a sustainable option for people facing redundancy.

### **Manufacturing Strategy**

36. Because of the pressing need to respond to the current economic downturn, the Welsh Assembly Government has set to one side the production and implementation of its manufacturing strategy, in favour of focussing on jobs and training.
37. We wished to explore with witnesses whether implementing a manufacturing strategy could shore up sectors. The FSB said that it was disappointed that there is no strategy. The SSCs said it would prefer to have one sooner rather than later. **We recommend that the Welsh Assembly Government recommences work on its**

**manufacturing strategy with a view to begin implementing it in the second half of 2009.**

### **Funding for Business Support**

38. The Welsh Assembly Government supports businesses using a number of schemes and grants. The ones most frequently mentioned during the course of our inquiry are listed here:

#### ***Business growth project***

39. This provides grant aid of up to 100 per cent to enable SMEs to obtain support to be more flexible within the market. With funding of some £45 million, the Minister expects this support to help 6,000 SMEs and create 6,000 jobs.

#### ***Business innovation support programme***

40. With a fund of £35 million, it is aimed at small businesses to turn innovative ideas into cutting-edge products.

#### ***Strategic Capital Investment Fund (SCIF)***

41. In his written memorandum, the Minister informed us that the first tranche of projects under SCIF had been allocated some £350 million to help to deliver major improvements in public services across Wales. The total value of the projects, according to an update paper produced for the Third Economic Summit, will be more than £700 million.

#### ***Flexible Support for Business (FS4B)***

42. The Flexible Support for Business (FS4B) service replaced *Business Eye* in April 2008 and is sponsored by the Welsh Assembly Government. The service aims to provide fast, simple and

straightforward access to information, advice and support for all existing businesses and prospective businesses via a single website, a national telephone number, and face to face contact through a network of local centres.

43. **Given the importance of this new service, we recommend that the Welsh Assembly Government keeps under review the criteria for FS4B to ensure that they are appropriate to the current economic situation and publishes details of the implementation of the new scheme, including the outputs and outcomes.**

### ***Single Investment Fund***

44. The Single Investment Fund (SIF) was introduced in April 2008 as a new unified source for a package of financial and specialist support from the Assembly Government to meet businesses' individual needs. **Given the importance of this fund, we recommend that the Welsh Assembly Government keeps under review the criteria for the single investment fund to ensure that they are appropriate to the current economic situation and publishes details of the implementation of the new scheme, including the outputs and outcomes.**

### ***Workforce Development Programme***

45. We were glad to learn of a major extension to this programme to provide additional training assistance to businesses that are suffering during the downturn.

### **Business rates**

46. A number of witnesses expressed their concern that business rates will rise by 4.9 per cent, since they are based on the retail price index of last September. There was also criticism of a perceived lack of

consultation with key stakeholders on the Welsh Assembly Government's decision to implement the rise in full.

47. On 1 April 2009, after our inquiry had finished, but before we agreed our final report, the Welsh Assembly Government announced that it would follow the lead of the UK Government and implement the rise over three years. Rates are now due to rise by 2 per cent this year, and 1.5 per cent in each of the following two years.
48. **We are of the opinion that the Welsh Assembly Government, following the example of the Scottish Executive, should be providing more business rate relief, which could help businesses throughout Wales.**

## **Procurement**

49. More effective procurement policies could assist a number of sectors but would impact on the construction industry in particular. In the words of CBI Wales, construction is 'on its knees in Wales' with fewer houses being built than at any time in over 80 years.
50. **We recommend that Value Wales reviews how further acceleration of sustainable procurement practices across the public service would bring forward added benefits.**
51. According to the Minister, the public sector procures business worth £4.5 billion a year in Wales. He is therefore working to streamline accessibility to Government contracts.
52. We were concerned by the evidence we examined that payments were not being made to subcontractors in a timely manner. Clauses in contracts stating a deadline by when sub-contractors must be paid would create more sustainable communities where more employees would have disposable income to reinvest in local businesses. **We**

**recommend that the Welsh Assembly Government takes the lead on the introduction of more effective procurement policies by ensuring that contracts stipulate a deadline for payment to be made to subcontractors and that they contain social clauses, which would allow contracts to provide added social value to communities by, for example, prioritising the need to train employers or provide work to the long-term unemployed.**

### **The Role of the Sector Skills Councils (SSCs)**

53. We wished to scrutinise the SSCs because of their key role as a 'strategic interface' between employers and Government and in ensuring that skills and business support is much more demand led. The Welsh Assembly Government also expects the SSCs to input labour market information on existing skills and future skills needs.
54. In oral evidence, the Alliance of SSCs described how it believed the recession required, 'even greater efforts to attune the learning and the business support system to meet employers' needs'. It emphasised the need for the Welsh Assembly Government's Human Resource Development Managers to have a stronger sectoral focus. In additional written evidence, it stated the SSCs aim of 'ensuring that Wales's employers are committed to investing in skills development and skills utilisation, and are actively engaged in influencing the design of learning at all levels'.
55. In additional evidence presented by ConstructionSkills, the particular challenges of the current downturn were listed as:
- The role of SSCs in supporting businesses in the current economic downturn
  - The creation of a National Construction College for Wales
  - The importance of a project-based approach to training

- The need for strong links with HRD Advisers and their overall sectoral knowledge
  - The strength of a managing agency approach
  - The support for the sector with regards ProAct, ReAct and PTAs
  - The need for a quick response by joined up partners
56. ConstructionSkills suggested that further engagement with SSCs across sectors would ensure that businesses and training providers would have a voice in the National Assembly for Wales and a forum through which to speak with the Welsh Assembly Government.
57. In its additional evidence, the Alliance described the complexity of the impacts on various sectors:
- SkillsActive (leisure) report that a sharp downturn is reported in the fitness sector but bookings for caravan parks and some outdoor education centres are said to be booming; while in many of the construction related trades, those (often smaller companies) who have specialised in private sector development are cutting back significantly, while prospects for those businesses focused on social housing are much brighter thanks to the investment flowing from the Welsh Quality Housing Standard.
- Skillset made the point that all SSCs have sector managers and that each sector manager has responsibility for too many sectors to allow them to have a detailed understanding of individual sectors.
58. On the issue of employment trends, the Alliance noted that a number of sectors have suffered high profile job losses throughout the United Kingdom. However, it cautioned against blanket pessimism and quoted the case of the retail sector, where some 41,000 jobs had been lost in recent months, but where some 39,500 jobs had been created.

59. The SSCs were concerned at the tardiness in implementing the Sector Priorities Fund, which it believes could be used to help to promote intermediate skills in the economy. **We see no need for further delay in this matter and therefore recommend that the Welsh Assembly Government implements the Sector Priorities Fund as soon as possible.**

### **The Role of Further Education**

60. A number of the issues discussed above will have a considerable impact on further education. For example, it would be appropriate for the SSCs to work with further education institutions on ideas for the sector priorities fund. For their part the SSCs felt that further education needed to be more responsive to employer demand.
61. We were surprised to learn that Fforwm was not one of the five key partners identified in the stakeholder arrangements for SSCs agreements. We believe this is a serious omission. **We recommend that the Welsh Assembly Government revises the stakeholder arrangements in the SSCs agreements to include further education as a key partner.**
62. The Welsh Assembly Government believes that the further education sector will have a key role to play in the delivery of its new ProAct scheme. On behalf of the sector, Fforwm provided us with evidence of the difficulties of planning and budgeting in a sustainable way with regard to any funds that may go to FEIs as a result of ProAct and the additional £20 million expansion of the apprenticeships programme, which is subject to support from European Structural Funds.

### **The Role of Higher Education**

63. We have already published an interim report on the economic contribution of higher education; our final report will most likely be

published in the summer. We therefore do not wish to repeat analysis which is already publicly available.

64. We note however that during the course of our inquiry, the Higher Education Funding Council Wales announced its economic support initiative worth £2 million over 18 months. It aims to provide one-off investment to enable universities to add value to their existing work with individuals and employers.

### **The Response of Local Government**

65. While the response of local government to current economic trends was not the locus of our inquiry, discussion of what could be done at a more local or regional level nevertheless did occur.
66. Local government is clearly in an excellent position to help businesses in their areas, and micro businesses in particular, by providing small amounts to small businesses. We heard that Cardiff Council had provided £1.2 million of additional support for businesses and new schemes in the capital, which may well prove to be an effective stimulus.
67. The issue of whether local government had reacted with sufficient urgency in some areas was raised and opinion differed on this issue. It was noted that some authorities were now holding local summits to complement the work of the Welsh Assembly Government's economic summits.

### **European funding**

68. We took the decision not to focus on the use of European funds during our inquiry, however, given that they are clearly an effective tool to mitigate the impacts of the current economic downturn, their use and

evaluation of their effectiveness was raised by many of the witnesses who provided evidence.

69. Like many regions the world over, Europe is also facing a protracted period of little or no growth, which will test the European Union's sustainability. However, the validity of the Lisbon agenda with regard to job creation and adding value is clearly relevant to supporting and developing the region's economies.
70. The current rise in the value of the Euro has of course resulted in a windfall with regard to European funding, as grants were calculated when the pound was at a considerably higher level. In a Plenary debate on the Fourth Economic Summit, the First Minister referred to, 'the fact that a remarkably speedy approval system has been established for the windfall gain as a result of the rise in the value of the Euro'. The resultant gain to Wales is calculated at £52 million.
71. We commend the Welsh Assembly Government for renegotiating intervention rates and thus increasing the percentage of European funds available for match funding at a time of pressure on the private sector, which is usually the source of some 30 per cent of match funding.
72. The role of the Programme Monitoring Committee (PMC) in monitoring the performance of structural funds featured in more than one hearing. The role of the Welsh European Funding Office was also raised. While some were highly critical, others observed that there was a need to push up the spend profile of the convergence funds. However, the PMC's work received considerable support from the Wales TUC:

I believe that flexibility has been demonstrated. I do not believe that the whole Lisbon agenda is called into question by this. The unemployment response side – as opposed to the economically inactive side – requires greater prioritisation than was the case

before the downturn, and I believe that that flexibility has been shown.

73. Some experienced commentators feel that the convergence funding projects currently being approved and coming on stream favour the public sector. **We feel that it is important to remember that the private sector will be a key partner in the procurement of services under the schemes.**
74. We will wish to consider the use of convergence funding in more detail in a future inquiry. For now, **we would emphasise the importance of the Welsh Assembly Government using European funds for sustainable projects and to underpin a strategic vision rather than short-term emergency support.**

### **The Role of Finance Wales**

75. Given the impact of the downturn on business, there has been a considerable increase in demand for commercial investment. Finance Wales can help, but as one of our Members observed:

Finance Wales is now becoming not the funder of last resort for investment funding, but often the only source of funding for companies.

76. The issue of the interest rates charged by Finance Wales was raised. The Minister for the Economy and Transport explained that Finance Wales has to charge in line with the European reference rate. At the time of our scrutiny session with the Minister on 12 February, that rate had been reduced to 4.8 per cent.
77. Government officials confirmed that Finance Wales was undertaking earlier involvement with businesses though we have anecdotal evidence that businesses are clamouring for Finance Wales to do

more. **We recommend that the Welsh Assembly Government considers a more comprehensive role for Finance Wales to enable it to provide more routine credit to businesses.**

## **Tourism**

78. One sector which may benefit from the strength of the Euro against the pound and a general lack of disposable household income is domestic tourism and the people of Wales and the UK as a whole deciding to spend their holidays nearer to home than in previous years.
79. Much of the economy of north Wales, for example, depends on the viability of its tourism industry. We therefore feel that there is an especial need to prioritise this sector of the economy this year and to support its potential. We learned from the FSB that 40 per cent of its members were directly or indirectly reliant on tourism.
80. We would emphasise that as part of longer-term measures in supporting tourism in Wales, there is an obvious need to develop a sustainable public transport system and a more purposeful infrastructure.

## **Sustainable growth and green jobs**

81. There is universal endorsement for the Welsh Assembly Government's green jobs strategy. Also, as a result of the Heads of Valley initiative, that area will become Europe's first low-carbon region.
82. CBI Wales suggested that the Government might wish to consider postponing its zero carbon homes ambition until 2016 instead of 2011. since there will be higher standards in Wales than in England. The Wales TUC did not agree. We believe that the Welsh Assembly Government should adhere to its target, since the construction industry is and will be in much need of support during the coming years.

## **Data**

83. Gross value added (GVA) figures paint a gloomy picture of the performance of the Welsh economy in recent years. It produces a lower value of goods and services per head of population than any other UK nation or region and data suggests that there is a widening gap.
83. Academics from Swansea University strongly recommend that we should have better benchmarks in Wales, in order to be able to review performance more effectively and adjust policy accordingly.
84. We have written to the Office for National Statistics questioning why figures for GVA, for example, are not available on a quarterly basis, also why disaggregated figures per region or unitary authority are not more easily accessible and widely available.

## **The Impact of Devolution**

86. Much of this report's contents would seem to indicate that devolution has benefited Wales during these challenging times. It has enabled the Welsh Assembly Government to respond more swiftly, produce made in Wales solutions appropriate to the nature of the Welsh economy, and get closer to its partners and those affected by the downturn. We would not wish to understate the social effects of the current downturn, as we know only too well in Wales of the generational impact of long-term unemployment on individuals, families, and communities.

## **Further work by the Committee**

87. Throughout the course of the remainder of this Assembly, the Committee will undertake a series of inquiries on aspects of the economy, such as the use of convergence funds, the balance between

public and private finance, and in particular will consider the contribution of high value adding sectors.

## **Conclusion**

88. This report has sought to scrutinise the response of the Welsh Assembly Government to the current economic downturn. We conclude that it has done much that it is to be commended over recent months.
  
89. There is however a need to plan for longer-term growth and a higher skills base for when the recovery begins, which is not likely for a few years time. The cross-cutting link between employment and skills, between education and economic development, between knowledge and wealth creation, needs to be strengthened if Wales is to have a vibrant and prosperous future.

## Summary of recommendations

- **We recommend that the Welsh Assembly Government begins publishing immediately information on the implementation of recent and established initiatives for business support, so that the effectiveness of its actions may be scrutinised more easily, openly, and transparently.**
- **We ask the Welsh Assembly Government to note, consider, and respond to these observations. We understand that the Auditor General for Wales is planning a related review and we look forward to receiving the Welsh Assembly Government's response to this also in due course.**
- **We recommend that the Welsh Assembly Government invites an independent review of its cross-portfolio working across all areas of Government responsibility, but with particular reference to the performance of the Department for Economy and Transport and the Department for Children, Education, Lifelong Learning and Skills.**
- **We recommend that, following the fifth summit, the Welsh Assembly Government begins to focus on longer-term planning, and how it might use those economic levers which are at its disposal to underpin a post-recession economy for Wales.**
- **We recommend that, ahead of future summits, the Welsh Assembly Government evaluates the operation of the reference groups and where necessary produces guidance on expected operation and outcomes.**
- **We recommend that the Welsh Assembly Government, as soon as possible, publishes details of the implementation of its ProAct scheme, and where necessary considers how it might simplify the application process for businesses by providing further advice and guidance.**
- **We recommend that the Welsh Assembly Government recommences work on its manufacturing strategy with a view to begin implementing it in the second half of 2009.**

- **Given the importance of this new service, we recommend that the Welsh Assembly Government keeps under review the criteria for FS4B to ensure that they are appropriate to the current economic situation and publishes details of the implementation of the new scheme, including the outputs and outcomes.**
- **Given the importance of this fund, we recommend that the Welsh Assembly Government keeps under review the criteria for the single investment fund to ensure that they are appropriate to the current economic situation and publishes details of the implementation of the new scheme, including the outputs and outcomes.**
- **We are of the opinion that the Welsh Assembly Government, following the example of the Scottish Executive, should be providing more business rate relief, which could help businesses throughout Wales.**
- **We recommend that Value Wales reviews how further acceleration of sustainable procurement practices across the public service would bring forward added benefits.**
- **We recommend that the Welsh Assembly Government takes the lead on the introduction of more effective procurement policies by ensuring that contracts stipulate a deadline for payment to be made to subcontractors and that they contain social clauses, which would allow contracts to provide added social value to communities by, for example, prioritising the need to train employers or provide work to the long-term unemployed.**
- **We see no need for further delay in this matter and therefore recommend that the Welsh Assembly Government implements the Sector Priorities Fund as soon as possible.**
- **We recommend that the Welsh Assembly Government revises the stakeholder arrangements in the SSCs agreements to include further education as a key partner.**

- **We feel that it is important to remember that the private sector will be a key partner in the procurement of services under the schemes.**
- **We would emphasise the importance of the Welsh Assembly Government using European funds for sustainable projects and to underpin a strategic vision rather than short-term emergency support.**
- **We recommend that the Welsh Assembly Government considers a more comprehensive role for Finance Wales to enable it to provide more routine credit to businesses.**

## **ANNEXES**

### **Annex 1 – Written Memoranda**

**12 February 2009**

**Welsh Assembly Government – The Deputy First Minister and Minister  
for Economy and Transport**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=115685&ds=2/2009>

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=115686&ds=2/2009>

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=115997&ds=2/2009>

**26 February 2009**

**Federation of Small Businesses**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=117459&ds=3/2009>

**Venture Wales**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=117499&ds=3/2009>

**5 March 2009**

**Alliance of Sector Skills Councils Wales**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=118369&ds=3/2009>

**12 March 2009**

**CBI Cymru**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=119465&ds=3/2009>

**Wales TUC**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=119259&ds=3/2009>

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=119267&ds=3/2009>

**Welsh Assembly Government – Department for Children, Education, Lifelong Learning and Skills – Paper to Note**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=119028&ds=3/2009>

**19 March 2009**

**Professors David Blackaby and Philip Murphy, Swansea University**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=120401&ds=3/2009>

**Professor Stephen Hill, University of Glamorgan**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=120393&ds=3/2009>

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=120442&ds=3/2009>

**West Wales Business Initiative**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=121222&ds=3/2009>

**Fforwm – Paper to note**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=119956&ds=3/2009>

## **Annex 2 – Transcripts of proceedings**

### **Committee meeting, 12 February 2009**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=117015&ds=2/2009>

### **Committee meeting, 26 February 2009**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=118880&ds=2/2009>

### **Committee meeting, 5 March 2009**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=120779&ds=3/2009>

### **Committee meeting, 12 March 2009**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=122457&ds=4/2009>

### **Committee meeting, 19 March 2009**

<http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-els-home/bus-committees-third-els-agendas.htm?act=dis&id=123782&ds=4/2009>

**Annex 3 – Additional information provided by the Deputy First Minister  
and Minister for Economy and Transport**

**Economic Summits List of Organisations that Accepted Invitation to  
Attend**

<b><u>Invitees 16/10/09</u></b>	<b><u>6/11/08</u></b>	<b><u>5/12/09</u></b>	
Principality BS	Construction Forum	Principality BS	Airbus
Atradius		Atradius	WLGA
Royal Institution Chartered Surveyors	Manufacturing Forum	Manufacturing Forum	Built Environment Forum
Peacocks	WLGA	CBI Wales	CBI Wales
Admiral	IoD	WLGA	TGWU/Unite
Wales Social Partners Unit	Chamber Wales	IoD	Jobcentre Plus
Redrow	FSB	Built Environment Forum	Manufacturing Forum
HSBC	Home Builders Fed	FSB	
Built Environment Forum	ICAEW	Home Builders Fed	Wales TUC
Manufacturing Forum	ACCA Wales	Fed Master Builders	Wales Co-op Centre
WLGA Wales Local Government Assn	Chart Inst Marketing	Chamber Wales	FSB
Confederation British Industry Wales (CBI)	Wales TUC	Thompsons	Fed Master Builders
Institute of Directors (IoD)	TGWU/Unite	GMB	Home Builders Fed
Chamber Wales	Thompsons	Redrow	GMB
Federation Small Businesses (FSB)	Wales Tourism Alliance	Wales TUC	TGWU/Unite
Home Builders Fed	Chair MAG	Road Haulage Assoc	HSBC
Fed Master Builders	Wales Social Partners Unit (WSPU)	TGWU/Unite	Corus
ICAEW (Inst Chartered Accountants Eng & Wales)	Fugro Robertson Ltd	Wales Tourism Alliance	Bangor University
ACCA Wales (Assn Chartered Certified Accountants)	Bangor University	RICS	Wales Employment & Skills Board
Chart Inst Marketing	Redrow	Chair MAG	Chair MAG
Wales Trades Union Congress (TUC)	Airbus	WSPU	North West Economic Forum
Unite	Watkin Jones Group	Chart Inst Marketing	
Thompsons	Unite	ICAEW	
GMB		ACCA Wales	
Corus		WESB	
		HSBC	

## **b) Business support in regard to assisted area status.**

I encourage businesses to contact FS4B for detailed information about the range of support available to them in their area, this advice can be accessed either on 03000 603000 or [www.business-support-wales.gov.uk](http://www.business-support-wales.gov.uk).

Under European guidelines, the proportion of the UK population covered by the Assisted Areas is 23.9%. The UK Government published its findings to the Assisted Areas Review on 10<sup>th</sup> October 2006. The final draft of the UK Assisted Areas was approved by the European Commission and the new map came into force on the 1 January 2007.

Regional aid is not the only way to address development across the country. In fact, most business support schemes do not depend on the regional aid guidelines. They use other types of funding aimed at tackling specific market failures that can occur in any region - such as aid for Research and Development, risk capital, SMEs, training or the environment.

## **c) Commitment of convergence funds to the Further Education sector.**

Funding approved to date under the 2007–2013 programmes will help over 325,000 individuals in the areas of employment, skills and training.

We have encouraged and will continue to encourage the participation of all sectors across the priorities of the 2007–2013 programmes, with many opportunities available for organisations, including those from the FE sector, to benefit from European funding. That benefit can come to them as lead sponsors or as partners in projects, or by tendering for European-funded project delivery activities in response to invitations published on the 'Buy4Wales/Sell2Wales' website.

Although no projects led by the FE sector have been approved to date, FE Colleges in Wales have successfully tendered to deliver activities under the Department for Children, Education and Lifelong Learning and Skills (DCELLS) Work Based Learning programme, which includes the £70m Modern Apprenticeship and £60m Skillbuild projects that are part-funded by the ESF Convergence programme.

The potential for FE sector involvement in the delivery activities of other approved projects lies in particular under Priorities 2 and 3 of the ESF Convergence programme, which focus on addressing economic inactivity through learning and increasing the skills levels of the workforce. These may include, for example, the £30m Gateway, £11m North Wales Intermediary Labour Market, £34m Heads of the Valley City Strategy Pathfinder, £27m Bridges into Work, £3.5m Modern Skills Diploma and £51m COASTAL projects etc.

WEFO are currently discussing with the FE sector the potential for more FE-led projects to move forward in their development.

#### **d) The Role and Operation of Finance Wales.**

Finance Wales was established to provide commercial investment to Wales-based small and medium-sized businesses that either cannot raise – or have difficulty raising – the full investment funding they require from other commercial sources.

Finance Wales plc is a wholly owned subsidiary company of the Welsh Assembly Government and since it began operation in 2001, it has invested £110million in over 2,000 deals which has leveraged a further £350million of private sector investment (most deals involve syndication with banks and other private investors).

The company operates its investment funds on a profit driven and commercial basis. It is overseen by a board of directors sourced from the financial services sector and all investment decisions are taken by an appointed investment committee against commercial criteria.

Finance Wales has over £130m currently under management and provides a range of funding, from small loans of £5,000 upwards to £1m+ equity investment.

Finance Wales has typically raised its funds with money from the private sector, such as banks, to be repaid at a commercial rate. The remaining funding is generally received from the European Commission via the Welsh structural funding programme and forms only part of Finance Wales' overall investment funds.

#### **The availability of credit to SMEs in Wales**

The current financial situation is making it difficult for many businesses to access investment funding. Based on their direct experience, many companies in Wales have reported facing a reduction in the High Street banks appetite to invest, alongside an increase in the banks pricing for credit.

For small loans, some banks are now offering fixed interest rates. For example, The Royal Bank of Scotland will provide a 10 year loan of up to £15,000 at a fixed rate of 10.4 per cent. Others, such as HSBC, offer between 7.9 per cent and 14.9 per cent, also for loans up to £15,000 and with the final rate depending on the credit worthiness of the business and the available security.

Finance Wales is continuing to invest in Wales-based small and medium-sized businesses and during 2008/2009 Finance Wales' year-on-year investment rate has increased. Reflecting a marked increase in enquiries, cumulative investment to the end of January 2009 reached near £17 million compared to a January 2008 figure of £12.5 million.

Finance Wales' investments also help businesses access additional capital to achieve adequate funding, particularly important in the current climate. In

2007/08 Finance Wales invested £20.8million in Wales-based SMEs through 185 investments, of which 151 were syndicated with other financial partners, including high street banks and private individuals such as business angels.

### **Finance Wales interest rates**

The interest rates charged on Finance Wales' loans are calculated on an individual basis, based on the risk associated with a particular deal and in accordance with the European Commission's reference rate regulations. The European Commission's reference rate regulations require Finance Wales' interest rates to be set at 4 to 10 per cent above the European reference rate for the UK (currently this stands at 3.58 per cent, although it has been over 5 per cent throughout 2008). Reference rates are set by the Commission based on market conditions to ensure the efficient use of state aid.

As per its remit, Finance Wales often invests in businesses which have limited - or no - security and therefore are higher risk. Since 2001, the average rate applied across the 934 Finance Wales loans that are still active (e.g. those which are yet to be fully repaid) is about 10.5 per cent.

Finance Wales is not permitted to compete on pricing with other private funders, nor does it seek to do so. Indeed, not being a bank, the organisation also operates a significantly different product portfolio and cost structure. However, it is clear that Finance Wales' pricing policy is comparable with that of the High Street banks, as well as acting in compliance with the European Commission reference rate regulations.

### **e) Information on the number of Welsh businesses which have benefited from BERR schemes.**

As these schemes have only recently been launched by the Department for Business, Enterprise and Regulatory Reform (BERR), there is insufficient data at present on take-up by geographic area. This is an issue which the Wales Office is pursuing and also the National Economic Council, which is turning its focus increasingly towards delivery indicators. Data is available however on the new 'Time To Pay' arrangements announced by the Chancellor in the Pre-Budget Report in November 2008. HM Revenue and Customs has created a new business payment support service which allows businesses to spread their tax payments over a timetable they can afford. To date, just over 2,500 'Time To Pay' agreements have been made in Wales at a value of £37.8m. We have been in contact with the Wales Office to see if anything further can be done to increase awareness and take-up. HMRC advise that sectors of the economy hardest hit by the current economic circumstances have benefited most - construction, retail and manufacturing businesses together comprise almost half of the UK-wide deferrals.