

Council for Economic Renewal Meeting

**Notes of the meeting held at 10:30am on Monday 6 October in Conference Room 6,
Welsh Government Offices, Cathays Park, Cardiff**

Ministers in attendance

Minister for Economy, Science and Transport
Minister for Communities and Tackling Poverty (Agenda item 4)
Minister for Finance and Government Business (Agenda item 5)

Stakeholders in attendance

Sheila Bearcroft, Wales TUC
Paul Byard, Chair of Commerce Cymru
Iestyn Davies, FSB
Heather Eason, WSPU (Observer)
Rob Edwards, Wales TUC
Ifan Glyn, FMB
Robert Lloyd Griffiths, IoD
Richard Houdmont, CIM
Peter Hughes, CML
Leighton Jenkins, CBI (Observer)
Mark Judd, WSPU (Observer)
Nigel Keane, WSPU
David Morgan, RICS
Martin Mansfield, Wales TUC
Graham Morgan, SWCC
Keith Palmer, Chamber Wales
Robert Sneddon, Wales TUC
Derek Walker, Wales Co-operative Centre
Martin Warren, ICAEW
Emma Watkins, CBI

Apologies

Ian Gallagher, FTA
Mark Harris, HBF
Alex Jackman, FPB
Lowri Morgan, Law Society
Phil Orford, FPB
Nick Payne, RHA
Huw Roberts, IoD
Huw Thomas, NFU
Ben Cottam, ACCA

Welsh Government special advisors and official attending

Andrew Bold	Tracey Burke
Kate Cassidy (Agenda item 4)	Andrew Jeffreys
Glyn Jones (Agenda item 5)	Marcella Maxwell
Mick McGuire	Huw Morris
James Price	Jonathan Price
Sara Ahmad (Agenda item 4)	Huw Griffiths (Minute taker)
Steve Layne (Minute taker)	

1. Introduction and opening remarks

- 1.1 The Minister for Economy, Science and Transport welcomed members to the meeting. Apologies were given for the First Minister who was unable to attend the meeting and for the Secretary of State for Wales who had experienced transport delays.
- 1.2 The Minister for Economy, Science and Transport set out the main agenda items. These were:
 - energy prices
 - the impact of the UK Government's welfare reform in Wales
 - the economy and economic indicators
 - Council for Economic Renewal future ways of working.
- 1.3 The Minister for Economy, Science and Transport explained that the Minister for Communities and Tackling Poverty would join the meeting for the discussion on welfare reform and that the Minister for Finance and Government Business would join the meeting for the discussion on economic indicators.

2. Energy prices

- 2.1 Paul Byard introduced the Commerce Cymru paper '*Climate Change Policy Costs and Energy Intensive Industry*'. He explained that the paper placed into context the key issues that require consideration prior to the UK Government's Autumn Statement.
- 2.2 It was pointed out that UK energy prices compare unfavourably with competitor nations (£71 per mega watt hour in the UK compared to €30 in Germany; €40 in France and €42 in Spain). It was highlighted that this relatively uncompetitive position has significant implications for the UK economy, acting as a barrier to investment and the rebalancing of the economy.
- 2.3 Rob Edwards explained that the rising costs of energy were a particular issue for the workers he represents in the iron and steel industry. Rising costs also had wider ramifications, given the geographic spread of the industry with major facilities around Wales. Tata Steel in Shotton and Port Talbot, along with Celsa in Cardiff were cited as examples of this geographic spread and that energy prices posed a threat to the future of this sector.
- 2.4 Rob Sneddon spoke of his experience as Chair of a TUC working group on ELLs. In a recent report, the group had sighted Celsa as an interesting case study highlighting rising energy costs. In the period 2008-13, the study showed that Celsa Cardiff's labour costs were benchmarked as 25% lower than the average for the Celsa Group as a whole, however, over the same period, their energy costs ranged between 30% and 40% higher than the average. These rising costs were an impediment to investment and performance. It was suggested that bringing forward Renewable Obligation and Feed In Tariff compensation should be a priority for Government.

- 2.5 The Council collectively agreed that energy costs are having a significant impact on business. This impact is compounded by relatively higher costs in the UK compared with its competitor nations and is potentially deterring investment from existing and new investors.
- 2.6 The Minister for the Economy, Science and Transport noted that a number of key issues had been highlighted, which merit further consideration by the UK Government. The Minister suggested that the Council paper should be forwarded to the Secretary of State for Wales and that a small delegation of the Council meet with the Secretary of State for Wales along with the First Minister.

ACTION POINT: Officials to arrange for the Council Paper entitled '*Climate Change Policy Costs and Energy Intensive Industry*' to be shared with the Secretary of State for Wales and for a meeting to be arranged between the First Minister, a delegation of the Council for Economic Renewal and the Secretary of State for Wales to discuss the impact of energy prices on energy intensive industries.

3. Notes and actions from meeting held on 2 June

- 3.1 The Minister for Economy, Science and Transport asked members if there were any comments, questions or observations relating to the notes and actions of the last meeting.
- 3.2 Martin Mansfield referred to paragraphs 6.4 and 6.11 of the 2 June meeting note which related to comments he had made on procurement. He emphasised that the Welsh government should ensure that the transposing of EU Procurement Directives allowed maximum flexibility for government action in reserving contracts by incorporating the widest possible definition of 'disadvantaged workers'. He also said that sustainable development had three equal strands - economic development and social well being as well as sustainable environment. In this context he asked that the Well-being of Future Generations (Wales) Bill be drafted so that it can be used as a vehicle to put statutory force behind the local delivery of Welsh Government procurement policies, including the social clauses.
- 3.3 There were no other comments on the notes and actions from the 2 June meeting. The Minister for Economy, Science and Transport commented on how these should be linked together and agreed that the points raised by Martin Mansfield would be provided to the Minister for Finance and Government Business.

ACTION POINT: The Minister for Finance and Government Business to be advised of Martin Mansfield's comments on transposing EU Procurement Directives in their widest sense to encompass disadvantaged workers and the opportunity to use the Well-being of Future Generations (Wales) Bill as a vehicle for sustainable procurement.

4. Impact of the UK Government's welfare reforms in Wales

- 4.1 The Minister for Communities and Tackling Poverty introduced the Welsh Government paper. The Minister emphasised that the UK Government's Welfare Reform Act has introduced the most significant changes to the welfare system in 60 years. Whilst recognising that the welfare system is non-devolved, the Minister highlighted that the impact for Wales will be significant, amounting to an estimated loss of around £1billion per year.
- 4.2 The Minister for Communities and Tackling Poverty explained her role in Chairing a Task and Finish Group, established by the First Minister, which assesses and monitors the impact of the welfare reforms in Wales. The collective view is that the UK Government's welfare reforms are too deep, too quick and too large and are being felt by those in work, those out of work and those not able to work.
- 4.3 There is also evidence that the impact of the reforms are not evenly spread, with some communities particularly affected. In addition, there were some damaging and unintended consequences such as the impact of the 'bedroom tax' on the social housing sector. The Minister explained that the Welsh Government's focus was in taking mitigating action, the Council Tax Reduction Scheme was cited as an example of this. Despite budgetary challenges, the Welsh Government's focus remained on helping people and communities to manage change and to keep people in employment.
- 4.4 Sheila Bearcroft commented that the UK Government's approach to welfare reform was an attack on the poorest. In her view the recession was created by the irresponsible attitude towards risk of some parts of the banking sector, but that the costs of the recession were now being borne by the poorest in society, a situation exacerbated by welfare reforms.
- 4.5 The Minister for Communities and Tackling Poverty alluded to recent research undertaken by Sheffield Hallam University, which showed that the impact of welfare reform is felt in every community, but that it is the most deprived communities that are being hardest hit.
- 4.6 The Minister for Communities and Tackling Poverty also acknowledged that the impact of welfare reforms in some regions impacts on areas and not just households.
- 4.7 Derek Walker focussed his comments upon digital inclusion. He emphasised that many of the budgetary tools, along with job applications and benefits, were increasingly moving toward an online presence, making life even more difficult for those who are excluded from the digital environment. He alluded to a programme run by the Wales Co-operative Centre that has so far helped 50,000 people with digital inclusion and has had a transformative effect. There was a concern that this programme is due to end in March and the impact this may have at such a critical time.

- 4.8 The Minister for Communities and Tackling Poverty recognised the comments made by Derek Walker and was aware of the programme. The Minister is due to meet with officials and has asked for an evaluation of the programme.
- 4.9 Peter Hughes praised the quality of the paper in setting out very clearly the key issues. He emphasised the important role of debt advice and housing support in heading off some issues adeptly.
- 4.10 Iestyn Davies said the source of the problem and the consequences of welfare reform are undeniable, but that the challenge was identifying what practical action can be taken. He pointed to the role of ERDF in acting as a catalyst for change in the most deprived communities. He said that ERDF's successes could be looked at and there was a real difference between mitigation and restoration. He said the Programme Management Committee was undertaking work to better understand why outcomes in some Structural Funds areas were more positive than in others. He said it was important not to lose focus, because given current budgetary pressures; investment in mitigation will leave less room for investment in the long-term structural issues. This 'opportunity cost' highlighted the importance of taking decisions which are informed by a strong evidence base. He also mentioned that introductory grades of manufacturing work can often be the first step in the world of work for some people.
- 4.11 The Minister for Communities and Tackling Poverty said that WEFO funding had a critical part to play in tackling some of the long-term structural issues. The Minister also highlighted that in those communities most affected by welfare reform, the small business sector was impacted by the reduction in consumer spending. The Minister mentioned research by Sheffield Hallam University, which has analysed the impact on small businesses and households.
- 4.12 The Minister for Economy, Science and Transport said that the Council would be provided with further updates on the work on welfare reform as it progresses.

ACTION POINT: Officials to keep the Council updated in relation to the work on mitigating the impact of welfare reform.
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5. Economic update and indicators

- 5.1 The Minister for Economy, Science and Transport asked the Minister for Finance and Government Business to introduce the next item. The Minister for Finance and Government Business said that she had asked the Welsh Government's Chief Economist (Jonathan Price) and Chief Statistician (Glyn Jones) to undertake a review of appropriate economic indicators for Wales. It was explained that having a range of appropriate indicators in place was important, particularly in the context of new fiscal powers in relation to the devolution of some specific taxes and borrowing. The Minister also set out how she had written to all AMs to update them on this work and that the Minister for Economy, Science and Transport would also consult with the

Chairs of the Sector Panels. The purpose of discussion was to obtain some views from the Council.

5.2 The Minister for Economy, Science and Transport asked Jonathan Price to say a few words on the economic position generally, before turning to the economic indicators paper.

5.3 Jonathan Price said that:

- the latest labour market data showed that Wales was moving broadly in line with the UK position as a whole;
- monthly data, such as that regarding the labour market can be subject to significant volatility and therefore it was important to reflect upon medium to longer-term trends to get a full picture;
- employment has grown faster in Wales than in the UK since devolution and that the large majority of these jobs have been in better paid occupations, in the private sector;
- inactivity has been increasing, though this would normally be a concern, the cause may be volatility in the data;
- wage growth remains subdued, the recovery is not on the whole being reflected in wage packets as yet;
- the current rate of growth is healthy, but this remains the slowest recovery from a recession since the 1920s.

5.4 Jonathan Price introduced the paper on economic indicators and explained its three conclusions as:

- *monitoring the economy requires a basket of high-level indicators.* No single indicator provides a comprehensive picture. He explained that GVA per head, which is often quoted as a measure of progress, suffers from a number of limitations including the extent to which it is influenced by the dependent population (which is relatively high in Wales) and the outputs of larger cities (of which there are few in Wales). For these reasons there is a need to look at a small basket of indicators which would include:
 - GVA per head
 - GDHI per head
 - Employment rate
 - Poverty rates
 - Average earnings
 - Wealth per head.

- *the production of quarterly GVA data is feasible but the rationale for it is not strong.* It was explained that quarterly GVA data can be subject to significant volatility and revision. This volatility may account for the lack of other devolved administrations and federal states that produce quarterly GVA data. With the exception of Scotland (and possibly Northern Ireland in the near future), the absence of GVA quarterly data for the German Lander, the individual US federal states or the Canadian provinces were noticeable. Further, it was noted that the Welsh Government's policy levers tend to be supply-side levers that operate over the longer-term (skills, business support, and infrastructure). Given the absence of short-term policy levers, the rationale for a short-term measure such as quarterly GVA per head was not considered particularly suitable. It was felt that where the Welsh Government does need to respond to short-term challenges that monthly labour market information would be more appropriate than quarterly GVA per head data.
- *new powers in relation to tax and borrowing places requirements for data and analysis to be kept under review.* It was explained that the set of indicators and any associated requirements for data and analysis should be kept under review as and when the Welsh Government acquires additional powers. In this context the appropriateness of an all purpose model of the overall economy was discussed. It was explained that this issue had been thoroughly researched about 10 years ago by academics and the conclusion was that a model of the overall economy would be unlikely to be sufficiently robust to support policy development. Amongst the reasons for this were the close integration of the Welsh and the rest of the UK economy which would make accurate modelling of the Welsh economy incredibly difficult. It was suggested that this might be an area for further research, potentially through the funding of a number of PhD studentships.

- 5.5 The Minister for Finance and Government Business said that the views of the Council on the suggested approach would be welcome.
- 5.6 Paul Byard said it would be useful to have an economic indicator set that were more akin to a forward looking set of key performance indicators. This would enable a forward vision to be connected to its implications. He cited the example of a vision of moving from a manufacturing base of 13.4% of employment to 25% and understanding from the indicators what the implications of that would be. He advocated such an approach would enable us to benchmark against other economies.
- 5.7 Martin Mansfield said it was right to look at a basket of indicators but that measuring the impact of UK Government decisions on the economy was also important. He said that in terms of outcomes, greatest benefit could accrue by focussing interventions on those areas with the greatest deprivation, rather than spreading the focus of interventions on a pan-Wales basis.

- 5.8 Iestyn Davies said that a reworking of GVA type indicators would not be particularly helpful. He echoed Paul Byard's point about the need to be forward looking; reflecting that the indicators set needed to be akin to KPIs and management type information. Taking the Well-being of Future Generations (Wales) Bill as the lead in terms of the type of Wales we want to see i.e. more robust, stronger, healthier. He emphasised that a strong indicators set would aid the Council in its deliberations, given that it would provide a stronger rationale for decisions than anecdotal evidence or limited survey data compiled by organisations represented on the Council.
- 5.9 Iestyn Davies also said it would be useful if the indicators looked at the regional economies of Wales, for example in terms of understanding poverty by measuring the availability of free school meals in specific local areas, the number of hours worked as a means of unpicking productivity issues and better understanding inactivity by breaking it down by age and gender. He also said there was a need to make better use of real-time information such as VAT returns. He also mentioned an event in November which would be focussing on economic indicators.
- 5.10 Graham Morgan asked whether it would be worth considering issues such as overseas trade and the number of business births and deaths in the indicator set. He also said there was a case for measuring 'lifestyle' issues which are a factor in influencing business relocation to Wales.
- 5.11 Jonathan Price recognised the points raised. He commented that there is a great deal of potentially available data, but that the purpose of the review was to hone in on a high-level data set. He said that looking at real-time information such as VAT returns may be of limited value for the reasons stated earlier, about the Welsh Government having medium and longer-term policy levers and therefore basing policy decisions on short-term indicators may not be appropriate.
- 5.12 David Morgan said that it was important that the indicators are forward looking.
- 5.13 The Minister for Finance and Government Business recognised the importance of looking forward in economic modelling. The Minister said that more information would be welcome on the event scheduled for November that Iestyn Davies identified. The Minister said further work would be undertaken in fleshing out the economic indicator set and that it would be useful if the Council could be used as a sounding board in this.
- 5.14 Iestyn Davies welcomed continued engagement on this issue and said he would be content to engage in any future papers.
- 5.15 The Minister for Economy, Science and Transport said that a delegation of the Council could meet with Jonathan Price to feed in their thoughts on any further work.

- 5.1 The Minister for Economy, Science and Transport drew the discussion to a close and noted the Council's agreement to the paper's key recommendations (below) noting that these will be further informed by the discussion between Council Members and Jonathan Price:

- A) Beneficial to develop and publish a small basket of indicators to monitor the performance of the Welsh economy in a rounded manner that avoids undue focus on any one aspect.
- B) There is no policy requirement for a quarterly indicator of GVA for Wales, which is in any case likely to be subject to heavy revision. However, the lowest cost option for developing such an indicator results in a minimal increase in costs, and a final decision should reflect the views of stakeholders.
- C) The requirement for further data and analytic tools should be kept under review as the Welsh Government acquires new powers. In particular, further research is required to investigate whether developments in the approach to economic modelling suggest that the earlier conclusion that the development of an all-purpose model of the Welsh economy was unlikely to be cost effective should be revised.

ACTION POINT: Officials to arrange for a meeting to take place between some members of the Council and Jonathan Price to discuss the economic indicators work.

6. Future ways of working (Council for Economic Renewal)

- 6.1 The Minister for Economy, Science and Transport reminded the Council that there had been a good discussion about future ways of working at the previous Council in June. The Council had endorsed a way forward which included a reconstituted Council working group with revised Terms of Reference.
- 6.2 Martin Mansfield recognised the importance of compromise, noting that not all of the points raised by the Wales TUC had been fully taken on board, but nevertheless the Wales TUC were fully committed to a shared Council agenda and looked forward to reconstitution of a more pro-active working group which would provide an opportunity to review membership.
- 6.3 Paul Byard echoed Martin Mansfield's comments and stated that Commerce Cymru looked positively upon the proposals for a reconstituted working group.
- 6.4 Tracey Burke commented that the next steps were to agree the membership of the reconstituted Council working group. The Wales TUC had formally responded with their agreement and that a similar formal response is awaited from Commerce Cymru.

ACTION POINT: Commerce Cymru to provide their membership for the Council working group for formal agreement.

7. Any other business

- 7.1 The Minister for Economy, Science and Transport invited the Council to raise issues relating to any other business.
- 7.2 Martin Mansfield commented that the Welsh Government paper to note, entitled '*Health and Social Services in the Economy*', was well considered in highlighting the NHS as a major economic player and more broadly, the economic impact of the health and social services. He suggested that this approach would be beneficial to other public sector organisations.
- 7.3 The Minister for Economy, Science and Transport invited the Council to discuss the economy more broadly in terms of how the Council felt that Wales was currently performing and future opportunities and challenges.
- 7.4 Martin Mansfield said that, although there were signs of economic recovery and growth, these were not feeding into pay packets. As such there was still huge concern about the cost of living, in work poverty and under-employment. It was highlighted that under-employment was a multifaceted issue that could include low pay, insufficient hours and an inability for individuals to progress from entry level jobs, even though they may have acquired the skills, knowledge and experience to progress. It was explained this lack of progression effectively creates a bottle-neck and affects career opportunities, since entry level jobs are occupied by people who are denied opportunity of progression and so restricting the availability of entry level jobs to those who need them.
- 7.5 Graham Morgan commented that wage inflation is creeping into some sectors and a recent Chambers survey had shown a reduction in overseas orders and sales. Some of this may be a result of the impact of rising energy costs and the exchange rate. There was also some concern as to a lack of quality commercial property in mid Wales, recognising that this was an issue that the Welsh Government is taking action to address.
- 7.6 Emma Watkins said there was rising business confidence accompanied by clear signs that the economy was recovering. There was concern that the pace of recovery was slower in Wales than in some other parts of the UK and that it was being driven primarily by the services sector. The importance of high-level skills was emphasised and some of the issues raised by Martin Mansfield about under-employment were shared in the CBI's analysis, although the suggested policy solutions may differ. More specifically, an instance of a business waiting eight months for a Welsh Government decision on investment support was raised. It was noted that business feedback concerning the speed and efficiency of Welsh Government consideration was on the whole positive, but that in this instance the delay potentially jeopardised a major investment decision. It was reported that some businesses are considering wage increases but this would be affected by productivity.
- 7.7 The Permanent Secretary and James Price emphasised that the Economy Department places great store in its ability to respond quickly and efficiently.

The Council were encouraged to bring forward any further examples that they were aware of where businesses have incurred unacceptable delays in obtaining a decision from Welsh Government, so that appropriate action may be undertaken to expedite matters. To this end, it was agreed James Price's contact details would be circulated, so that any evidence of Welsh Government delays could be raised with him.

ACTION POINT: Officials to circulate James Price's contact details to members of the Council.

- 7.8 David Morgan highlighted the importance of key strategic infrastructure to the economy of Wales. He emphasised the M4 relief road and rail electrification as key examples.
- 7.9 The Minister for Economy, Science and Transport said such strategic infrastructure investments were vital for road and rail and had significant positive implications for the construction industry with reference to the multiplier effect.
- 7.10 Graham Morgan emphasised the importance of skills in ensuring that Wales had the capability, having the capacity to respond to strategic infrastructure investments without an over-reliance on migrant workers and also mentioned supply chain opportunities.
- 7.11 The Minister for Economy, Science and Transport emphasised the work that had been undertaken in relation to Wylfa in terms of impacts on the supply chain and skills requirements, as evidence of how the Welsh Government plans for major investments and how this might be used as a model for other infrastructure projects.
- 7.12 Peter Hughes commented that the future of the housing market looks more upbeat than 12 months ago – with more transactions taking place in a sector which is subject to increasing regulation.
- 7.13 Robert Lloyd Griffiths echoed Emma Watkins comments about returning business confidence. He said that a number of recent research findings had demonstrated that business confidence is higher now than it has been at any point in the last six to seven years.
- 7.14 James Price commented that we are seeing an increase in good projects and asked the Council to help the Economy Department deliver for business in a timely way.
- 7.15 Paul Byard highlighted the impact of high energy prices, skill shortages and a lack of apprentices and engineers translated into a lack of investment in new technologies. He said that we want companies to bring new products to market but there are delays in bringing innovation forward which needs to be addressed. He suggested that there were some limitations and constraints to how much could be achieved in terms of rebalancing the economy under the current economic framework. He pointed toward evidence that suggested that increasing manufacturing employment by 100,000 could lead to a further

400,000 jobs in the supply chain and said that at least a further 5,000 manufacturing apprentices a year were required over the next 10 years.

- 7.16 Iestyn Davies recognised that this was a generally upbeat and positive discussion on the economy. He said it was clear that the challenges of recession on the one hand and recovery and growth on the other were different. In particular, he commented that skills remained a central challenge in terms of the need to match skills to growth and skills to business requirements against the backdrop of budgetary cuts.
- 7.17 The Minister for Economy, Science and Transport thanked the members for an interesting discussion and said that many of the issues highlighted, in particular skills provision, warranted further discussion at the next Council meeting.

<p>ACTION POINT: Official to commission a paper on skills, the recovery and growth for presentation and discussion at the next Council for Economic Renewal meeting in February.</p>

- 7.18 The Minister for Economy, Science and Transport closed the meeting by thanking everyone for their attendance and contributions. It was noted that the paper to note Annual Update Report from the Department for Education and Skills had only issued a short-time before the meeting and so written comments from Council members were welcome on this.