

Council for Economic Renewal Meeting

Notes of the meeting held at 10:30am on Monday 9 February in Conference Room 6, Welsh Government Offices, Cathays Park, Cardiff.

Ministers in Attendance

First Minister

Minister for Economy Science and Transport

Deputy Minister for Skills and Technology (Agenda item 4)

Minister for Finance (Agenda item 5)

Stakeholders in Attendance

ACCA – Ben Cottam

CBI – Emma Watkins

CBI – Leighton Jenkins (Observer)

Chamber Wales – Keith Palmer

CML – Peter Hughes

EEF/Chair of Commerce Cymru – Paul Byard

FSB – Iestyn Davies

HBF – Mark Harris

IoD – Robert Lloyd-Griffiths

IoD – Huw Roberts

RICS – David Morgan

South Wales Chamber of Commerce - Graham Morgan

The Law Society – Lowri Morgan

Wales Co-operative Centre – Derek Walker

Wales TUC – Martin Mansfield

Wales TUC - Alex Bevan

Wales TUC – Gareth Jones

WSPU – Nigel Keane (Observer)

WSPU – Heather Eason (Observer)

WSPU – Mark Judd (Observer)

Apologies

CIM – Richard Houdmont

FMB – Ifan Glyn

FTA – Ian Gallagher

ICAEW – Martin Warren

NFU – Huw Thomas

RHA – Nick Payne

Welsh Government special advisors and officials attending

Derek Jones, Permanent Secretary

Jeff Andrews – Agenda Item 5 only

Andrew Bold

Tracey Burke

Rachel Garside-Jones – Agenda item 4 only

Andrew Jeffreys – Agenda item 5 only

Huw Morris – Agenda item 4 only

Mick McGuire

James Price

Jonathan Price

Hugh Rawlings – Agenda item 5 only

Huw Griffiths – Note taker

Rebecca Johnson – Note taker

1. Introduction and opening remarks

- 1.1 The First Minister opened the meeting by welcoming members and explained that the format of meetings had changed with fewer items to leave more time for discussion.
- 1.2 The First Minister set out the main agenda items. These were:-
 - Notes and actions from the last meeting
 - Economic round-up
 - Skills, Recovery and Growth
 - Constitutional Change, Devolution and Fiscal Policy.
- 1.3 There were three papers to note: Terms of Reference for the Executive Working Group; Green Growth update; and, Business Scheme Review update.
- 1.4 The First Minister explained that the Deputy Minister for Skills and Technology would join the meeting for the discussion on the skills paper and the Minister for Finance and Government Business would join the meeting for the discussion on the paper on constitutional change and fiscal policy.
- 1.5 The Council meeting dealt with some updates arising from the October meeting as set out below before proceeding to the papers.

2. Notes and actions from meeting held on 6th October 2014.

- 2.1 The First Minister asked for any comments on the notes and if any issues of accuracy arose - none were reported.
- 2.2 The notes were agreed as an accurate record of the last meeting.
- 2.3 The following comments were made on the actions of the last meeting:
 - 2.3.1 **Energy prices** - The First Minister provided an update on Energy matters. He reported that some Council Members had met the Secretary of State for Wales with the Minister for Economy, Science and Transport.
 - 2.3.2 The First Minister also commented that the Secretary of State for Business Innovation and Skills had written to him in respect of the issues surrounding energy pricing.
 - 2.3.3 **Procurement** - Martin Mansfield commented that this was an area that Wales TUC would like to consider further at the Executive Working Group. The First Minister advised that this would be picked up in AOB.

3. Economic round-up discussion.

- 3.1 The First Minister asked Jonathan Price to comment on the Economic round-up item and suggested that there were three key issues – exports, employment and investment.
- 3.2 Jonathan Price updated the Council in that there had been a series of meetings between the Chief Statistician, some Council Members and Jonathan Price on economic indicators. Jonathan Price summarised the issues raised at the meetings.
- 3.3 Reporting quarterly GDP - Updating the Council on the use of quarterly GDP figures in economic profiling, Jonathan Price's view was that Welsh Government economic policy levers are viewed over the longer term. He recognises the point made about the use of quarterly GDP figures and will take further views on their use.
- 3.4 Data Analysis Techniques - He commented that data and analytical techniques were under review as to the potential to analyse the macroeconomic model for the Welsh economy separate from the UK. This will be kept under review and Jonathan Price would look into this with academics.
- 3.5 Jonathan Price commented that for a future meeting of the Council it would be interesting to put issues into a medium to long term context. Although we have had some economic growth in the last year or so, his view was that the economy is way behind where it could be and sight needs to be maintained on the longer term perspective.
- 3.6 The forecast for economic growth this year is 2 to 2.5 per cent but expressed caution about the difficulties faced by forecasters in making predictions on economic growth.
- 3.7 Jonathan Price turned to global issues which could potentially influence the economic outlook. Lower oil prices provides positive news for growth that in his view could be worth up to 1% over a year. However, geopolitical risks across Eastern Europe and Ukraine were also identified.
- 3.8 Giving the Council his views on Welsh labour market data, Jonathan Price's view was that data at the Welsh level can be regarded as volatile but broadly in line with UK economy. He said that Welsh Government uses a range of data when examining this area such as claimant count and data from employers. This provides a reasonably strong dataset but there are some uncertainties.
- 3.9 Turning to questions from the Council, the Minister for Economy Science and Transport raised a point about Alan Greenspan's comments on the Eurozone and if the economy in the future could be more like Japan's.

- 3.10 Jonathan Price commented that these things are difficult to predict. He indicated that it would be prudent to prepare for adverse outcomes but that this is difficult to predict. Commenting on Japan's economic situation, Jonathan Price commented that the demographic situation of a smaller working age population and lower working hours has meant that their economy has had to endure economic changes. He said that the feature of lower growth in the Western World could be argued to be due to aging populations and whether engines of innovation are slowing down, but articles on this are inconclusive.
- 3.11 The Minister for the Economy Science and Transport opened up this item up for wider discussion.
- 3.12 Gareth Jones said that his organisation sees poverty wages and insecure employment as a current feature of the economy where temporary contracts, agency workers, more flexible employment practices are evident. He welcomed Welsh Government initiatives to support existing business and inward investment. Gareth Jones said that he welcomed businesses investing in Wales but raised a point about some inward investor businesses not wanting to engage with Social Partners. He therefore called upon the Welsh Government take action to get such businesses to engage more openly.
- 3.13 Emma Watkins reported that exports were pretty flat in 2014 but members of the CBI were more hopeful for 2015. She reported that on businesses' employment intentions over half plan to take on more people and there is a shift from temporary to permanent workers. She too was uncertain about what will happen in the Eurozone and commented that the matters Jonathan Price spoke about are rising up the risk register for businesses.
- 3.14 Robert Lloyd Griffiths endorsed Emma's points and reported that his members are employing new staff whereas last year they were only in the planning stage.
- 3.15 Graham Morgan said that there is a reduction in certain markets like trade to Europe so business needs to adjust. He commented that there has been a 32% increase in documentation relating to trade with Middle East nations. He added that it is important to find the right types of people in areas like ICT and engineering and to manage the positive impact of tourism and the economic benefits of overseas students coming here.
- 3.16 Peter Hughes provided an update on the financial sector. He reported positive news on interest rates which means good news for house buyers but not such good news for savers who outnumber house buyers by ten to one. He reported positively on investment, employment, greater volumes in residential and commercial lending. Forecasts were made for lower levels of arrears and more resilient housing market for 2015–16 as the banking sector is now well capitalised.

- 3.17 Paul Byard commented that confidence in manufacturing has waned for the year ahead. There was a concern that the last Autumn statement offered little towards issues concerning energy. He mentioned the reindustrialisation of Europe and enquired what we can do in respect of our own strategy to compete.
- 3.18 Huw Roberts enquired about the frequency and complexity of quarterly reports. He offered a view that there is a difference between private sector and public sector reporting and suggested moving to a system of averages to get management information more readily.
- 3.19 Ben Cottam told the Council about new funding models like crowd sourcing. He spoke of an increasing level of investment within the area of financial shared services and that he had been in contact with the Financial and Professional Services team about Wales being a centre for this type of activity.
- 3.20 Jonathan Price summarised that there is a need for the economy to generate growth over the longer term. He reported that pay is rising faster than prices and expected further improvements. On the use of management information and quarterly indicators, he commented that in his review he has sought to link indicators to policy levers using high level indicators like employment and wages. The Welsh Government levers operate in the medium to long term and there may be factors that affect the Welsh economy in the shorter term e.g. Bank of England decisions but his view was that quarterly indicators are not as useful.
- 3.21 Iestyn Davies commented on the useful pack of economic analysis that members had for the meeting and thanked those involved in its preparation.
- 3.22 Iestyn Davies raised a point about sub-regional variation in the UK context and wanted to explore a NUTS 3 level analysis to build an economic picture.

ACTION POINT: Officials to arrange a dialogue between Jonathan Price and Iestyn Davies to discuss sub-regional variation in the UK context and the potential of exploring a NUTS 3 level analysis to build an economic picture.

4. Skills, Recovery and Growth

- 4.1 The First Minister introduced the paper on: Skills, Recovery and Growth which was presented by the Deputy Minister for Skills and Technology.
- 4.2 The Deputy Minister said that that the Department for Education and Skills published their strategy on skills in January 2014 and their Skills Implementation Plan followed in July 2014. This outlines skills development in Wales and aims to support development of the right skills for the right jobs that support growth. She explained the need for innovative solutions to enable employers to invest and the policy of co-investment in skills indicates employers are expected to play their part.

- 4.3 Welsh Water / Dwr Cymru was cited by the Deputy Minister as a positive example where employer investment in workforce skills demonstrated the difference that development of skills made to the bottom line, to the company and their workers' lives through better health and outlook. The Deputy Minister wished to capitalise on growth opportunities in the economy whilst operating under budgetary pressures so it was important that the right investment is made at the right time.
- 4.4 The Deputy Minister informed members of some of her engagement with stakeholders and she said that the Paper has some overarching aims such as highlighting the importance of Regional Skills Partnerships which link up providers and businesses and the money going into them in order to ensure investment in the right skills for the region.
- 4.5 Alex Bevan stated that we need to identify when people need training and education to avoid disciplinary issues at work in the first place. He raised as an issue those employers that consistently refuse training and said this needs to be addressed. He added this is important as it can affect career development as individuals will rely on training in their current workplace before moving onto another. Alex Bevan acknowledged the rising demand for higher level skills but warned about overemphasising this to the expense of more essential skills areas, suggesting that Level 2 skills development is still important, so it needs careful consideration. He added that many people who need to up-skill are already in the workforce so this could have an effect on new starters coming into the workforce. David Morgan said he wanted to discuss promoting the positive image of the construction sector with the Deputy Minister and recognised that career advice services need to improve in how the construction industry is portrayed.
- 4.6 Iestyn Davies referred to paragraph 14 of the paper which states each Regional Skills Partnership will produce a Regional Employment and Skills Plan by April 2015. He asked how close we are to meeting the deadline and to what extent can credit be given to individual companies for Level 4 investment and above. He recognised the need to recognise businesses that are committed to skills and growth.
- 4.7 Ben Cottam asked how the professions fit into the apprenticeship model and suggested that if we are able to grow areas such as the professions this would provide individuals with added social mobility within the relevant business sector. He also identified the need for better careers advice around the professions.
- 4.8 Lowri Morgan added that helping with Level 3, Level 4 and Level 7 could provide for opportunities and build capacity and social mobility. She further commented that her members were excited about the potential for staff to study whilst working.

- 4.9 Emma Watkins suggested that greater use should be made of labour market intelligence and there should be a push to put more individual onus on employers to drive skills needs. She asked what the Welsh Government is doing to address skills gaps in key sectors like ICT and also what can businesses do better to address these gaps.
- 4.10 The Minister for Economy Science and Transport said that discussions have happened with our sectors like Creative Industries. The Minister added that for areas like nuclear and rail we need to work out what the requirements are for people to work in these sectors. The Minister recognised this involves more than the colleges and added there has been good discussion between Departments (EST and DFES) on this. The Minister reassured Emma Watkins that that dialogue is happening.
- 4.11 The Deputy Minister for Skills informed members that her Department is reviewing the courses that the Government funds with a focus on investing in skills that employers value.
- 4.12 The Deputy Minister added that Careers Wales has been reformed and has now been brought into a single agency of Government. The Deputy Minister said that a root and branch look at Careers Wales is underway which will consider in particular their web presence and the way they work with schools.
- 4.13 The Skills Gateway has been launched; there will be one for business and one for individuals. The Deputy Minister shared with members that she has some experience of working with certain sectors on improving their image and that we need to act on essential skills, schools and post-16 education.
- 4.14 The Deputy Minister provided an update on regional skills with reference to the Regional Skills Partnerships. All three regional boards are making progress towards producing their Regional Employment and Skills Plans by April 2015 and the Deputy Minister acknowledged that the North Wales board has gone ahead in leaps and bounds. The Deputy Minister confirmed that progress is being made in all three regions towards meeting the April deadline.
- 4.15 Rachel Garside Jones updated on the pilots DfES are running on skills utilisation, namely employers' use of the skills within their workforce, and once these are carried out and evaluated, further thought will be given to potential work in other sectors in Wales. She confirmed that DfES would be happy to come back to report on these pilots in the construction and creative industries.
- 4.16 The Deputy Minister spoke about the importance of high level apprenticeships for the professions to provide another route to self funding study.

5. Constitutional Change, Devolution and Fiscal Policy

- 5.1 The Finance Minister joined the meeting and the First Minister introduced this item. The First Minister set out his observations on current discussions with the UK Government and identified the challenges of dealing with the ad hoc approach taken by Westminster. His view was that powers offered to another part of the UK should also be offered to Wales and that Wales would then take forward the right powers for Wales.
- 5.2 On funding, the First Minister informed Members that the Welsh Government's view is that a funding floor is needed. On income tax, there is a need for a full financial settlement for Wales before this can be considered, so the First Minister was clear that as things stand devolved income tax is some way off.
- 5.3 The First Minister referred to the devolved nations in a UK economy as a 'common market for business in UK' and expressed concerns about changes to the balance of the UK with greater devolution to Scotland.
- 5.4 The First Minister said that caution needs to be applied to Corporation Tax powers and the risk of a "race to the bottom" as different parts of the UK seek to compete to provide lower tax rates. He had not argued for devolution of Corporation Tax for Wales, but would need to return to the issue if it was proposed for devolution to Scotland.
- 5.5 Adoption of the reserved powers model would make it easier for Welsh devolution. This model operates in Scotland and has not had the issues we have had with the lack of clarity and the several references of Bills to the Supreme Court which our current arrangement has generated.
- 5.6 Turning to employment programmes, like those operated by the Department of Work and Pensions, the First Minister said it makes sense for Wales to have these powers.
- 5.7 The First Minister's view on the Community Infrastructure Levy was that there is no reason why this cannot be devolved to Wales.
- 5.8 The First Minister recognised the potential adverse outcomes of different devolution settlements within the UK. In regard to Air Passenger Duty, his view was that there was no logical, rational or sensible reason why Scotland will have this power and Wales may not; he would continue to press for devolution of APD to Wales.
- 5.9 The First Minister reminded Members of the upcoming St David's Day process which would be looking at further devolution; however, he warned that there may be little meaningful progress as the UK political parties have their attention on the May general election.

- 5.10 The First Minister summarised by saying that the Welsh Government is examining the devolution settlement on offer to Scotland and what could work for Wales. What is on offer to Scotland should be offered to Wales to consider and we will then take forward what is right for Wales.
- 5.11 The First Minister then invited the Minister for Finance to further update the Council on agenda item 5.
- 5.12 The Minister for Finance said she had been pushing for progress on various matters such as the Barnett formula, fairer funding and bond issuing powers. She noted that some members were also on the Welsh Government's Tax Advisory Group and the Finance Minister spoke of her consultations with stakeholders and welcomed opportunities to talk through the context of the new powers.
- 5.13 The First Minister asked members for views.
- 5.14 Martin Mansfield's view was speedy action is needed to clarify the devolution settlement so we can clearly see what Wales needs, what powers we have and what progressive measures can be put in place to deliver. He also expressed the view that Wales should not necessarily follow the UK but put in place for Wales appropriate taxes where the opportunity allows.
- 5.15 Huw Roberts said that his members want an integrated UK and would be interested in what part can they play in making their businesses more successful in the UK context. He viewed that what the First Minister said about the approach by the UK Government is reasonable. Huw Roberts noted the mismatch of UK Government investment in the west compared to the south east leading to a poor transport infrastructure offer as a highly pertinent issue for businesses.
- 5.16 Emma Watkins commented her members are interested in the pace and scale of developments across the UK. She acknowledged what the First Minister said about the offer of powers to Wales and that Wales should decide if they are appropriate. She emphasised that the single market of the UK is vital and that the CBI has had discussions with Welsh Government and UK Government separately but not all together.
- 5.17 Iestyn Davies viewed that fair settlement is a key point and that much discussion about this is political rather than economic. He suggested that modelling the impact of tax changes at a business level was important and then economic impacts could be looked at.
- 5.18 The First Minister expanded on his previous point about the importance of the UK single market and access to it. The First Minister expressed that if Corporation tax is devolved to Scotland then we would need to reconsider for Wales.

- 5.19 The First Minister said to Members on the theme of promoting benefits of Union, that there should have been a constitutional convention on the Union some time ago. That such a convention would have looked at what the UK Government's role is and how to treat disputes between Governments.
- 5.20 Some prospective powers, e.g. income tax, present some difficulties because of the intra-UK borders of devolved nations with England. If Wales had income tax powers there could be an issue of people moving across borders for tax reasons given the nature of the porous border of Wales and England.
- 5.21 The Minister for Finance recognised the importance of the voice of business in formulating the tax proposals as Silk has progressed and said that the Council has a role to play in this. The Minister's view was focus on powers for a purpose - powers we need to boost the economy through areas like infrastructure. The Minister reassured Martin Mansfield that we do not want powers for the sake of it. The economy and business case has to be at the forefront because of political situation with UK elections this year and Wales needs to be treated with a level playing field.
- 5.22 The Minister for Economy Science and Transport said devolution has to be on a firm business footing. The Minister emphasised the importance of the UK market to Wales and although it might be desirable to have powers we need the powers that can help us further our economy.
- 5.23 The First Minister said he hoped that this meeting gave the Council an idea of the Welsh approach.

6. Any other business

- 6.1 Martin Mansfield requested that relevant officials work with the Executive Working Group on procurement and this was agreed.

ACTION POINT: The Council executive working group to discuss procurement.
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- 6.2 Huw Roberts commented on local government reform and the Institute of Directors' position on local government reorganisation.
- 6.3 Additionally, Huw Roberts reported that given links between education and skills, this area should be handled on a Wales-wide basis. He said that local authorities have an important role in inward investment and need to think more carefully about economic development.
- 6.4 In relation to public service reform, the First Minister said that there would be engagement with parties, there is currently no cross party agreement on local authority re-organisation although there is consensus that it should happen.
- 6.5 Date of next meeting – 1st June 2015.
- 6.6 The First Minister closed the meeting and thanked everyone for their attendance and contributions.