







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

## **Y Pwyllgor Menter a Busnes The Enterprise and Business Committee**

**Dydd Iau, 29 Tachwedd 2012  
Thursday, 29 November 2012**

### **Cynnwys Contents**

Cyflwyniad, Ymddiheuriadau a Dirprwyon  
Introductions, Apologies and Substitutions

Ardrethi Busnes: Sesiwn i Graffu ar Waith y Gweinidog  
Business Rates: Ministerial Scrutiny Session

Dinas-ranbarthau ac Ardaloedd Menter: Sesiwn i Graffu ar Waith y Gweinidog  
City Regions and Enterprise Zones: Ministerial Scrutiny Session

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

These proceedings are reported in the language in which they were spoken in the committee.  
In addition, a transcription of the simultaneous interpretation is included.

#### **Aelodau'r pwyllgor yn bresennol Committee members in attendance**

Byron Davies

Yr Arglwydd/Lord Dafydd  
Elis-Thomas

Ceidwadwyr Cymreig  
Welsh Conservatives

Plaid Cymru  
The Party of Wales

Alun Ffred Jones	Plaid Cymru The Party of Wales
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Jenny Rathbone	Llafur (yn dirpwyo ar ran Julie James) Labour (substituting for Julie James)
David Rees	Llafur Labour
Gwyn R. Price	Llafur (yn dirprwyo ar ran Keith Davies) Labour (substituting for Keith Davies)
Kenneth Skates	Llafur Labour
Joyce Watson	Llafur Labour

**Eraill yn bresennol**  
**Others in attendance**

Tracey Burke	Cyfarwyddwr, Strategaeth, Llywodraeth Cymru Director Strategy, Welsh Government
Edwina Hart	Aelod Cynulliad, Llafur (y Gweinidog Busnes, Menter, Technoleg a Gwyddoniaeth) Assembly Member, Labour (the Minister for Business, Enterprise, Technology and Science)
Yr Athro/Professor Brian Morgan	Athro Entrepreneuriaeth, Cyfarwyddwr, Arweinyddiaeth Greadigol a Chanolfan Menter –Prifysgol Fetropolitan Caerdydd Professor of Entrepreneurship, Director, Creative Leadership and Enterprise Centre—Cardiff Metropolitan University

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

Chloë Davies	Dirprwy Glerc Deputy Clerk
Siân Phipps	Clerc Clerk
Ben Stokes	Y Gwasanaeth Ymchwil Research Service

*Dechreuodd y cyfarfod am 1.29 p.m.*  
*The meeting began at 1.29 p.m.*

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

[1] **Nick Ramsay:** I welcome Members, witnesses and members of the public to this afternoon's meeting of the Enterprise and Business Committee. The meeting is bilingual and headphones can be used to hear the translation from Welsh into English or for the amplification of sound. The meeting is being broadcast and a transcript will be published. Could Members please turn off their mobile phones? There is no need to touch the mics, as they will operate automatically. In the event of a fire alarm, please follow the ushers. We have

received two apologies, from Keith Davies and Julie James. I thank Gwyn Price and Jenny Rathbone for agreeing to substitute for them today. Thank you for taking the time to help the committee.

1.30 p.m.

**Ardrethi Busnes: Sesiwn i Graffu ar Waith y Gweinidog  
Business Rates: Ministerial Scrutiny Session**

[2] **Nick Ramsay:** I welcome our witnesses to this afternoon's ministerial scrutiny session. Would you like to give your names and positions for the record?

[3] **The Minister for Business, Enterprise, Technology and Science (Edwina Hart):** I am Edwina Hart, the Minister for business.

[4] **Professor Morgan:** I am Brian Morgan, professor of entrepreneurship at Cardiff Metropolitan University.

[5] **Ms Burke:** I am Tracey Burke, director of strategy.

[6] **Nick Ramsay:** Great. Thank you for being here this afternoon. We have a number of questions for you, so I propose that we get straight into those. If, at any point, I move things on, it is because we want to get through the full agenda.

[7] **David Rees:** Good afternoon, Minister. Following the task and finish group's report, you indicated that Professor Morgan would be having further consultation with stakeholders and that that would inform your response. Will that information be made available?

[8] **Edwina Hart:** Yes, I would be happy to make that information public, if it assists.

[9] **David Rees:** Could you indicate how it informed or perhaps changed your response?

[10] **Edwina Hart:** Brian engaged with a wide range of stakeholders during the summer, it is fair to say. He spoke to the Welsh Local Government Association, enterprise zones, the Charity Retail Association, which had an interest in these particular discussions, as you can imagine, the sector panel chairs, the council for economic renewal, and he attended local business meetings from as far afield as Pontypridd to Llandudno. The task and finish group itself looked at a whole range of issues including financing, town centres and everything that came up for deliberation. By the time we got to the endgame, we had had a fair summary of what people felt about the initial findings that were emerging.

[11] **Professor Morgan:** I wrote to the Minister on 28 September and indicated that we had seen a large number of people, including the Welsh Local Government Association, the council for economic renewal, the Charity Retail Association, various sector panels and enterprise zones, and that we had met people in Llandudno and Pontypridd. From that set of meetings and other correspondents, I wrote a report of about three or four pages for the Minister.

[12] **Edwina Hart:** Let me just indicate that we had to have a further meeting with the Welsh Local Government Association because we did not have significant interest from local authorities in the first instance. Was it just one response, Brian?

[13] **Professor Morgan:** We had two responses on the local retention of business rates, from the north.

[14] **Edwina Hart:** From the north, and we had nothing from the other authorities. The retention of business rates is quite a significant issue if you look at the balance across the piece of who would be the beneficiaries, so we specifically had to engage with the WLGA because there had been no interest at all, effectively, with only two responses from local government in general. I do not think that that is particularly helpful in light of the financial position of local government and the need to make best use of its resources.

[15] **David Rees:** You mentioned who the winners and losers would be. Do we have that information?

[16] **Professor Morgan:** On winners and losers, I published a list of where business rates are currently raised and how they are allocated. However, you could actually reallocate the revenue support grant so that nobody is any worse off. So, first of all, you could start with a clear balance sheet so that everybody is the same as they are today but with all their rates income, and then, going forward, we recommended that if you could grow that part of your balance sheet, your rates income, you would, in fact, be able to keep 50% of it. That was the proposal for going forward. Rates income is about a quarter of the revenue support grant, so you are not talking about a huge area, but enough, I think, to incentivise local authorities.

[17] **Jenny Rathbone:** Given that you were discussing the possibility of having control of business rates devolved and of devolving at least part of the responsibility to local government, it is a considerable cause for concern to me that local government did not see that as an opportunity, that it did not incentivise them to do something about empty properties and to increase their revenue. What do you think can be done to raise the game of local authorities who do not seem to be paying attention to their role in developing healthy economies?

[18] **Edwina Hart:** I do not want to comment on individual local authorities and their approach. Professor Morgan could probably comment, as chair of the independent group, but I do want to say that Professor Morgan and I have been quite flabbergasted at the lack of understanding about what business rates are, how they work, and how they function. That has come across quite clearly in all aspects of this review. People will blatantly say, 'Oh, business rates', as if they understand what is behind them, but there is quite clearly no understanding. I do not know whether you found that to be the case, Professor Morgan.

[19] **Professor Morgan:** There was very little understanding of how business rates are currently allocated. There is very little understanding of the current pooled system between Wales and England and how that works, and then how the total amount comes back to Wales. At the moment, the total amount comes back to Wales and is then adjusted in two different formats: the business rate income and the revenue support grant are adjusted, and then a final total is handed over to the local authority. However, no-one can tell anyone what the criteria are for either of those adjustments. They are very opaque adjustments. It would be good to get some transparency on that, as well as some accountability for raising the income.

[20] The two that responded insisted that they already did everything that they could to ensure that the maximum amount of rates income was generated in their area. We said, 'I am sure that that is the case.' However, we also know that there are some huge frauds going on in the empty property area linked in to other so-called charitable organisations, and very little is being done about it. Of course, if none of that income comes back to you anyway, why would you do anything about it?

[21] **Eluned Parrott:** Looking at the periods of huge economic growth in some of the great cities, such as in Chamberlain's Birmingham, you can see that you are looking for strong leadership from local authorities to drive economic growth, and using business rates in

that way is critical. What could the Welsh Government do to encourage more of a sense of leadership from local authorities in Wales?

[22] **Edwina Hart:** I have to say that I tread carefully on this agenda, because the fact that we have decided to undertake a transparent and open review of business rates should set local authorities thinking about what the challenges are for them within local government. You will appreciate that economic development is not one of local government's core responsibilities. They enjoy economic development activity, but it is important to recognise that their statutory obligations relate to social services et cetera. They are not involved in tourism and economic development, but it is important that they recognise their greater role in that development. Local government has to work with us more closely on what we are doing in developing enterprise zones. There should not be conflict between local authorities and us on those. We should have a common purpose and agenda on the development of business.

[23] In areas where there are no enterprise zones, we need to have a clear understanding of the sectoral developments we see in the development of industry. I hesitate to mention city regions, but we have the opportunity to ensure that we take a lead in the centre for authorities to develop the type of partnerships that they require to drive city regions. That is not an old-fashioned type of working, where you have the old monolithic structure, for example, where every chief executive, leader and economic adviser all sit down once a month or once a quarter. It is not about that. If we are to develop city regions we need to understand that the concept of a city region is of a small co-group taking things forward, using what mechanisms it needs to build it all up, with input from the private sector. What we are lacking in drive is that private sector input.

[24] Some of the structures that we and local government have put in place have not encouraged the private sector to help to drive the economy, because they do not have time to sit down to discuss an agenda that will take three and a half hours, including agreeing the minutes of 47 different sub-committees and ticking those off. They need to be in and out, telling us how we need to drive things. We have to establish that type of agenda with local government more acutely than ever, or local government has to recognise that the economic issues have to be dealt with by the Assembly Government taking the lead.

[25] **Alun Ffred Jones:** How does the non-domestic rates total raised in Wales compare with what is coming back?

[26] **Professor Morgan:** Every year, each authority has to estimate the total amount that it will generate. At the moment, what we get back is what local authorities here have estimated they will generate—so, we get that back—plus a consequential through the Barnett formula for local authority spend in England. So, if, for some reason, their estimate was wrong, you could say that there is some stability to the current system in that you always get what you estimated, which is an interesting concept in itself. I do not know why they do not overestimate. Maybe they think that they would be penalised the following year. That is how it works at the moment. You get back what you estimated.

[27] **Nick Ramsay:** That is an outturn system. There is no adjustment for what they earn; it is based on what they forecast.

[28] **Alun Ffred Jones:** Is the total more than the total that they estimated?

[29] **Professor Morgan:** The amount that they get back, in total, depends on what has happened to the Barnett consequential. During the 2003-11 period, the Barnett consequential was significantly positive. That was because there was a huge increase in Government expenditure in England during Gordon Brown's chancellorship, when he expanded expenditure very rapidly. There was a Barnett consequential of about £200 million for

keeping to the old system. If you take the years from 2003 to 2011 out, however, you find that there is very little benefit to us one way or the other. The figure normally bobs around zero: some years we receive £20 million or £50 million more than what was estimated, and some years we receive £20 million or £50 million less than what was estimated. It depends on what has happened to general local authority expenditure in England. Going forward, we have to consider whether we are likely to see anything like that happen again—a £200 million benefit.

[30] **Gerry Holtham**, being a canny city gent, realised this when he was doing his commission. He wondered why we would want to devolve something to Wales if it meant that we would lose £200 million a year. Of course, he said that, at the moment, the argument is probably not to devolve. However, we then had him in to give evidence and he said that, on the basis of these new figures, he would categorically support the devolution of business rates.

[31] **Edwina Hart**: I can see that the committee is quite interested in the technical issues around business rates, and I appreciate that this is scrutiny of me and my role in relation to business rates. Would it be helpful if Professor Morgan put a technical paper together? I am sure that Professor Morgan and I would be happy to come back to go through these issues, if you could allocate a half-hour slot for us in the new year. Business rate issues are not going to go away. We will be having the report on charities, and we could perhaps link that in. I am sure that the committee is finding the nature of this discussion very helpful in understanding some of the problems that we face, particularly bearing in mind that we want to pursue devolution issues around business rates. That course of action might provide a broader understanding of the rationale for why we are pursuing that currently. I do not know whether that would help the committee, in light of the time constraints with today's agenda.

[32] **Nick Ramsay**: Minister, you should chair a committee. That was an excellent suggestion, and it has been duly noted.

[33] **Edwina Hart**: I thought that it might help.

[34] **Nick Ramsay**: Yes, because we are all getting drawn into the technical details.

[35] **Alun Ffred Jones**: In terms of implementation and action, the first three actions are to do with the UK Government, so that is a case of 'how long is a piece of string?' Turning to the last two points, about the Welsh renewable energy scheme and UK Government relief in relation to microgeneration, it seems to me that, although you have allocated some of the money, the remainder is outside your control. Of the rest, only enterprise zone rate relief seems to me to be an action; the rest is work in progress. Is it fair to say that?

[36] **Edwina Hart**: Yes. I have shared with Members this week how I intend to take the stuff on enterprise zones forward. In relation to business rates and the review, we have found that it is an extremely complex agenda. Therefore, we have picked out the pieces that we know that we can easily implement ourselves in order to make some progress in response to issues that people have raised with us, particularly in relation to enterprise zones and the renewable energy sector. In terms of the rest, there is a whole host of ongoing work, and Brian is doing additional work in this particular area.

[37] **Alun Ffred Jones**: Is the Welsh renewable energy scheme to do with rate relief?

[38] **Edwina Hart**: Yes, it is. I believe that I sent out details of the scheme for Members' comments a few weeks ago. I indicated that, if Members wanted to comment on either scheme before they went live, I would be happy to receive their responses. That went out in correspondence about three weeks ago.



[39] **Alun Ffred Jones:** Apart from enterprise zones, on which we had a paper this week, what is your next priority?

[40] **Edwina Hart:** We are looking at issues around re-evaluation. Brian is looking at that, because it is quite a complicated agenda as well. He is looking at issues around the empty property schemes, because the empty property schemes in Scotland and Northern Ireland have been alluded to as perhaps the most suitable for purpose here.

1.45 p.m.

[41] He is also looking at rate relief for charities. He is also looking at rate relief issues around social enterprises and credit unions and whether any help or assistance is needed there. He will report to me on that over the next few months. I suggest, Chair, that we take the opportunity to do it all again, if that would be helpful to the committee.

[42] **Byron Davies:** Good afternoon. On Silk's recommendation 1, that business rates should be fully devolved subject to the Welsh and UK Governments agreeing the details, how do you intend to work with the UK Government to do this?

[43] **Edwina Hart:** The First Minister has shown our very broad support for the Silk commission. He is content with how matters are proceeding between him and the Secretary of State for Wales and we look forward to a good outcome on all of it. I was particularly pleased that the Silk commission met Professor Morgan and his group to go through the business rates issue, and that has led to a positive response from Silk. It is so good that, in terms of taking the Silk recommendations forward, it is something on which the whole Chamber can agree.

[44] **Professor Morgan:** I was at the presentation of the Silk commission report on Monday morning and I was asked to give a presentation after Paul Silk had given his. Since about 90% of business rates is already devolved, it might be the case that you do not need extra powers to devolve business rates. Constitutionally, it might be an easy process, whereby you just make that commitment and ask the Secretary of State for Wales to agree it. It could be devolved quite quickly. So, I was just saying—I have not even cleared this with the Minister—that this might be the first devolved tax to come to Wales, and asking why we do not just go for it.

[45] **Nick Ramsay:** Which specific aspect is not devolved? I know that I have asked you this before, but if 90% of it is devolved, what particular—

[46] **Professor Morgan:** The pooling with England. If we did not do that and went on to a resource approach rather than an estimated approach, that would more or less devolve it.

[47] **Nick Ramsay:** That is pretty straightforward.

[48] **Byron Davies:** Do you think that the devolution of business rates presents any potential risk to the Welsh budget?

[49] **Edwina Hart:** We have made it quite clear that you cannot enact Silk recommendations on a piecemeal basis. That is why we have to look at all the implications. I have to look carefully, with the Minister for Finance, at any implications. Like the task group, I think that it will benefit us and I cannot see any adverse implications if we do this properly. That is important.

[50] **Professor Morgan:** We emphasised that the yield from other sources of revenue, as well as increased borrowing powers, will need to be sufficient to cover the volatility that I mentioned earlier—the £20 million or £50 million either side. We would need some

flexibility to cover that.

[51] **Edwina Hart:** That is why we are keen to see the Silk recommendations as a whole package. You can see that I have an independent chair; I trust that the committee can note that.

[52] **Nick Ramsay:** Duly noted, Minister.

[53] **Joyce Watson:** Good afternoon, Minister. Your comments have been very helpful. In the meantime, before issues are devolved, small business rate relief runs out in March, under the current arrangements. So, in terms of giving some news on that front, what discussions has the Welsh Government had with the UK Government on the continuation or reconfiguration of that?

[54] **Edwina Hart:** Small business rate relief is important to many businesses across Wales. The task and finish group was quite clear that we should continue to lobby the UK Government on this matter. The Minister for Finance has done so appropriately. I do not think that we are the only part of the UK that is interested in this issue of small businesses, and we await the outcome of the UK Government's deliberations, which we hope will be positive, as we have found it a useful vehicle to assist businesses in these difficult times.

[55] **Byron Davies:** The task and finish group report said that

[56] 'existing research indicates that variation in business rates, upwards or downwards, have negligible impact on the wider economy'.

[57] What are your expectations of the impact on the Welsh economy? I know that we may have touched on this earlier.

[58] **Edwina Hart:** With regard to Professor Morgan's work, I gave the group a very clear remit to look at business rates, economic growth and how they fit together. It is important that the group has said that that is what it did in looking at business rates and how you could incentivise the Welsh economy, which is why we have had a couple of issues, which we have dealt with; there are other issues that we are looking at. However, at the end of the day, I think that it is fair to say that what emerged from your discussions, Brian, was that business rates are not a panacea. Do you want to comment on that?

[59] **Professor Morgan:** Yes, Minister. We had a very good researcher from Bristol University working with us on the business rates review. She has undertaken a great deal of work in this area for the Institute of Fiscal Studies and she kindly reviewed the evidence on this and pointed out that all the evidence is that the larger changes in business rates had, over time, been offset by changes in rents. If you give a massive rate rebate, at a time when the economy is expanding, landlords see that they can put the wedge in a different direction so that people end up paying the same global total for rates and rent. Therefore, over the longer term, the impact has been muted. So, there is a short-term impact but, over a five to 10-year period, the impact is usually lessened by changes in other prices. You cannot expect huge changes from an untargeted change in business rates, and that is what we said in this report. If you were to cut the rate in Wales by 10% across the board, the impact would be very limited. However, if you change it by 10% for certain sectors and certain areas or certain zones, then you can have an impact. Across-the-board changes are not to be recommended, because they have a very limited impact.

[60] **Byron Davies:** Finally, Minister, what is your intended approach to monitoring and evaluating the economic impact of business rates policy?

[61] **Edwina Hart:** I think that it is fair to say—I think that we would concur on this across the committee—that we have recommendations that were based on a very solid evidence base and a very solid group in terms of how we delivered this. I think that I have been very transparent and open during this process. The action spreads across several ministerial portfolios; I will be monitoring what they are doing and how it fits into the whole picture. I will be providing updates over the course of this Assembly term on monitoring with regard to every recommendation, how we are taking things forward and what the impact is.

[62] **Gwyn R. Price:** You touched on the issue of empty property rates and said that Professor Morgan is going to have a look at certain aspects of it. However, have any discussions taken place between the Welsh and UK Governments on this issue?

[63] **Edwina Hart:** The empty property tax rate is a big issue. We have had particular issues raised with us by the construction sector. I am not certain, but I think that construction industry representatives have spoken to you about the issues to do with construction and rate relief on new developments. The task and finish group is going to have a look at that. There are some big issues emerging in that area. However, it is important that we look at the cost impact on Wales of changing anything. That is a point that came across very clearly in your report, Brian. We are taking forward further work on empty property rates with Brian. Do you want to comment on that?

[64] **Professor Morgan:** Empty property tax is a very successful stealth tax. It came in and no-one really kicked up a fuss about it, but it raises more than £1 billion a year at a UK level. It is a very lucrative tax. If we were to change it or just get rid of it in Wales off our own bat, it could cost us a great deal of money. What we have said is that we could change it in new developments so that, if you build a speculative development in Cardiff, Swansea or Wrexham, you would get two years' empty property tax relief after you have built it to give you time to find a tenant and so on. Then we thought that, if it is not too expensive—and we are looking at that at the moment—we could give that two years' relief even if they find a tenant, because you want to encourage people to get out there to build new premises at the moment in certain parts of Wales. We wanted to put that forward, and then we thought that we could do the same thing for renovated properties, but the point is how you measure renovation, because if somebody just paints the front door and says they have renovated a property, you have to be careful. So, we have said, 'You've got to have a big, significant impact on the energy performance certificate that comes with building. So, if you can raise that to BREEAM standard for renovation, then you can get the same sort of tax relief that we would give to a new, speculative development'.

[65] **Edwina Hart:** I have been looking at the whole issue of economic regeneration, the use of old buildings and different purposes for them. Sometimes, you see old office blocks and wonder whether they could be converted into good housing, what you would do and what the incentive would need to be for somebody to do it. As well as being a win in terms of housing, it would also be a win in terms of higher energy standards in the building. You wonder whether we could look at all that. This discussion of how we deal with the empty property issues is the type of discussion that needs to flow from this business rates review, because these issues are concerning. People are building speculatively; if we look, for example, at Cardiff bay going towards the station, we see a lot of speculative properties being put up. It is important that they are there, because that is an offer if anybody is interested in coming. It is important that we generate and give confidence for that type of activity in areas where we want to encourage development. So, Brian is proactively looking at that to make some recommendations on it.

[66] **Eluned Parrott:** On empty properties, the Minister will know that I have written to her with regard to the difference between a failed business and a business that is struggling or failing, and the lack of effectiveness of the discretionary rate relief systems that are in

operation. As far as I am aware, only two local authorities in Wales are effectively operating discretionary rate relief. What can be done to tackle this? Economic times are very hard for a lot of small businesses at the moment, and we want to do everything that we can to prevent them from going to the wall and to prevent individuals from suffering significant financial hardship by continuing to be charged business rates on a business that they, sadly, are no longer able to run.

[67] **Edwina Hart:** I do not think that it is just small companies either. Small and medium-sized enterprises do see a proportion to an individual, but some large companies are also worried about the level of business rates that can put them over. I do not know what further work the group could look at in that area, Brian.

[68] **Professor Morgan:** It might be something to do with the fact that if you go down the road of giving more discretionary awards for hardship and problems of that sort, you know that if you make the award, 100% of that will come off your income as a local authority. It is possible to look at the difference between business rates and the revenue support grant and see whether there could be some sort of split, so that if you award for hardship allowance more generously, you will not lose 100% of that rate income that you award and some of it will be taken up by the revenue support grant. That might be a compromise that could work.

[69] **Edwina Hart:** It might be something that we could look at, Brian.

[70] **Professor Morgan:** Yes, definitely.

[71] **Nick Ramsay:** Minister, you have already touched on this, but the local retention of business rates is a key question. What is your view of the potential opportunities that local retention would represent, compared to the disadvantages?

[72] **Edwina Hart:** There are opportunities with it, definitely, but business rates will have to be rather better understood by people when we engage in a dialogue on this, because we will have to have a good dialogue on this issue. It has to be taken in the round with everything else that we are looking at, but we will return to it in discussions. I do not know whether you want to add anything further, Brian.

[73] **Professor Morgan:** Nothing other than what we wrote in the report, when we said that we see some merit in local authorities being responsible and accountable for raising more of the money that they spend. The link between local taxation and local expenditure is very important and, at the moment, there is no real incentive in place for local authorities to do much in terms of raising the tax base as opposed to raising tax revenue.

[74] **Nick Ramsay:** That would have to go hand in hand with some kind of redistribution mechanism, would it not? You could not allow some authorities without revenue to—

[75] **Edwina Hart:** Exactly, because some authorities, if we were to start to look at this, would be adversely affected.

[76] **Professor Morgan:** That is right. Supposing that we started it, as we said, in 2015, we would start off with a clear balance sheet where all the rate income was allocated to the council and the revenue support grant made up the difference. Going forward, we would have a system of growth funding whereby, if you grew that rate income base, you would keep 50% of it, but the other 50% would be pooled to compensate the local authorities that were not that successful, for various reasons, at growing their rate base.

2.00 p.m.

[77] **Nick Ramsay:** So, there is an incentive to do so.

[78] **Edwina Hart:** Yes, there is.

[79] **David Rees:** On that point, I understand the idea of incentivising local authorities to get more businesses in, but, unfortunately, we tend to find that, in many local authorities, there are towns where there are charity shops and empty shops, and if they increase because of the economic recession, how will they be affected as a consequence, particularly if the RSG is being changed as well? In other words, will they lose?

[80] **Professor Morgan:** If you start off with a clean balance sheet where nobody is any worse off and you are looking forward and one local authority, for example, Neath Port Talbot, finds that it cannot grow its rate for general reasons, there will be a pool of 50% from the growth pool that could be allocated to make up for that. If, on the other hand, Tata Steel—God forbid—decided to go back to India and move out of Port Talbot, then there would have to be something in place where central Government money would have to be used to compensate for a change on that scale. You could not redistribute from the growth fund for something as huge as that. However, for the normal ups and downs of the business cycle, the growth fund will be able to mitigate.

[81] **Edwina Hart:** David Rees's question has touched upon the complications involved with any element of change in this and the fact that we will have to take our time as we move forward with any changes, for general understanding and so that people understand the implications of what we are undertaking.

[82] **Nick Ramsay:** I was going to ask you about the extent of support from local government, but, from what you said earlier, it seems that there is little understanding about the way in which the current mechanisms work, let alone how you might change them.

[83] **Edwina Hart:** I am sure that there is an understanding there, but it would have been nice to have had a lot of submissions at the first stage.

[84] **Nick Ramsay:** You are more diplomatic than me, Minister. Alun Ffred Jones has a supplementary question.

[85] **Alun Ffred Jones:** Os deallaf yn iawn, mae'r broses o ailbriso wedi cael ei ohirio yn Lloegr. Beth fydd yn digwydd, felly, yng Nghymru? Mae ail gwestiwn yn dod o hynny: mae'r broses ailbriso yn un aneglur iawn, gan fod rhai busnesau yn cael eu hasesu yn ôl eu helw potensial a'r lleill yn ôl lefel y rhent ar eu busnesau. A fyddwch yn edrych hefyd ar y broses hynny o bennu'r dreth fusnes maes o law?

**Alun Ffred Jones:** If I have understood this correctly, the revaluation process has been deferred in England. What will happen, therefore, in Wales? A second question emerges from that: the revaluation process is very unclear, as some businesses are assessed according to their profit potential and others according to the rent levels for their businesses. Will you also review that process of setting business rates in due course?

[86] **Edwina Hart:** The immediate question for us to ask is: what is going on with the non-domestic rates revaluation background on this? These come under the Local Government Finance Act 1992, and these revaluations are allowed to be undertaken every five years to reflect the change in circumstances. This has caused problems, because the last time that the revaluation was done, the economy was at a different level to where it is now. That is the criticism that we are now hearing in relation to business rates.

[87] The revaluation is done by the Valuation Office Agency, but the UK Government is currently looking for a change of date on the revaluation arrangements. We understand that

the Scottish Government will go along with it and the Northern Irish are carrying on with their 2015 date. We have asked for amendments to the legislation in order for us to consider whether we want a revaluation at the same time as England, or whether we want to have the right to do a revaluation when we want to do it to keep it to the same date. So, we have asked for the legislation to allow us to make a decision. Professor Morgan has started to look at the benefits or otherwise of going for that later date or keeping it within the current timescale. So, Professor Morgan will be able to pick up on other issues if we get the right to go for revaluation, will you not?

[88] **Professor Morgan:** That is right. We have looked at the benefits and costs of going along with the English revaluation date of 2017. Scotland has done the same evaluation and it has come out in favour of 2017. There are some benefits, but any idea that a revaluation in 2015 will make everybody across Wales better off is misguided. There will be winners and losers and, inevitably, the losers will be more vocal than the winners. So, there will be difficulties with regard to going down that route in 2015, but we are still looking at the costs and benefits involved.

[89] **Nick Ramsay:** In terms of winners and losers, obviously it is early days, but are we looking geographically across Wales at certain businesses that could be worse off, or is it more complicated a picture than that?

[90] **Professor Morgan:** It is more complicated, because it will be within certain towns. For example, in Llanelli in 2008 there might have been completely different valuations for the town centre properties than there are today, but out-of-town places will see a rise in business rates. Within towns and regions, there will be winners and losers as well as across geographical areas.

[91] **Edwina Hart:** I have asked Professor Morgan to look at this, because I did not feel it was a decision that I would like to make while the business rate review was going on, so it might as well look at this as well and give some advice. If we can get the powers that suit us, I am not saying that we will not go for those powers by 2017, but it is important to flesh out the rationale for should we choose to go for those powers.

[92] **Nick Ramsay:** Do you have any idea when you will come to a decision regarding the powers?

[93] **Edwina Hart:** We are very hopeful; I think that they are looking at it currently.

[94] **Ms Burke:** Yes, the UK Government is currently looking at it. We are hoping that an amendment can be made to the growth and infrastructure Bill, and we are hoping to hear imminently on that.

[95] **David Rees:** To change tack slightly, Minister, with regard to business improvement districts, this committee held an inquiry into town centre regeneration and the BIDs emerged as something that was very helpful in certain areas; I understand that two of them are operational at the moment, in Merthyr and Swansea.

[96] **Edwina Hart:** Yes.

[97] **David Rees:** You have put £200,000 to one side for BIDs. What do you expect to achieve with that funding?

[98] **Edwina Hart:** I very much hope that the Swansea BID has been worth while. A member of the business rates group was instrumental in dealing with the BID issue in Swansea and is assisting Professor Morgan to look at what we are going to do in terms of

charity shops. We think that BIDs are another useful vehicle for bringing traders together. We have a lot of interest in a Powys local growth zone, as I indicated, and we will work with people in Llandrindod Wells and other places to try to encourage it. My officials attended a meeting in Ceredigion only this week, where there was an initial discussion about the possibility of a BID in Cardigan. It seems to be generally welcome. We feel that it is about people helping themselves and looking at what they want from their towns.

[99] I am looking at the whole issue of town centres in a far more holistic way with my colleague Huw Lewis. We are looking at what makes a town or what can encourage a town to redevelop, because we are never going to take them back to what they were. I think that there has to be recognition of what you require, such as whether you require a town that has services in it. There is an issue of whether we should allow doctors' surgeries to be built outside town centres or whether we should make them be in the town—bearing in mind that there is sometimes public money involved in this—so that there is a service there. Due to the fact that you have the doctors' centre there, the pharmacy will inevitably be by it, so that is another business. What other business logically follows on? If you are going to the pharmacy, what else do you want to shop for and do within that area?

[100] It is that type of discussion that we must have in the wider sense about the town centre. When people want to get together and put their own money in to see what they can develop, that is a win-win situation. We see that as driving the agenda to see what is necessary for them; it is about understanding that the world is moving on and has moved on and that therefore so do your requirements.

[101] One of the key issues for me regarding town centres is changing the use of buildings for people to live in. I think that this is the key about having a living environment, as you see in a lot of continental towns where people actually live in them. That is the choice that they make because the services are in them. We have to look at a slightly different balance. I could go back 50 years and say what the little towns were like in my part of Wales for shopping—you could always go to a clothes shop with your mother, because there was a nice clothes shop in every little town, but the world has changed, we have to recognise it and we have to keep up with it and see how we can regenerate from that. So, Huw Lewis and I are working very closely on these particular issues.

[102] **David Rees:** Just to confirm, is there going to be a lot of promotion and advertising?

[103] **Edwina Hart:** Yes, we are going to be doing a lot of work on the BIDs.

[104] **Byron Davies:** I cannot resist the opportunity while Professor Morgan is here to ask a question about the voluntary sector becoming quite vociferous in defending its end. The elephant in the room, of course, is the charity shop. How are we going to deal with that?

[105] **Professor Morgan:** We are in the process of gathering evidence at the moment. The main objective of our review—the review that has already been reported and also this extended part of the review—is to ask what is best for the high street in our towns and cities. As the Minister has mentioned, we have come down on the side of favouring diversity, and making sure that we have a diverse set of services available on the high street.

[106] We are looking at the evidence, but what may be happening is this: there have been unintended consequences from those two changes in legislation that have taken place over the last 20 years. The first change was to go from 50% to 80% mandatory tax relief for charities, and to give them an extra 20% discretionary relief from the local authority, if the authority so wishes, and there is no commitment within that legislation for them to be selling donated goods of any sort. So, that change came in.

[107] Then we had the very distorting empty property tax, which was brought in by Gordon Brown. That empty property tax, somehow or other, is now working with the opportunity for charity shops to find empty shops and premises and to offer to a landlord the opportunity to take over that empty shop to cease them paying rates, because they would be paying rates on the empty property. The charity shops offer to take the property off their hands, and they pay very little rent in response, because they are doing the landlord a favour. So, they then end up with a huge competitive advantage over small independent local retailers in that town centre. Whereas 10 or 15 years ago, charity shops were on the periphery of town centres, we are now finding them dominating the prime retail area of town centres. It is the unintended consequence of the development of both of these things coming in, and that is what we are faced with. Is it a trend that will continue? The evidence of the number of charity shops and the amount of rate relief that is awarded shows that there is very much an upward trend. Being an economist, I do not want to just project the current trend for the next 20 years, but, if you were to do some kind of projection, you can see that it could become more and more of a problem, so it is something that we should address now.

[108] **Jenny Rathbone:** This is a very complex issue. I can see that it is much better to have a business in a town-centre shop, than no business and an empty shop, in the sense of having a vibrant town centre. Equally, if voluntary organisations are on large levels of rate relief, including paying zero rates, the property is being occupied by a voluntary organisation and that is preventing another business from coming in to occupy it. Are any local authorities making value judgments about changing the amount of tax relief they give to charity shops on the high street, which is commercially a more vibrant area, as opposed to charity shops in an area that is really struggling to find any occupiers?

[109] **Professor Morgan:** That is a very good point, Jenny, and the short answer to that is that there is no flexibility at the moment.

[110] **Jenny Rathbone:** So, local authorities do not have any flexibility?

[111] **Professor Morgan:** They do not have any flexibility.

[112] **Jenny Rathbone:** They have some flexibility, because they have the discretion over whether or not to provide additional relief.

[113] **Professor Morgan:** They have discretion with regard to that 20%. However, what happens there is that you either give that 20% additional relief in your area or you do not. So, some authorities say 'no', and they apply 0% additional relief. Some say 'yes' and then award it to everybody. So, they do not take the chance to differentiate.

[114] **Jenny Rathbone:** So, you cannot differentiate.

[115] **Professor Morgan:** You could. There are some discretionary powers, but, because of the way business rates are treated in general, nobody takes the time to look at it in great detail. However, your point about somebody taking over a shop that is empty, and making it unavailable to anybody else, is very well made. That is what we would call the opportunity cost of somebody taking that shop over: it is not available to anyone else.

2.15 p.m.

[116] We have also looked at where the shop is, so that perhaps you do not get that type of relief on the high street: you would get 80% elsewhere, but you would not get it on the high street. We have also looked at the size of a shop that a charity can take over. As I mentioned on the radio the other day, if Marks & Spencer moved out of Cardiff is it the case that some charity could take over the Marks & Spencer store and pay no rates on it, effectively, and then



perhaps distort the high street in the centre of Cardiff? Only one of the recommendations was about rate relief. The others were about the number of shops, perhaps limiting the number and limiting the size, and all those sorts of issues. When we asked the Charity Retail Association about those other issues, it could not come up with any real arguments against them, other than that any restraint would undermine its competitive position. So, it did not have any real arguments, but the one that it is really against, of course, is going from 80% to 50% relief.

[117] **Edwina Hart:** Quite a lot of small traders have spoken to me, as a politician, and have made the point to me that, 'There is the charity shop. It looks very nice. It has a well-paid manager and volunteers'. There is nothing wrong with volunteering—we have discussed the mental health issues and the importance of volunteering—but these small traders are actually employing people and paying tax and national insurance on the other side of the street and they are asking, 'What is happening with us?' This might seem very brave—although you should never use the word 'brave' in the context of a Minister or politician—but it is important that we look at this. It is very important for the development of the high street. Would it be an issue of zoning?

[118] I want to give my assurance that it certainly will not have an impact on tiny, local charities, because no-one among the traders has ever said anything to me about small local charities that are fundraising and have shops for an individual hospice in their area, say. What they are concerned about, I think, are some of the big national charities that are running businesses. The point has also been raised about the percentage of new goods within these shops. It is easy to say that there is only a certain percentage, but, when you see some of the stuff that these shops trade in, you can see that it is an issue for other traders. It is important that we tackle this and, obviously, Professor Morgan is doing further work on this. Somehow, I have a funny feeling that this will be an awful lot more work than the original report on business rates. However, there is a great deal of interest in this, and people are concerned about it, and we must recognise that. People do not go to the high street to shop in charity shops. They go to the high street to do other things. They might well pop into a charity shop and pick something up, but we must look at the core of what we are offering within high streets.

[119] **Jenny Rathbone:** I would certainly concur that, in my area, it is fine to be selling recycled goods—donated goods.

[120] **Edwina Hart:** Yes, absolutely.

[121] **Jenny Rathbone:** However, if you are also selling birthday cards, which could also be bought from the newsagents across the road, you are in direct competition and, really, that is unfair competition.

[122] I wish to pick up on the issue that you just briefly raised at the beginning of your remarks around the use of empty properties or charitable properties as a way of conducting corrupt practices. Are you talking about money laundering? What are we talking about here?

[123] **Professor Morgan:** We seem to be in a position where, in some cases—this is not generally happening—there have been accusations of fraud, which are currently being looked into by the Welsh Local Government Association, with regard to properties have been vacant for quite some time. These are very big properties—we are talking about big warehouses or whatever—where a charity takes on the lease but does not pay rates on the property and occupies less than 2% of it. So, the charity seems to be working very closely with landlords to avoid the business rate tax. We are also looking at that.

[124] **David Rees:** If the charity occupies less than 2% of that property, will there be other businesses within the property?

[125] **Professor Morgan:** No. They are empty, except for that 2% that is being used for a small amount of charity shop work.

[126] **Eluned Parrott:** I want to take up the point about the unintended consequences of empty properties, and I would like to play devil's advocate, if I may. What would prevent an entrepreneur from approaching a landlord and making them a similarly cheeky offer in terms of rent to avoid the empty property rates?

[127] **Professor Morgan:** Sorry, could you say that again?

[128] **Eluned Parrott:** You suggest that charities have an unfair advantage because they make landlords an offer so that the landlord can avoid paying empty property rates. What would prevent an entrepreneur or small trader from doing the same thing?

[129] **Professor Morgan:** They would have to pay the rates themselves, of course. When the charity takes it over, nobody pays the rates then, as it were; but, if an entrepreneur took over the property, there would have to be some sort of split whereby they perhaps pay 50% of the rates and the landlord pays the other 50%. However, they would not be able to get away with zero rates, so the landowner would still be liable—or somebody would be liable. The problem with a charity taking over a big, empty building is that everybody then avoids paying the rates and there is a diminution in the income going to the local authority as a result.

[130] **Eluned Parrott:** What I understood from what you said was that charities approach landlords and make them very low offers of rent, which puts them at a competitive advantage over small traders, because they are paying very low rents. It is clearly to the landlord's advantage to take a low rent over no rent and being liable for rates, so what prevents an entrepreneur or small trader from doing exactly the same thing?

[131] **Professor Morgan:** That was supposedly the rationale behind the original empty property tax—rather than keep the property empty, you would accept any rent, so it would put downward pressure on rents in general. That is what may be happening, although there is no great evidence, in a recession, that has actually happened. However, there is the added incentive that you can now share, if you are not paying rates at all—since the landlord now is gaining on that basis, there is the possibility of sharing. Since you are avoiding the rate, you have a better offer to make. There is nothing to stop an entrepreneur from coming in and saying, 'I'll take that property, as long as you don't charge me very much rent, and I'll stop you paying rates'. There is nothing to stop people from doing that. It is just that the incentive is not as obvious as it is if you are not also paying the rates.

[132] **Eluned Parrott:** With a 15% vacancy rate in shops in Wales at the moment, what evidence have you been able to collect that there is a problem with charity shops crowding out other kinds of businesses in high streets? Clearly, if 15% is the average—certainly in my county town of Barry, we are above average, shall we say, in that regard—it would seem that the problem is not with crowding out, but with getting anyone in there, including charities.

[133] **Edwina Hart:** There has been a general issue for all businesses about the cost of property in a recession—what they are taking property from landlords for, and what landlords are actually asking. There has been a general issue there. I do not think that you have any particular evidence, or have done any particular analysis of this at this stage, Brian, have you?

[134] **Professor Morgan:** We have not, but it is something that we are looking into. Perhaps I should say that there are three things leading to these unintended consequences: the empty property tax, the increase in the amount of relief available to charities, and the fact that we are in the middle of a very deep recession. The three things together are having these

unintended consequences for our high street—together, of course, with out-of-town shopping, planning laws, and all that sort of thing. There is a whole gamut of things involved here, and that is why we have come up with a whole suite of things to address that. It is not just the one issue, and I would not like people to think that the charity issue is a hugely important one from the point of view of regenerating our high streets. It is not. It is just that the trend at the moment looks like becoming something that is not sustainable.

[135] **Eluned Parrott:** I have just one further question, Chair, if you will indulge me. Going back 10 years, the complaint from small traders about charity shops would be that they were shabby and that they would bring the image of the high street down. Now the complaint seems to be that they are too professional, too smart and are now a viable competitor. Clearly, charity shops have an important role to play in our society in terms of the money that they raise to fund good causes, but also, in my region, I know of several charity shops that are providing training opportunities for people from various disadvantaged backgrounds, and that in itself you might view as a social enterprise. Where does the balance lie in that? What role do you see for charity shops in the future of our high streets?

[136] **Edwina Hart:** I think I can see which side you are on in this discussion from the questions that you are asking. The charity shops issue is actually a very small part of the whole business rates review issue, which, as Professor Morgan has outlined, is extremely complex. It is just highlighted because we have brought some of the issues and complaints into the light of day. People do not like to say anything against charity shops, because charities do a very good job; everybody gives to charities, and everybody uses charity shops in terms of making donations and picking up odds and ends. We all feel that it is there. The reality is, however, that points have been made to us about it impacting on other people's businesses. People say it is impacting on the town centre, and the important thing is that this has been raised in one report, we are having proper, detailed work done on it, and there will be a further opportunity for discussion before I go ahead to suggest what I may or may not do on the issue. To be perfectly honest, I am concerned when businesses raise this issue with me—and I have a right to be concerned, because we are talking about small businesses that are employing people. You are right to state the valuable role that charities play in encouraging people back to work or those who have not been in work; all of that must be taken in the round. However, as Professor Morgan outlined, I do not think that anybody ever thought that we would be in this position, but circumstances have clarified this position. We have to find a way of getting the correct balance, and that will be a difficult decision for me to make when I have any recommendations from Professor Brian Morgan. I am more than prepared to share my angst over the decision-making process with the committee in due course.

[137] **Nick Ramsay:** You can share away your angst, Minister. Byron Davies has a follow-up question.

[138] **Byron Davies:** My question was on what was just said. However, I will make the point again: I have spoken to many businesspeople about this issue and it is about having a level playing field. Businesses must have their opportunity.

[139] **Professor Morgan:** It is very much about a level playing field, as you and Eluned have said. Yes, these brand-new charity shop fronts are becoming very professional because they are in a very commercial environment. They are making a huge contribution, and we do not mind charities making money, but, as Byron rightly said, there must be a level playing field. You cannot have one group making huge profits, which is what is happening, and therefore able to do up their shop fronts, as opposed to a small, independent retailer that is suffering, while also paying rates, staff and tax. It is about that level playing field; that is the best way to describe it.

[140] **Eluned Parrott:** I want to talk about business rate relief in the enterprise zones. I note that the rate relief scheme in enterprise zones in Wales is due to begin in January, whereas the rate relief process has been in place in England since April this year. What is the reason behind that later date?

[141] **Edwina Hart:** I had a full business rates review undertaken by Professor Morgan; he looked at it all. So, as far as I am concerned, I was doing it in a proper manner, taking into account the professional advice that I had from Professor Morgan and his associates on that panel. It is important that we have the scheme now launched; we have moved quickly since we have had Brian's report. The way that we announced the scheme and what it has done is positive, and it fits what is required in Welsh circumstances. It is different to the English scheme, but it is comparable and competitive. We must recognise that business incentives are only available in some of the zones within England and Scotland, because they have taken a slightly different approach to us. So, it is apples and pears, and, on balance, I think that we have done it in the right manner.

[142] **Eluned Parrott:** What changes have you made to your initial scoped-out proposals for enterprise zones in terms of business rate relief as a result of the recommendations of Professor Morgan's report?

[143] **Edwina Hart:** We have based everything on Professor Morgan's report.

[144] **Eluned Parrott:** So, when you originally announced the enterprise zones—

[145] **Edwina Hart:** We considered business rates, but we knew that we were going ahead with this report and everything, so we waited for Professor Morgan's professional advice.

[146] **Professor Morgan:** It would probably be a false economy to go down the route of saying that everyone in an enterprise zone should get business rate relief—whether they are in the assisted areas or not. Having discussed it at great length, we decided that there must be a targeted attempt to introduce whatever incentives you want to include. So, for example, you might want to target a supply chain of a big supplier and offer them rate relief. However, if someone comes in to open up a big warehouse for no apparent reason in an area, other than to access cheap business rates, then we will not give it to them. It must be targeted to create the economic impact that is feasible within an enterprise zone.

[147] **Edwina Hart:** Yes, and that point is highlighted. Through the current scheme in England, for example, a very low value-added business can come in and create few jobs but still have the benefits. So, we tried to focus it on the qualifying criteria to get the extra value out of what we are giving in terms of business rate enhancements. So, we will see how that pans out at the end of the day. What we have done in targeting and incentivising activities is better in terms of jobs and growth. The Scots have also taken it and done some alignment with key sectors as well, but it is important that we have the scheme that we have.

2.30 p.m.

[148] **Eluned Parrott:** In terms of the criteria for getting rate relief, the criteria set out in a recent statement are essentially 'yes' or 'no' criteria. If you have a pool of applicants that is successful in meeting the criteria but is larger than the fund will allow for, what variable criteria do you have to differentiate between, for example, different levels of value added?

[149] **Ms Burke:** I am full of bronchitis at the moment, so please excuse me.

[150] **Nick Ramsay:** The Minister and I have had it, so you are the latest in the chain of illness.

[151] **Ms Burke:** We have set out the qualifying criteria, as you know, and the Minister has written to all Assembly Members for comments, and we will take those comments on board. There is an issue, as you say, if we end up having more applicants than we have resources with which to assist those companies. As the Minister says, we will look at that as the situation arises but, essentially, if we are satisfied from our assessment that they meet the criteria, and that it is good value for money, then the business rates relief will be awarded.

[152] **Eluned Parrott:** Do you not think that it would be fairer to the business applying for that fund to know what the differential criteria will be in advance of its application?

[153] **Ms Burke:** They will know the criteria.

[154] **Nick Ramsay:** I thank the Minister, Tracey Burke and Professor Brian Morgan for that ministerial scrutiny session. That brings the first session of this afternoon to a close.

2.32 p.m.

### **Dinas-ranbarthau ac Ardaloedd Menter: Sesiwn i Graffu ar Waith y Gweinidog City Regions and Enterprise Zones: Ministerial Scrutiny Session**

[155] **Nick Ramsay:** Item 3 on our agenda is another ministerial scrutiny session, on city regions and enterprise zones, so we have a quick change of gear. I have already welcomed you, Minister, and your staff, so the first question on this item is from Dafydd Elis-Thomas.

[156] **Yr Arglwydd Elis-Thomas:** Diolch i'r Gweinidog am ei datganiad ysgrifenedig ar 28 Tachwedd ynglŷn â'r wybodaeth ddiweddaraf am barthau menter. Wrth asesu datblygiad y parthau menter hyd yn hyn, a oes diffyg dealltwriaeth efallai ymhlith busnesau eraill sydd wedi'u sefydlu yn barod mewn ardaloedd parthau menter ynglŷn ag amcan yr arweiniad hwn gan y Llywodraeth? Rhoddaf enghraifft nad yw yn fy ardal i, sef y parth penodol ar gyfer gwasanaethau proffesiynol, cyllidol a chyfreithiol yn ardal Caerdydd.

**Lord Elis-Thomas:** Thank you to the Minister for her written statement on 28 November, giving us an update on the enterprise zones. In assessing the development of the enterprise zones to date, is there perhaps a lack of understanding among other businesses already located within enterprise zones as to the objective of the lead taken by the Government? I will take an example outwith my own area, which is the particular enterprise zone on professional, financial and legal services here in Cardiff.

[157] Mae'n siŵr eich bod yn ymwybodol, Weinidog, fod rhai cwmnïau sefydledig yn y ddinas o'r farn bod y gefnogaeth a roesoch i gwmni Lewis Silkin yn ystod y mis hwn i sefydlu ac i ddatblygu yn cael ei ystyried fel cystadleuaeth annheg ac yn rhyw fath o gymhorthdal i gwmni o gyfreithwyr o Lundain i gystadlu'n annheg gyda chwmnïau o Gaerdydd. Sut ydych yn ymateb i hynny, ac a wnewch chi esbonio yn glir i'r pwyllgor, ac i bawb arall sydd â diddordeb, fod y math hwn o gymorth ar gael i gwmnïau sy'n sefydledig yn yr ardal yn barod? Nid mater o fewnfuddsoddiad yn unig yw parth menter.

I am sure that you will be aware, Minister, that some established companies in the city are of the opinion that the support you provided during this month to Lewis Silkin to establish and develop its operation is considered as unfair competition and some sort of subsidy to a firm of lawyers from London to compete unfairly with companies from Cardiff. How do you respond to that, and will you explain clearly to the committee, and to any other interested parties, that this type of assistance is available to companies already based in the area? Enterprise zones are not just about inward investment.

[158] **Edwina Hart:** Enterprise zones are about enhancing job opportunities—the retention

of jobs and additional jobs. If you are an existing company and you are in an enterprise zone—this is particularly key in Deeside, where we have some larger companies on the periphery—and you wish to expand your operation, what is available in the enterprise zones would also be available to you. I am also quite disappointed by some of the attitudes towards what we are trying to encourage into the Cardiff zone. It is a good zone in terms of the professional and financial services that we want to bring in, and they will be good-quality jobs. It is very important that the Welsh business community as a whole welcomes the development of the enterprise zones and recognises that we can make appropriate offers to Welsh companies that are already there if they are taking on additional staff.

[159] It is important to recognise, particularly in financial services, that companies sometimes outgrow premises and want to be in one centre, thereby bringing in additional jobs, and we will definitely welcome such companies if they want to relocate to the enterprise zone.

[160] **Yr Arglwydd Elis-Thomas:** Diolch yn fawr. Mae gennyf un cwestiwn arall am ddinas Caerdydd. Mae'n amlwg o'r hyn a ddywedasoich yn eich datganiad ysgrifenedig eich bod yn ystyried cyfrannu tuag at seilwaith trafniadaeth o fewn y parth menter. Mae hwn yn sicr yn gysail pwysig i barthau menter eraill. A allwch chi ehangu ar eich bwriadau ar gyfer trafniadaeth gyhoeddus yng Nghaerdydd fel rhan o ddatblygu'r parth menter hwn?

**Lord Elis-Thomas:** Thank you very much. I have one other question on Cardiff. It is clear from what you said in your written statement that you are considering contributing to the transport infrastructure in the enterprise zone. This is certainly an important precedent for other enterprise zones. Could you expand on your intentions for public transport in Cardiff as part of developing this enterprise zone?

[161] **Edwina Hart:** I have been working closely with my colleague the Minister for Local Government and Communities, particularly on some of the issues relating to transportation and the enterprise zone in Cardiff, which is one of the big issues that the enterprise zone board has raised with me in terms of the ease of access from Cardiff Central station to the rest of the zone. Furthermore, it would be good to look at these issues for the population who live in the bay so that this is not only seen as a benefit to business, but to ordinary people and the environment in which they live and work. So, we are proceeding with discussions on that basis. However, this will not be the only enterprise zone that we look at in terms of how we deal with some of the transport infrastructure issues in particular.

[162] I was talking to the chair of the Haven enterprise zone, Nick Bourne, recently about what he sees as the importance of railhead development down there and what we need to do in that area. I also know that, in Deeside, there are issues relating to whether we should consider another railway station to take people to the site and so on. So, this is a key consideration and is an example of joined-up Government in terms of how we deal with infrastructure issues. It is hoped that local authorities and any money that they might spend would complement anything that we might do in central Government to facilitate developments in the enterprise zone, particularly on transport infrastructure.

[163] **Lord Elis-Thomas:** Briefly, you will be aware that there is another enterprise zone with a rail connection and there will also be a lot of interest in that area in Snowdonia in terms of the possibility of a rail connection.

[164] **Edwina Hart:** I am aware that interest has already been expressed in Snowdonia. One company that was initially interested was looking at rail connections. It is important to recognise that some of the industries that we particularly want to attract—in the light of Wylfa and nuclear power, as well as other developments such as wind turbines—like to have access to modes of transport other than road. So, it is important that we look at the enterprise

zones strategically. We are changing the arrangements with regard to St Athan, and that is out to procurement now so that we can get on with the road link there, which will also be enormously beneficial.

[165] **Nick Ramsay:** It was remiss of me not to thank Professor Brian Morgan earlier. For the record and in his absence, I thank him for coming along.

[166] **Eluned Parrott:** On the metro link that you mentioned in your statement, would you be able to share more details of that scheme with the committee? It is an idea that was mooted by Cardiff Bay Development Corporation 15 years ago, so it would be interesting to know what you are considering.

[167] **Edwina Hart:** I hope to have further information on the development of all of these transport infrastructure projects when I make a full oral statement in the Chamber when we return after Christmas.

[168] **Eluned Parrott:** Thank you. Moving on, I would like to ask you about the incentives that are in place to encourage businesses to locate in enterprise zones in Wales. I note that your paper states that most of Wales's enterprise zones have been in operation for more than six months. What incentives have been in place for those six months?

[169] **Edwina Hart:** There is the enhanced capital allowance this year in Deeside. Additional considerations are being given by the Treasury to some of the other enterprise zones. We are in quite positive dialogue, but I will not pre-empt any decision that the Treasury may make or that might emerge in any of my winter statements rather than autumn statements, if we are fortunate enough in that regard.

[170] I have announced the business rate incentive package and that the roll-out of broadband will proceed once we have UK Government approval, now that we have European Commission approval. The enterprise zones will be at the forefront of that. We also have the local development orders and we are encouraging local authorities, which are working in particular with two enterprise zones, namely Ebbw Vale and Flintshire, so that we can ease up on the planning process.

[171] Everyone has the benefit of the pan-Wales skills offer in the enterprise zones and that has proved to be quite important. Furthermore, it is attractive to go into enterprise zones because support for innovation and skills is available as well as for property and business where a company is looking for premises, or if you are looking to move to an enterprise zone, and require premises, there is the possibility of a build, and we can look at how we could assist with that. There is repayable business finance targeted at the zones. In assisted areas, the level of support that we can provide may be enhanced, especially in tier 1 areas. This whole package is now well known to businesses, and we have had some very good enquiries about it.

[172] **Eluned Parrott:** I would like to narrow that down. Could you clarify which of those incentives—some of which are for the future—were available six months ago, in April 2012, when these enterprise zones were launched?

[173] **Edwina Hart:** The incentives for skills support were definitely available.

[174] **Ms Burke:** That is right, as well as our full range of business support.

[175] **Edwina Hart:** Yes, the moneys and everything, and property help and assistance.

[176] **Ms Burke:** I think that it is important to be clear that the powers that the Minister

already has to offer support for business in some cases almost outweigh the new levers that have come in with the enterprise zones. So, businesses are, and have been, able to avail themselves of the full range of business support services. As the Minister mentioned, that ranges from access to finance through to supply chain development and assistance with property, et cetera. The newer levers that have come in through the establishment of enterprise zones, as with the business rates et cetera, have been developed, but they were not in place in April, as you said.

[177] **Eluned Parrott:** Minister, you have always been very confident that Wales's enterprise zones will be able to compete effectively with England's enterprise zones. Could you tell us what form of monitoring you undertake to make sure that the offer of our enterprise zones is comparable or more attractive than the offer in each of the English enterprise zones?

[178] **Edwina Hart:** The proof will come when we see businesses come in to the enterprise zones, over and above those that we have already attracted in. We have had investment in St Athan in the Cardiff airport enterprise zone from Cardiff Aviation Ltd and Hunter Flying Ltd. We monitor which businesses are coming through. It might be appropriate for me to provide an update after 12 months, or sometime next year, to see where we are. We have had 80 genuine enquiries and counting about the enterprise zones. Also, we have had a considerable number of hits on our website, on the offers that we have. So, we are looking at that very closely.

[179] Each zone has a distinctive proposition, and so we have not adopted a one-size-fits-all approach, which has also attracted people. We have tailor-made options for some to come in to specific zones. The success of the Ynys Môn zone, with the good news about Wylfa, will be enormously helpful in attracting related businesses from the energy sector into that area. Hopefully, that will have a knock-on effect in the Snowdonia enterprise zone as well.

[180] **Eluned Parrott:** Do you have specific key performance indicators that you are measuring in Wales against similar indicators in England?

[181] **Edwina Hart:** I have not yet read through the indicators in England. We are at the early stages of developing indicators ourselves.

[182] **Eluned Parrott:** Okay, thank you very much.

[183] **Alun Ffred Jones:** Mae'r cwestiwn yr oeddwn yn bwriadu ei ofyn am y cynnydd yn y diddordeb. Rydych wedi sôn am gael 'good level of interest' a 'good enquiry pipeline', ac rydych wedi sôn am y ffaith bod 80 o gwmnïau wedi dangos diddordeb. Er ei bod yn ddyddiau cynnar, rydych wedi sôn am y ffaith bod un cwmni wedi symud i mewn. A oes gennych unrhyw newyddion da ychwanegol?

**Alun Ffred Jones:** The question that I was going to ask was about the increase in interest that there has been. You have mentioned having a 'good level of interest' and a 'good enquiry pipeline', and you have mentioned the fact that 80 companies have shown interest. Although it is still early days, you have mentioned the fact that one company has moved in. Do you have any further good news?

[184] **Edwina Hart:** We have to understand that it is very difficult to get companies in, given the current economic climate. Developing relationships and some of the lead-ins and discussions that we are having with companies, which may materialise in moves into enterprise zones or elsewhere, have been going on for years. Companies do not wake up one morning and think to themselves, 'Oh, there's an enterprise zone; do I want to move there?' There is a very complicated business plan, and companies have to think whether they have the right business and the skilled workforce. At the very early stage, we have had enormous



interest and a couple of successes in some areas. That is quite good, particularly bearing in mind that some of the enterprise zones, particularly the newer ones, have been in existence only since the autumn, really. We have had the one from the beginning, which we have already counted, and we have had success in the wider Cardiff area, with one of the original enterprise zones in St Athan. We have also had an enormous amount of interest in Deeside, but we have had to do some remedial work on the site. So, in designating, we have had to do pre-work to get the sites ready for purpose almost before anyone would express an interest. It will be fairer to ask how things have developed next April and September.

2.45 p.m.

[185] **David Rees:** You have talked about businesses coming in, and I want to clarify the issue of new businesses relocating, because, years ago, many businesses relocated to previous enterprise zones just to get the cash.

[186] **Edwina Hart:** We have tried to make it clear that we do not want displacement, as we have had historically. Sometimes, displacement is not just limited to enterprise zones. Sometimes, when businesses see an opportunity for a new site, they move. We have learned those lessons. The new enterprise zones have a clear sectoral focus, which limits the opportunity for mobile businesses to speculatively move into the enterprise zone. Our business rates relief scheme is the key, because it is to avoid displacement. Some companies will not think about coming there. Simplified planning, by definition, helps new investments and new builds. Enhanced capital allowances are not devolved, but we are agreed that we will want to use them for significant inward investment purposes, where we will want to encourage a company. So, we have enough checks and balances within the system.

[187] However, if a large business relocated and it was bringing in additional jobs because it wanted to come here, that would be important for us—the additionality of new jobs. You can understand that if somebody's premises are no longer fit for purpose, they might think that it would be nice to come to the enterprise zone, but some of the businesses might not necessarily be coming into the zones that have the maximum advantage for them.

[188] **Joyce Watson:** Good afternoon, Minister. One issue for any development is planning. I see that there is an opportunity to use local development orders. Have any of those orders been put in place in any enterprise zones in Wales yet?

[189] **Edwina Hart:** Yes, in Ebbw Vale and Flintshire.

[190] **Joyce Watson:** Do you have a preference, Minister, for how the LDOs could be used in enterprise zones to move things forward?

[191] **Edwina Hart:** No, we have left this very much to the enterprise zone boards. They report to me and consist mainly of the private sector, although there is a representative of the local authority there, too, really to facilitate any discussions that they have. So, it is up to them how they use all the tools that they have available. They take advice from us, but we are confident with how the boards have developed. They understand what the issues are and what they will require. Planning has been a concern of the boards, because the planning process can seem to be somewhat slow in certain areas. There was an interesting discussion on slow planning on *Newsnight* last night, I thought—not in relation to Wales, but to England. It is quite interesting. Sometimes, speed is of the essence, and we want to say to a company, 'You want to come, so let us get on with the planning.' We have to start to speed things up and that is what the enterprise zone boards are concerned about: if you have the opportunity, you have to get to grips with it and get it dealt with.

[192] We have some positive examples in Wales of how we have dealt with these issues

historically. We need only look at Amazon's site in Neath Port Talbot to see that, where planning was quickly turned around to get Amazon in. Also, the road system was quickly put in to ensure proper access to the site. That is the type of speed that you have to have within Government to help developments in enterprise zones.

[193] **Jenny Rathbone:** To enable us to understand clearly what the enhancement is, could you explain exactly what the LDO said in relation to Ebbw Vale and Flintshire?

[194] **Edwina Hart:** The boards realised that planning was important, so they worked with the planning authorities to get them to choose to exercise some of their powers. There are timescale issues, so they worked with the local authority on that. They looked at issues such as the local development plans, and if they were not contentious, how they could be quickly moved forward. If the site already exists, you can look at any work that has been done on issues of due diligence. So, it is about simplifying all the procedures as you normally go through planning, and dealing with them quicker. If Members want a note on their operation more fully, I will ask the planning department to supply one. It is up to you.

[195] **Jenny Rathbone:** I think that it is important to understand what the planning barriers are to business development, which you are enabling people to cut through here, and whether that can be transferred to other situations.

[196] **Lord Elis-Thomas:** It might also be useful to another committee.

[197] **Edwina Hart:** Yes.

[198] **Nick Ramsay:** That would be helpful if you could do that, Minister, thank you. The next question is from Byron Davies.

[199] **Byron Davies:** I think that you have touched on this issue in previous questions. You talked earlier about the fact that, historically, rate relief was an attractive feature of enterprise zones. What approach are you taking to marketing the new enterprise zones?

[200] **Edwina Hart:** We are being quite proactive in our marketing. We have taken the advice of all the boards. Almost half of the enquiries that have come in are as a direct response to our marketing activity, which indicates that marketing has played an excellent role. We have the Enterprise Zone Wales website, which is generating queries and hits. The boards have now submitted detailed marketing plans that set out how they will show the alignment between sectors' marketing and their marketing, and short-term and long-term marketing. We are now in the process of developing supporting marketing materials for the promotion of every zone.

[201] However, I have to say that the boards are on top of this. We are also looking at how we can understand the opportunities that UK Trade and Investment allows us in the arrangements for marketing enterprise zones abroad. We are very fortunate that we now have UKTI officials located with us. With the help of Lord Green, we have sorted out the issues with UKTI, and we have discussed what opportunities it has to go abroad and what direct foreign investment we can attract by that route, as well as through our own structures abroad with trade delegations and so on and the appropriate materials for use abroad. A company going out on a trade delegation that has an interest in selling Wales as well as its own business will have the appropriate marketing material. For example, as a growth sector, the creative industries go abroad for quite a lot of marketing opportunities, so they will be able to say what is available in the enterprise zones if anyone is interested in coming. It is a question of bringing it all together. We are making good progress in this area and the boards are quite content.

[202] **Byron Davies:** I know that I have asked you this before in Plenary, but do you think that there is a bias towards companies outside Wales?

[203] **Edwina Hart:** What do you mean by a bias? Do you mean with regard to coming into the enterprise zones?

[204] **Byron Davies:** Are you looking for the big companies to come, with their big money?

[205] **Edwina Hart:** I am looking for any company to come that brings jobs. With the use of our Wales economic growth fund, we have encouraged companies that are already here to get new plant and machinery with grants or repayable finance, to get more people in. We are using all the levers that we have as well as attracting investment from abroad. At the end of the day, we must strike a balance, but no-one would have said 'no' to Hitachi building Wylfa 2. It is a foreign company bringing in investment. It has very good UK companies backing it, but the important thing is that we get the balance right—

[206] **Nick Ramsay:** I think that a couple of people said 'no', but not us.

[207] **Edwina Hart:** I did not hear those voices. As I am sure the committee does, I just think of all those people usefully employed and the jobs and skills that Wylfa brings.

[208] **Joyce Watson:** Minister, can you tell us the latest position on the possible use of enhanced capital allowances?

[209] **Edwina Hart:** As I indicated in my statement, we have had discussions with the Treasury. There are issues that we are not happy about, but I have to say that the Chief Secretary is helping us with some discussions with the European Commission to see whether we can do some more exemption for training aid, so we are progressing discussions, including in those areas that the enterprise zones have identified that they think enhanced capital allowances will be most useful. Those discussions at official level have gone well and, to be frank, I do not want to upset the apple cart by talking about anything at this delicate time.

[210] **Joyce Watson:** That is fine, thank you.

[211] **Jenny Rathbone:** On the impact of enterprise zones, how are you going to be able to measure success? Will it be in the numbers of new jobs created? If so, what time lines have you set in your department?

[212] **Edwina Hart:** Enterprise zones currently have a shelf life, as it were, of five years in real terms. I think that we will see whether they are successful when the company that bought into it in year 2 stays in year 6 when there is perhaps no longer an enterprise zone. That will be important in establishing that there was not just a displacement agenda to gain benefits, which Eluned Parrott referred to earlier. It will also be about the quality of the jobs created. It will not just be about how many thousands of jobs you have, because having high-quality jobs and good incomes is important for us as a nation as well. Will any of the companies that come in for production then go into research and development? We would have to look at that, because if they were happy to come to Wales, would they bring their research and development with them, so that we could get the net worth up? We will work through all those issues in discussions between my officials and the enterprise zones, so that we have a measurement package to look at. As I have indicated to the committee, I am more than prepared, in 12-months' time, to give you some indicators on those 18 months and to see how we work through them.

[213] We would be grateful if anybody has any useful suggestions in terms of indicators

that you think we should look at that are not the obvious suspects. We need more than a numbers game on this; we need a much more sophisticated analysis of what has been of benefit. For instance, 150 jobs could come to Wales at what looked like a high cost to the Welsh taxpayer, but if they were high-quality jobs, in a world-class industry, with a world-class company, the impact would be worth it in terms of putting Wales on the map, the quality of the employment, the links that the company might have to higher education institutions and the development of more jobs. We have to look at it in that way now, rather than in just a narrow way—we put so much money in, we had so much out and we had so many jobs. It is a much more complex picture than that.

[214] **Jenny Rathbone:** I agree with you absolutely—I am sure that we all do. However, in terms of being able to measure success, I noticed in your business rates scheme report to us that you have set aside £20 million to target support for start-ups and SMEs. Does your department have targets for take-up in a specified time period, because it is easier to track them?

[215] **Ms Burke:** Yes, absolutely. There are also budget considerations, so we need to try to forecast, as best we can, how that will take place. That detailed work is under way at the moment, looking at issues like cost per job and what we would expect in terms of the assessment criteria for individual applications and for the scheme as a whole.

[216] **Edwina Hart:** The whole purpose of the enterprise zones is to look at the growth of the local economy, is it not? Does what we do in a zone act as a catalyst for growth elsewhere in Wales? That is important, I think. In addition, is it attractive for investors to come in to enterprise zones? It is also about the wider competitiveness of the Welsh economy; we have to look at that in this context. Who is coming in and does that increase our competitiveness? If somebody comes in, what do we do with them and their supply chain, and how do we enhance the work that comes out at the back of it that is in other areas? For example, if we were to get a large car plant—I do not want anybody to think that I am talking about getting a large car plant, but say, in theory, that a large car plant came to Wales—taking an entire site, what would it do for the supply chain elsewhere and how would you enhance that supply chain? What more could you do?

[217] It is like the Jaguar Land Rover issue. Jaguar Land Rover went to the west midlands, but we have been able to enhance its supply chain in Wales by giving grants for new equipment and new machinery. We still get applications for our assistance with getting into JLR. It is about how we make Wales competitive and how we get businesses in Wales on the map to compete for more work. It is not just about enterprise zones; they are a chunk of what we are trying to do with the economic offer in Wales.

[218] **Jenny Rathbone:** I agree with that. On how you are handling this £20 million business rate scheme, when will you have those timelines?

[219] **Edwina Hart:** We have them. We have published them. We have written to Members indicating how we are dealing with that.

[220] **Jenny Rathbone:** How do you prevent large businesses from moving in? A local paper in Cardiff was reporting that the local authority was planning to move into the enterprise zone, which would be unlikely to mean additional jobs—given the economic circumstances, it is likely that there will be a decline in the number of jobs at local authorities.

[221] **Edwina Hart:** I think that I have made it clear in my statements to the Chamber and today to the committee that this is about additionality of jobs. Fundamentally, the enterprise zones are there to encourage private sector investment, because we need private sector involvement in the economy.

3.00 p.m.

[222] However, I have also made it clear that if you had a large company that needed extra space and needed to move its operations because it was creating extra jobs, it would be something that we would have to look at in the context of an enterprise zone. It is about the importance of getting more jobs into the economy. There is no point in us just putting money into the development of the system; we need to get value for it. Obviously, I do not want to comment on anything that might happen at a local authority level, but it is quite clear that we know the direction of travel in the enterprise zones and, most importantly, so do the boards.

[223] **Eluned Parrott:** I want to follow up one of Jenny's earlier questions on monitoring and evaluation. You have said that you want a more sophisticated approach to measure success. Clearly, if you have a sophisticated and rigorous approach, one of the first things that you will do is take baseline measurements before you start operations in the enterprise zones. Has that baseline study been completed, and how did you achieve it if you are still in the process of setting your key performance indicators?

[224] **Edwina Hart:** On the baseline figures, some of our enterprise zones have nothing in them. Some enterprise zones are literally nothing more than packages of land, are they not? With the ones that we have, such as Cardiff, which you are looking at, we have the data available for the businesses that are in them, and we are aware of that information.

[225] **Ms Burke:** We had initial information as part of the bidding process to look at the various enterprise zones. However, as the Minister said, it is a mixed picture: some areas, such as Cardiff and Deeside, are already populated with some businesses, while with other areas, such as the site at Ebbw Vale, there is nothing there at the moment. So, as I said, it is a mixed picture across the enterprise zones.

[226] **David Rees:** I want to go back to the point about the possible transfer of a business that is going to create additionality. I am all for that and, obviously, for jobs staying in Wales rather than going. Does the Government have any plans to look at supporting the area where that business may have come from? Clearly, if a business has to transfer in, it is transferring from somewhere—maybe somewhere in Wales—and that area may lose jobs as a consequence.

[227] **Edwina Hart:** It is certainly a point that we will reflect on.

[228] **Nick Ramsay:** Have you finished your questions, David?

[229] **David Rees:** On that point, yes.

[230] **Nick Ramsay:** Do you want to move on to the next one?

[231] **David Rees:** Can we move on to city regions for a moment? I saw the enthusiasm there. [*Laughter.*] I have a couple of points that I would like to ask about. The report came out on city regions; I just wondered whether the Welsh Government had established its response to the report yet. If so, when will it be published?

[232] **Edwina Hart:** We have to be quite clear. Let me take you back to my statement on city regions. I was very happy with the research that had been undertaken, and we, as a Government, were broadly happy with the recommendations, but it is not just one ministerial portfolio, and it is not just Government that has to take things forward. With the concept of the city region, we must try to avoid the presumption of 'There it is: the city region—all is hunky-dory, off we go, all these committees are set up and they will all get work'. City

regions are not like that. It is about developing an understanding of the concept of the city region and how various things work—and this could take decades, especially if you look at some of the city regions in Europe. They have taken decades to advance under the terms of the agreements that they all have with each other, because there are very different groups within the city regions with regard to how they are taking it forward. So, obviously, my officials have brought groups together—have they not, Tracey?—and we have been discussing with them the practical issues of this. I have spoken to all of my ministerial colleagues about this, and what I intend to do is probably to get a core group together, to which I would recommend appointments, and I will ask its members to go off, tasked with looking at the existing structures across their city regions and how they can utilise them to develop a city region.

[233] However, they will concentrate in the first instance, as I made clear my introduction, on structural funds, possibly under tourism, to understand that they have a job to do. The European Union is very keen on the city-region concept, and we have to see the value of structural funds being used more effectively this time in terms of how we develop within the region. One of the key problems last time with some of the structural funds—I am quite open about this, as is my Deputy Minister—was the engagement of the private sector. So, I want the private sector to take a key, lead role in the development of the city region. This is not a total function in which the Welsh Local Government Association has involvement; the local authorities will, though. It is not for the groups that represent everybody to put structures in place; this should develop holistically and they should understand where the partnerships will come from to take it forward. So, I very much hope that I will be in a position to make an initial announcement about the way in which I see it developing—hopefully, before we go into recess. I am having discussions with several interested parties, particularly in the private sector, because I want to get strong private sector engagement at the first stage in terms of what we will do. That is very important.

[234] The Minister for Housing, Regeneration and Heritage is undertaking the ‘Vibrant and Viable Places’ consultation. There is a lot of work underpinning this. Nobody should think that the city region is about regeneration, or about this or that; it is not. It is about everything and generating the principles of it. People are getting far too worked up about governance structures. Everybody is now talking about the governance of the city region, as if having governance structures will make things work. What will make it work is people’s commitment to the concept of the city region and working together. I have had correspondence from, I think, the Electoral Reform Society about governance structures, but I think to myself, ‘Hang on a second; let’s get this joined up so that there is a groundswell of support. Let’s get some work done on it and realise that, perhaps in a decade’s time, we might have some of the work that has gone on in city regions elsewhere.’

[235] There are also positive examples within the UK city regions. You only have to look at Manchester and others and the way in which they have been brought together. So, if I get a core group, it can look at how they have worked and take good practice from there, which means that they are not reinventing the wheel. We need to recognise that this is not about ‘I will be on the committee because I am’ and the status issue; it is what I can bring to this concept and how I can make it work in the context of the agenda that I am setting at this stage. It is not going to be easy, because this report has certainly set hares running with regard to what city regions are going to do. However, Elizabeth Haywood was quite clear in her report that you have to get the engagement and join things up, people have to understand it and there has to be an element of trust on city regions, because when you are talking about the city, people are always worried that it is the city that will be taking things forward and they worry about everybody outside the city. We have to make sure that the city is recognised as the driver, but the regions are important and the benefits for the wider region are important. So, that is what we have to try to do.

[236] The benefit runs through the report and it is clearly understood within Government. This report is for the long term. Nothing will emerge quickly from it, but the priorities are good. One of the city region priorities has already been done: the Great Western main line is being electrified, as are the Valleys lines, which is a priority. We now have discussions, even though there is no city region in north Wales, about the electrification of north Wales routes. So, some of the things that the city regions have to look at and work around are coming live in the discussions that we are already having following some of the spending decisions that are being taken in terms of investment.

[237] **David Rees:** Thank you; you answered all of my questions.

[238] **Nick Ramsay:** That was a very thorough answer to the question. Eluned Parrott, do you have any further questions?

[239] **Eluned Parrott:** Yes. I grew up in a city region, and one of the most obvious elements of a city region from the public's perspective is that they usually have a very strong public transport driver with them. Some very exciting changes are happening across the two proposed city regions in southern Wales; how are you working with the Minister for transport in terms of discussing how to take this further and optimise those opportunities? To what extent are you considering options like tram train routes to connect Newport and Cardiff and across the Valleys?

[240] **Edwina Hart:** Obviously, I have quite detailed discussions with the Minister for transport. He is now getting to grips with the decisions that we made on electrification in Wales. So, we have very practical issues to deal with. As the city region evolves, it will want to discuss more things on the basis of transport infrastructures, but to be absolutely frank, I have asked the city regions, in the first instance, to concentrate on the structural funds and the way in which they link into everything. However, when we decide what to do, we will be allocating central Government officials to help with the discussion as well as a broader secretariat. I think that these things will all emerge in due course, because a discussion on infrastructure is already emerging from the enterprise zones, which are also part of the city region, particularly the Cardiff enterprise zone, which is at the heart of it. There are also other enterprise zones in that region and there are others in the Swansea city region down in the Haven.

[241] **Eluned Parrott:** Some of the discussion in England at the moment is about devolving more power to city regions, particularly in the area of transport to the transport executives. If that were to be applied in Wales, it would mean a movement of some of the powers that the Welsh Government currently holds to those city regions. In the long term, do you think that that is an approach that we might take in Wales?

[242] **Edwina Hart:** I think that that is a matter for the Minister for transport because it is a cross-Government discussion on city regions. I happened to initiate the report and discussion, because I thought that it was important to do so in the context of European structural funds, because that was the key issue for me in that context. There are discussions going on all the time about transport and other issues, and I know that the Minister for transport is alert to some of the discussions that are going on outside this building about what the future holds. We have quite a lot to bite off currently to make sure that the structural funds programme lines up to the context of city regions.

[243] **Byron Davies:** I am excited about your enthusiasm for this, and I genuinely mean that. We have the updated transport policy, the city regions and the enterprise zones. Is there enough money to get all this together in terms of transport infrastructure?

[244] **Edwina Hart:** That will be a matter for discussion in Government. I know that the

Minister for transport is aware of the needs of transport as being integral to economic growth and the viability of businesses in Wales. This is a joined-up Government. The co-operation that I have had in terms of the enterprise zones and looking at priorities has been first class, as have been the discussions on city regions. I think that this will start to evolve. You sometimes talk about some of the English city regions, but they are far more advanced than we currently are. In the next 12 months, the core group that I might establish has to decide where the city region is going, what it is doing and what it needs to look at. It needs to find its feet and it needs to get buy-in. I am not certain when we talk about city regions that everyone is ready to give up their little empire for the buy-in to the city region. I need time for people understand what a city region means.

[245] That is not the type of direct answer that I would like to give to you; I would like to be able to say, 'Everything is hunky-dory and we will have the first report by March', but I do not think that it is going to be quite like that, because it is a very difficult concept for people to understand. It does not stop at a county boundary or a sub-regional boundary—its impact is far wider. I think that that will take some bedding in. So, the structure I might initially put in place will be an interim structure to make sure that it kick-starts and does things, because I do not want it to bite off more than it can chew and not develop everything that we need to develop. I am quite genuine about this.

[246] **Nick Ramsay:** You say, Minister, that some people are looking at these more as city empires than city regions.

[247] **Edwina Hart:** I could not possibly comment.

[248] **Nick Ramsay:** I will say it for you; I am sure that there are some people who think that.

[249] **Edwina Hart:** I think that we have to be very careful. There has to be equality and equity around this discussion. The successful city region does as much good for those outside the city as it does for the city itself. It does much good for rural communities that get caught up as well, and we must not forget that. This is not all about industry, and so on—this is about how it becomes properly integrated as part of the way in which we deal with economic and social issues within society. That will be a huge intellectual challenge as well.

[250] **Byron Davies:** That is exactly right—[*Inaudible.*]—into these zones to work on a daily basis.

[251] **Edwina Hart:** Exactly, but on the other hand, you cannot expect people to just have housing estates out there that people leave to come into work. You have to consider what jobs you can give out to those areas that can help those people out there. It cannot be a one-way dragging-in process—it has to be a two-way process. It cannot just be a case of saying, 'I don't have room to build somewhere, so I'm going to build over there'. If you build over there, what else do you give in terms of work and services to those people who are living there? Do you know what I mean?

[252] This is the type of discussion that I want to have. I want to give time to have that discussion when we initially set up the groups, to take it forward, to look at how they want to do it, rather than saying, 'This is the structure that you will have, you will do that and you will all be involved'. I would like to get quite a hard-nosed core group together to drive this and see where it goes. I am not saying that I will do it perfectly and that both city regions will do it in the same way, but we have to give them a chance and try to help and assist where we can to get that type of working together. I think that this is an incredible challenge.

[253] **Nick Ramsay:** Jenny Rathbone has been waiting very patiently.



[254] **Jenny Rathbone:** For me, as the representative for Cardiff Central, it is absolutely crucial that the city region is not seen as a land grab by Cardiff. The one in Cardiff is taking very much a holistic approach regarding the best place to locate resources and activities. Your can-do approach to city regions is crucial.

3.15 p.m.

[255] On the way that local authorities engage with the private sector on this, is it not crucial that the people who come to these meetings come because they are senior enough to be able to make decisions there, rather than having to take them back to x, y or z committee? In terms of governance, how much of a threat, for example, is the development of a mayor in Bristol, which is developing its own enterprise zone, which obviously cuts across a lot of the governance structures?

[256] **Edwina Hart:** To be frank with you, I am not worried about this. People have to decide what they want in terms of representation. They have gone for an elected mayor in Bristol—that is their choice; they want to be governed in that way. City regions are not governing anything in the first instance; what it is trying to do is develop a consensus and an agenda to drive forward the concept of the city region. Once it has that focus and that buy-in, then we will look at how it might need to be structured in the future, and some of the issues about whether it will have any control of money, what it will do and who will give what to it will become apparent as an element of maturity and buy-in comes from all those who are involved.

[257] I can assure you that the private sector will want to be involved in something that is dynamic and that it thinks is getting on with the job. It will not be some vast array of people in power sitting down to make decisions; it will be a group that thinks when it says something it can get other people to follow it because it is so closely involved with the organisations it represents, or is a part of, and it knows that that is the view.

[258] Also, we have had no indication in any way that Cardiff does not want to play ball on that; in fact, Cardiff local authority has been very supportive of the city region. There is recognition across the board that you have to support it because it is going to benefit everybody if we get this right. I think that we are worrying far too much about governance and who will do what. That is down the road to an extent. People have to be comfortable that they are happy with this concept and want to work with it. If people are unhappy, we have to iron out why they are not happy and not prepared, and we might have to do something about that. However, at the first stage, we have to let goodwill prevail, because everybody has welcomed the report, and see how it can develop. At least we have the opportunity in south Wales to develop it; we are still, in the north Wales context, trying to see where we can go in terms of city regions because Elizabeth is doing some further work. I am sure, Chair, that the committee will want me to return when we look at the north Wales issue.

[259] **Nick Ramsay:** If you could, that would be great. I am conscious that we are a minute over and I know that your time is precious, Minister.

[260] **Edwina Hart:** I am off to visit a company.

[261] **Nick Ramsay:** Very briefly, on a different topic, are you planning, in the context of your portfolio responsibilities, to participate in the review of the balance of competencies between the EU and the UK, launched by the UK Government in July this year? It is slightly off the topic of city regions, but we thought it was the best place to pose the question.

[262] **Edwina Hart:** We are aware of this, and we are aware that the Welsh Government is

looking at it collectively.

[263] **Nick Ramsay:** Great. Thank you, Minister Edwina Hart, for your extensive time this afternoon. Thanks to Tracey Burke and Professor Brian Morgan. I would have thanked him when he was still here if I realised that he was not staying for the second session. I bring this public session of the Enterprise and Business Committee to a close.

*Daeth y cyfarfod i ben am 3.18 p.m.*  
*The meeting ended at 3.18 p.m.*