



House of Commons
Welsh Affairs Committee

**Manufacturing and
Trade in Wales
and
Public Services
Ombudsman (Wales) Bill:
Government Responses
to the Committee's
Second and Third
Reports of Session 2004–
05**

**First Special Report of Session
2005–06**

*Ordered by The House of Commons
to be printed 20 July 2005*

HC 433
Published on 28 July 2005
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Welsh Affairs Committee

The Welsh Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Secretary of State for Wales (including relations with the National Assembly for Wales.)

Current membership

Dr Hywel Francis MP (Chairman) (*Labour, Aberavon*)
Mr Stephen Crabb MP, (*Conservative, Preseli Pembrokeshire*)
David T. C. Davies MP (*Conservative, Monmouth*)
Nia Griffith MP, (*Labour, Llanelli*)
Mrs Siân C. James MP, (*Labour, Swansea East*)
Mr David Jones MP, (*Conservative, Clwyd West*)
Mr Martyn Jones MP, (*Labour, Clwyd South*)
Mrs Madeline Moon MP, (*Labour Bridgend*)
Mrs Betty Williams MP, (*Labour, Conwy*)
Mark Williams MP, (*Liberal Democrat, Ceredigion*)
Hywel Williams MP, (*Plaid Cymru, Caernarfon*)

Powers

The Committee is one of the Departmental select Committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/parliamentary_committees/welsh_affairs_committee.cfm.

Committee staff

The current staff of the Committee are James Davies (Clerk), Rebecca Davies (Committee Specialist), Jane Trew (Committee Assistant), Sarah Colebrook (Secretary) and Jim Lawford, Senior Office Clerk.

Contacts

All correspondence should be addressed to the Clerks of the Welsh Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6189; the Committee's email address is welshcom@parliament.uk

First Special Report

The Committee published its Second Report of Session 2004–2005, *Manufacturing and Trade in Wales* on 24 February 2005. The response from the Department of Trade and Industry was sent on 1 July 2005 and is published as Appendix 1 to this Report.

The Committee published its Third Report of Session 2004–2005, *Public Services Ombudsman (Wales) Bill [HL]* on 21 February 2005. The response from the Wales Office was sent on 6 April 2005 and is published as the Appendix 2 to this Report.

Appendix 1

Introduction

The Government welcomes the Committee's interest in this matter and views the report as an important contribution to the public debate on how this important sector of the economy can be supported and developed in Wales.

Manufacturing globally is in a state of transition, with the most rapid shift in the global balance of production the world has seen. As a result the UK manufacturing sector has undergone significant change in recent years and continues to face tough challenges as global competition intensifies.

The Government wants to see a successful dynamic manufacturing sector producing value added products with well paid highly skilled jobs in all parts of the UK. We are committed to providing the right macroeconomic conditions and support to ensure that manufacturing companies can successfully compete in world markets. The Manufacturing Strategy, established in 2002, the first coherent strategy for manufacturing for over 30 years, sets out actions needed by Government and key stakeholders to develop the sector to enable it to succeed. It is based on applying science and innovation, world-class practice, raising investment, and a high level of skills. This message is reinforced in the DTI 5-year programme published in January 2005.

Action at UK level is complemented by a "A Winning Wales", the Assembly Government's strategy to develop the economy of Wales. Good progress has been made to achieve the objectives of this strategy. In addition, action to enhance the support for the manufacturing sector in Wales is being taken forward following the report of the industry led Manufacturing Task and Finish Group.

Despite the challenges facing UK manufacturing, Wales still has a strong manufacturing base with some world-class companies. The Government agrees that it has managed to diversify its manufacturing base and stands as a leader in some areas and is increasingly at the forefront of technology advances. It can now boast a diverse modern manufacturing sector brimming with high skill and high technology companies. The sector is moving in the right direction and giving Welsh business a competitive edge.

The Government and the Welsh Assembly Government will continue to work together on complementary policies to ensure that Wales continues to retain a strong manufacturing base.

The Government has the following comments on the Committee's Conclusions and Recommendations contained in the Report:

Economic Statistics

1. The monitoring of the Welsh economy is an important part of identifying the relative strengths and weaknesses in Welsh manufacturing. We welcome the additional funds that have been allocated to the Office of National Statistics to undertake this task. We look forward to a greater level of assessment and analysis of Welsh manufacturing in the future. (Paragraph 16)

The Assembly, in response to an increasing number of requests for improved economic data on Wales and the areas within Wales, has embarked on a programme of improvement in its statistical services. The Assembly has adopted the strategy of working in partnership with the Office for National Statistics to improve the Welsh data position. The Assembly's statistical development strategy has three stages, the first of which, boosting a range of annual surveys, has already been completed. The Annual Business Inquiry, Annual Business Register and Labour Force Survey, for example, have been improved. These boosted surveys will provide additional information on the manufacturing sector in Wales.

Good progress has also been made on stage two, which aims to provide up-to-date short-term economic indicators and has the more ambitious objective of providing regular quarterly output indicators for the major sectors of the Welsh economy. For example, the Index of Production and Construction is well established and was revised in 2001, and the experimental Index of Distribution data was first published in October 2004.

Stage three (focusing on producing added value from existing data e.g. sectoral analysis on employment, earnings, etc) is currently under development and is subject to a cost benefit review. In addition, the Assembly's statistical directorate is exploring with the Department of Culture, Media and Sport the possibility of producing improved data that will break down industrial sectors into more meaningful units and identify any tourism component of a business/industry.

Welsh Economic Base

2. The transition from traditional manufacturing in Wales was a difficult journey and not without pain. Our inquiry has shown us that while some traditional manufacturing survives, Wales has managed to diversify its manufacturing base, and in some areas now leads the field. We welcome that diversity and look forward to further success in the future. (Paragraph 23)

The Government agrees that the Welsh economy is adapting and punching above its weight in face of intense global pressures. Recent Labour Market Statistics (Dec-Feb 2005) show that employment in Wales stands at 72.4%, up from 72.2 % a year earlier whilst the UK rate stood at 75%; ILO unemployment in Wales stands at 4.3% down from 4.6% a year

earlier and lower than UK unemployment rate at 4.8%; ILO unemployment in Wales is also lower than USA, Canada and Japan, and most European countries.

With regard to economic growth latest figures from ONS for Regional GVA in 2003 show a 6% rise in Welsh GVA compared to 2002; Welsh GVA in 2003 was £37.1 billion or £12,629 per head, 79% of the UK average. The Index of Production and Construction for Wales for the latest four quarters rose by 3.7% compared with the previous four quarters. The UK index rose by 1.1% over the same period.

Manufacturing continues to make a significant contribution to the Welsh economy and accounts for 21% of GVA and employs around 16% of Welsh workforce – both higher than in the UK. Rate of decline in manufacturing employment Wales is slower than in UK (1.2% compared to 3.4% in UK). Welsh manufacturing output for the latest four quarters was 0.4 per cent higher than over the previous four quarters. Welsh export orders were up to 7.3% on previous year compared with a 1% rise across the UK. The RBS Incoming Business Index survey identified February 2005 as the sharpest expansion of new orders in Wales since October 2004. This confidence is backed up by recent business surveys which showed growth and new business activity in Wales expand for the 24th consecutive month in March 2005.(RBS Purchasing Managers Index).

Despite intense competitive pressure, Wales continues to retain a strong manufacturing base with world class companies like Airbus, Corus, Sharp, Sony, Ford, General Dynamics and EADS Cogent, plus many successful SMEs moving into value added manufacturing and creating jobs.

Steel Industry

3. The decision of Outokumpu to close its operations at Panteg is to be regretted. It is a timely reminder that industry in Wales cannot rest on its laurels in the global market place. We welcome the announcement that the majority of its workforce are no longer looking for alternative employment but remain concerned at this further diminution of the steel sector in Wales. (Paragraph 27)

The closure of Outokumpu's plant at Panteg was of course a bitter blow for the employees affected and the communities in which they live. However, steel making operations in Wales are absolutely key to our vision of a strong and successful metals industry in the UK. Since 2003, Corus, one of the largest manufacturing companies in Wales, has made investments totalling £121 million to increase output and improve quality and productivity at its Port Talbot and Llanwern sites. Alphasteel at Newport has increased production to record levels and is investing heavily under its new owners. The Celsa (ex-ASW) plant is running well since it resumed production in 2003 and has also benefited from new investment at its plant in Cardiff.

World steel demand has improved dramatically over the last three years but the underlying business environment will remain fiercely competitive for UK metals producers. However, we believe that the strategies and measures implemented by key companies in this sector mean that the steel industry in Wales is better placed than ever to cope with these pressures. This is evidenced by the recent turnaround in Corus' profitability.

Foreign Direct Investment

4. The attraction of Foreign Direct Investment to Wales remains an important part of Wales' economic policy, but the quality of that investment should not be overshadowed by the quantity of investment. We recommend that the Department of Trade and Industry, where appropriate, supports fully the Welsh Assembly Government's policies to attract high value added FDI and its accompanying higher level functions to Wales. (Paragraph 40)

The Government agrees that inward investment remains an important part of Wales' economic policy and that emphasis must be on attracting high value added manufacturing rather than quantity. At the same time, the statistics speak for themselves where Wales stands top of all 12 UK regions for creating jobs through inward investment resulting in more than 4,000 jobs created in 2003-04. Overseas companies have invested around £3 billion in Wales since 1997, creating more than 30,000 new jobs and safeguarding more than 20,000 jobs.

Wales has had recent success in attracting high value added quality investment such as General Dynamics, EADS Cogent and Deepstream Technologies, Bangor, a company which designs, produces and markets the next generation of intelligent sensors to key markets in electrical related industries.

Another example of the new Welsh economy is the £600 million project by ExxonMobil for a liquefied natural gas terminal in Pembrokeshire. Together with £250 million investment planned by Dragon LNG this will put Wales at the forefront of one of the biggest gas projects in the world.

The Welsh Development Agency's International Division works closely with UK Trade and Investment, and will continue to do so, as part of the UK inward investment network, which has a PSA target of 75% of its involved inward investment successes being knowledge driven.

Welsh Development Agency and Wales Trade International

5. The decision to bring in-house agencies such as the Welsh Development Agency, Wales Trade International and Education and Learning in Wales is a matter for the National Assembly. We hope that the predicted streamlining of links between UK Government Departments – including the Department for Trade and Industry, Foreign and Commonwealth Office, Department for Transport and the Department for Education and Skills – and the Welsh Assembly Government will ensure that the needs of Welsh manufacturers and business continue to be vigorously promoted in the future. (Paragraph 50)

The decision to bring agencies in-house is a matter for the Welsh Assembly Government (WAG). At the time of the announcement the WAG made it clear that the initiative is designed to overcome problems of fragmentation and duplication of services to the business community. The change is therefore aimed at improving the delivery of services to business. The WAG expect that the core improvements to the public service will be more commercial and innovative; have greater strategic capacity at the centre of Welsh

Government; be simpler and more joined up; give more opportunity for staff to develop skills and careers; be more streamlined and efficient with more resources to go to front line services; and generate better value for money in the provision of shared services.

The Government supports the objective to deliver efficient public services and will continue to work closely with the Welsh Assembly Government to ensure the success of our manufacturing industry.

The UK's position outside the Euro zone

6. The debate surrounding the United Kingdom's entry into the Euro zone has often been conducted in a highly political environment. Therefore, it was enlightening to find a general level of agreement from our witnesses on the economic benefits of the United Kingdom joining the Euro zone. In the absence of such a move, a stable exchange rate between Sterling, the Euro and the Dollar was considered vital. We conclude that the Government should place a greater emphasis on the economic benefits and disbenefits to manufacturing of the United Kingdom joining the Euro zone. (Paragraph 61)

The Government's policy on membership of the single currency remains as set out by the Chancellor in his statement to the House of Commons in October 1997 and again in his statement on the five tests assessment in June 2003. The views of the witnesses who appeared before the Committee are noted but the determining factor underpinning any Government decision on membership of the single currency is the national economic interest and whether the economic case for joining is clear and unambiguous. Whether or not the UK joins the Economic and Monetary Union, the Government is committed to creating the best possible environment for enterprise and investment across all UK regions, sectors and industries.

Governmental Relations

7. It is clear that the UK Government and the Welsh Assembly Government are making strides to ensure that their economic policies complement each other to the benefit of the Welsh economy. Equally important is the need to demonstrate clearly to business which institution is responsible for each part of that policy. In general we conclude that business is aware of the distinction and, in particular is able to access the Welsh Assembly Government with ease. (Paragraph 65)

The basis of the relationship between the Government and the Welsh Assembly Government is underpinned by a memorandum of Understanding and bilateral concordats. Economic development powers in UK primary legislation are drawn in broad terms. Most of these executive functions have been transferred to the Assembly and mainly used for assistance to, and promotion of, business in Wales. Thus the Assembly has very wide scope to develop its own economic development policies, including those relating to manufacturing sector.

Business Eye, and similar organisations in the UK i.e. Business Link, network effectively to avoid duplication and ensure business customers are properly signposted.

Business Eye/Llygad Business, managed by the WDA and sponsored by the Welsh Assembly Government provides an easily accessible entry point for all business support enquiries in Wales. Its role is to provide a free, impartial, information and sign posting service for existing and potential businesses. It does not provide business support itself. Instead businesses are given information and, if need be, offered the opportunity for a local face-to-face meeting or transferred directly to a business support provider in the public, private or voluntary sectors.

The Business Eye service can be accessed through a central telephone number on 08457 96 97 98 or on the web-site www.businesseye.org.uk / www.llygadbusnes.org.uk. Customers can also obtain access to the service via a network of 26 local Business Eye offices, established throughout Wales.

Business Eye receives £5.5 million funding from the WDA budget and during the period 1 April 2004 to 31 March 2005 it dealt with 19,764 separate enquiries. The Business Eye website has proved a useful resource for businesses, receiving almost 2 million hits in 2004. In the six months to 31 March 2005, customer satisfaction forms showed that 92.7% of respondents found the service received good or very good.

European Structural Funds

8. The enlargement of the European Union will have a significant impact on the economy of Wales. The accession of countries whose economies are less developed than Wales has the potential to change Wales' qualification for structural funds. Those structural funds have been vital to the economic development of Wales, and we look to the Government to give a clear undertaking that Wales will not lose out as a result of European Enlargement. (Paragraph 77)

The current cycle of Structural and Cohesion Funds (SCF) programmes will come to an end in 2006 and the EU Member States are currently negotiating on the reform of the Funds for the 2007-2013 Financial Perspective. The Government set out its detailed proposals for reform of the Funds in its consultation document, A Modern Regional Policy for the United Kingdom, of March 2003 and in two written statements to Parliament of 17 September and 11 December 2003.

The Government is advocating that a disciplined and sustainable Structural Funds budget should be focused on the poorest Member States, which are most in need of assistance, and where EU intervention is likely to have the greatest added value. The UK has put forward detailed reform proposals, according to which EU Member States would sign up to common objectives for regional policy, but where Community funds would then be focused on the poorer Member States, while richer countries such as the UK would finance regional programmes from domestic resources.

Following enlargement, it is right that the EU's inevitably limited financial resources should be focused on the poorest Member States, where they will have the greatest impact and where EU intervention is likely to have the greatest added value. It is important to remember that the UK is a net contributor to the EC budget and that continued Structural Funds receipts in the next Financial Perspective could only come at a cost to the UK taxpayer, leaving fewer domestic resources for spending on regional policy and other areas.

It is not, therefore, in the interests of either Wales or the UK as a whole to attempt to secure an expanded Structural Funds budget and continued structural Funds receipts in the next Financial Perspective.

The Government has guaranteed, if its reform proposals are accepted, to increase the domestic resources for regional policy in the UK, to ensure that our nations individually and regions collectively do not lose out as a result of reform. The Secretary of State for Trade and Industry set out the detailed methodology for applying the Guarantee in her written statement to Parliament of 11 December 2003. If the Government's reform proposals were accepted, it would increase domestic funding for regional policy by the amount that the UK would have received if the current eligibility criteria for Structural Funds were re-applied under a no-reform scenario in the enlarged EU. These resources would be entirely additional to current domestic spending on regional development in the UK and would continue for the full duration of the next EC Financial Perspective.

Regional Selective Assistance

9. Regional Selective Assistance has been an important factor in the ability of Wales to attract and sustain Foreign Direct Investment. Its emphasis on job creation has also made significant advances in the drive for full employment. However, small indigenous businesses should not be excluded from Government assistance. We believe that the Welsh Assembly Government should be allowed the greatest appropriate flexibility when delivering Regional Selective Assistance across Wales to meet the challenges of job creation, job retention, and support for innovative small businesses. (Paragraph 86)

Indigenous access to Government assistance

Small indigenous businesses are certainly not excluded from Government assistance. RSA Cymru Wales is available to businesses of any size operating in the majority of manufacturing sectors and also to service sector businesses providing they serve more than a local market. The amount of red tape associated with lower level grant applications (between £50,001 and £250,000) is reduced to make the scheme more accessible to smaller businesses. Ultimately of course, the scheme is demand led.

In the period 1 April 2004 to 31 March 2005, 139 offers of RSA with a total value of £68 million were made to companies. Associated project investment is forecast at £333 million and the projects are expected to create 5,586 new jobs and safeguard 2,967 existing jobs. 82% of those offers were towards projects submitted by indigenous companies (61% of them Welsh owned which largely operate in the SME sector). These represent 66% of the total value of grant offered, 34% of associated capital investment and 69% of the total number of jobs forecast to be created and safeguarded - this indicates the relatively larger investment size of projects by non-UK owned companies.

The Welsh Assembly Government introduced the Assembly Investment Grant (AIG) in April 2002. Based on RSA, the scheme is targeted specifically at SMEs and has been introduced to help smaller businesses to make capital investments. Negotiated grants of between £5,001 and £50,000 are available and unlike RSA, assistance is available throughout the whole of Wales. Furthermore, businesses do not necessarily need to create

jobs to qualify for support and grant payments can be made up front in certain circumstances to help with cashflow.

In the first three years since the scheme was launched, almost 1,300 offers of AIG with a total value of nearly £39 million were made to indigenous companies to help support over £117m investment. These measures are further supplemented by the various loan and other support measures offered by Finance Wales and by business support grants offered by the 22 Unitary Authorities in Wales.

Flexibility in delivering RSA Cymru

Financial assistance to industry is a devolved matter and the Welsh Assembly Government therefore has discretion to give such assistance in line with its economic development objectives, subject to EU State Aid rules (Regional Aid Guidelines).

In June 2004, RSA Cymru was refocused to reflect the continuing evolution of the scheme in Wales to meet the changing needs and priorities of the Welsh economy. Now called RSA Cymru Wales, the scheme pays more attention a broad range of quality criteria such as the degree of innovation, use of new technology, sustainability, training, management skills and equal opportunities - every case is assessed against a range of criteria and the resulting score is used to inform the appraisal process. There is also increased emphasis on value for money for the public purse and contribution of projects to the broader aims of the Welsh Assembly Government's economic strategy 'A Winning Wales'. In particular, the decision of whether or not to support a project is now informed by a Gross Value Added test, which will compare applicant's forecast growth in productivity against the sector and national average.

The Assembly Government also targets assistance to priority areas – promotional activities are now focused on regions where take-up needs to be improved and sectors that it considers key to achieving GDP growth (such as aerospace, automotive, chemicals, the creative industries, electronics, professional and business services, pharmaceuticals and bio-sciences).

In May 2005, the Assembly Government will introduce a pilot for repayable RSA where the business case suggests the need for relatively short-term assistance.

At the same time, the Assembly Government will also introduce a financial incentive to encourage applicant businesses to take on long-term unemployed or inactive people as part of an RSA project. This will be offered as a premium payment for each eligible person taken on and retained for 12 months, with an additional payment after 24 months. The maximum premium per person will be £6,000 and will be offered in addition to the RSA grant as the total is within EU limits.

Research and Development Tax Credits

10. Research and Development Tax Credits have been a welcome addition to the package of support offered to manufacturing in the United Kingdom. However, its introduction has done little to generate a demonstrable flow of R&D activity to Wales. We agree with the National Assembly that a regional element should be included in the

allocation of Research and Development tax credits which would better target those areas in need of assistance. (Paragraph 98)

11. We further recommend that the Government compile statistics on the regional take-up of Research and Development Tax Credits. (Paragraph 99)

Research & Development (R&D) performed in Wales has grown substantially since R&D tax credits were introduced in 2000; from £136million in 2001 to £182million in 2002 and £264million in 2003, the latest year for which statistics are available. (Source: ONS BERD statistics; http://www.statistics.gov.uk/downloads/theme_commerce/MA14_2003.pdf) R&D employment has grown from 3,000 to 4,000 people over the same period. R&D tax credits have played a role in this growth.

To be effective at attracting sustainable inward investments to particular regions R&D tax credits must work with other policies, such as a good local infrastructure and a skilled local workforce. Any realistically generous regional tax credit would be unlikely to attract investment to a region unless these other factors were also favourable.

If a regional tax credit were introduced, it would require additional record-keeping by business and a more complex claim and checking process. This would represent a significant move away from the existing simple, transparent and predictable tax incentive that business has demanded and which the Government aims to deliver. The disbenefits of a regional credit in terms of additional compliance costs to companies and government would be considerable. Furthermore, a regional element to the tax credit would potentially distort intra-UK location decisions without necessarily providing a benefit in attracting inward investors.

It is not possible to provide a meaningful figure for regional take-up of Research & Development tax credits because many companies report their R&D from a head office that is not located in the same region as their R&D. To provide such a figure would require collection of information in the Corporation Tax return about where companies conduct their R&D. The Government believes this would be unnecessarily burdensome, and so cannot undertake to provide regional figures for R&D tax credit take-up in future. However, R&D tax credit spending in a region should be roughly proportional to total R&D carried out in the region. Since business R&D in Wales almost doubled between 2001 and 2003, the R&D tax credit paid might also be assumed to have grown considerably.

There are signs that Wales is beginning to attract high profile R & D investment. Two promising developments recently include the investment by IBM at the Institute of Life Sciences in Swansea (see paragraph 19 for more information); and the UK/China Incubation collaboration programme between Shanghai's Fudan Science Park and Welsh Techniums; and establishment of R & D operations by Chinese electronics company Golden Prosperity at Swansea Technium.

Research Council Grants

12. We remain concerned that without a regional dimension to the dispersal of Research Council grants, London and the South East of England will continue to be the predominant consumers of those funds. While we do not wish to see the dilution of the

expertise and excellence derived through the Research Councils, a regional element to grant allocation would greatly assist in the dispersal of centres of excellence outside of the South East of England. Therefore, we recommend that the Government consider including a regional element to the Research Councils' grant allocation procedures. (Paragraph 103)

Research Councils UK, explained recently in their own scrutiny submission to the Committee that, "the Research Councils have a national remit and adopt a UK-wide strategic view on research capability. All Councils' policy is to fund the highest rated proposals they receive, regardless of institution or geographical location."

However, all Councils also encourage partnership and collaboration to foster excellent and relevant research, and such partnership may have a regional dimension.

Defence Aviation Repair Agency

13. It is deeply disappointing that the Ministry of Defence has decided to relocate its Defence Aviation Repair Agency operations from Wales to England. In light of the inequitable spread of public procurement we would expect the DTI to have understood both the economic imperative of retaining the DARA in Wales, and also that its withdrawal to England would be perceived as even less public money being spent in Wales. We recommend that the Government reconsider its decision and continue DARA's operations at St Athan. (Paragraph 107)

This is primarily an issue for the Ministry of Defence (MoD) which announced in November 2004 that concentrating support of fast jet fixed wing aircraft (such as Tornado GR4) at the Main Operating Bases would provide best value for money compared to the alternative of concentrating support on the DARA site at St Athan. The MoD's investment in the Red Dragon Superhanger, and the regional issues raised by a reduction in the workload for St Athan was addressed within their options appraisal process. The net savings expected from this decision have formed a part of the MoD's contribution to the Spending Review 04 (SR2004) Efficiency Review.

Since the announcement, the MoD have continued to work closely with the Welsh Assembly Government to explore alternative options for the viable/economic use of St Athan, including alternative commercial work, and a joint MoD/Welsh Assembly marketing team has been established on site at St Athan. DTI has recently been invited to attend the MoD/WDA Red Dragon Steering Group that is examining the range of potential opportunities to bring new work into the St Athan site. The MoD is also examining to what extent there might be other potential opportunities to place defence related work at St Athan, and how best to manage future defence work on this site. In doing this, the MoD will seek to balance all relevant factors, including their commitment to work with the Welsh Assembly on the future of the Red Dragon facility as defence work draws down, and value for money for the taxpayer. MoD have consulted fully with Welsh Assembly and DTI officials, and will continue to do so, as this process is taken forward.

Transport Infrastructure

14. We welcome the proposed transfer of powers to the National Assembly contained within the Transport (Wales) Bill and the Railways Bill. However, many important issues regarding Welsh infrastructure will remain the responsibility of the UK Government. We recommend that the UK Government look closely at the National Assembly's concerns about both the M4 road route and the Paddington to South Wales Main Line. We further recommend that the UK Government assist the Welsh Assembly Government in its policies to increase the level of communications and activity at Cardiff Airport. (Paragraph 113)

The Government recognises the importance of the M4 to Wales and this is one of the reasons why the Highways Agency, in its recent classification of the trunk road network has therefore classified the M4/M5 (north of Bristol) as a route of strategic national and international importance.

A number of initiatives are looking at ways to make best use of the existing network. The Highways Agency is putting in place improved communications infrastructure in the next few years. This will allow the introduction of variable message signs and incident warning systems. The Agency is also developing automatic closures and opening of the M48 on both sides of the First Severn Crossing in the event of its closure for high winds.

The Greater Bristol Strategic Transport Study, due to conclude in July 2005, is expected to include a strategy for reducing the impact of local traffic on the M4/M5 (north of Bristol).

The Strategic Rail Authority has recently consulted on a draft Great Western Main Line Route Utilisation Strategy to improve performance and align services more closely with current and future levels of demand. The Authority will consider the responses it has received on the consultation before publishing its final strategy.

The Air Transport White Paper published in December 2003 supported the development of regional airports to serve regional and local demand and local economies. It noted the success of Route Development Funds (RDF) in Scotland and Northern Ireland and the valuable role they could play in establishing new direct business links and in the stimulation of inward investment and tourism. The Welsh Assembly Government, along with English Regional Development Agencies, were invited to establish a similar fund.

Whilst the Welsh Assembly Government has been taking forward work on developing its own fund, DfT has been leading work on developing a National Protocol for RDFs in the UK. The purpose of the Protocol is to provide a set of rules to ensure that all RDFs are operated on a consistent basis and do not breach state aid legislation. DfT has been working closely with the WAG, as well as the other devolved administrations, to take this work forward.

The Welsh Assembly Government has recently begun work on assessing the case for an intra-Wales Public Service Obligation (PSO) route between RAF Valley and Cardiff/Swansea. The Secretary of State for Transport will consider any application made by the Assembly for a PSO against the criteria laid out in the relevant European Regulation.

The Government will continue to liaise closely with the Welsh Assembly Government about their transport concerns.

Energy Consents

15. We welcome the establishment of a working group to consider the Welsh Assembly Government's request for increased powers over energy consents. We expect the Government to look favourably on this request and recommend that the Government update the committee on the findings of that working group at the earliest opportunity. (Paragraph 117)

The Working Group is still considering the implications of the proposal from the Welsh Assembly Government for the transfer of energy consents powers and will produce its report as quickly as possible. We will let the Committee know when a decision has been made on the proposal.

Skillbase

16. The availability of a workforce with the necessary skills to attract higher level manufacturing is vital to the prosperity of Welsh Manufacturing. We welcome the initiatives put forward by the Welsh Assembly Government. (Paragraph 123)

The Government also welcomes the initiatives put forward by the Welsh Assembly Government. The Skills and Employment Action Plan 2005 and the National Basic Skills Strategy for Wales 'Words Talk – Numbers Count' aim to raise skills levels for all in Wales.

In pursuit of a knowledge-based economy in Wales, the take up of modern apprenticeships is welcome. At the end of June 2004, just over 27,500 people were on training courses for young people in Wales. 48% (13,095) were on Modern Apprenticeships, 41% (11,160) were on Foundation Modern Apprenticeships and 11% (3,055) were on Skill Build.

Technology Transfer

17. Manufacturing Centres of Excellence have the potential to improve significantly the transfer of knowledge and expertise between industry and academia. We are pleased to see that Wales is developing its own Centres of Excellence. (Paragraph 129)

It is worth clarifying some apparent confusion in the report, in the sections headed "Regional Centres for Manufacturing Excellence" (paragraphs 126-128) and "Manufacturing Advisory Service Cymru" (paragraphs 130-132), where the Committee seems to draw a distinction between two aspects of what is essentially the same organisation.

"Regional Centres for Manufacturing Excellence" were, and remain, the core customer-facing component of the Manufacturing Advisory Service (MAS), which the Government set up in 2002. The MAS Regional Centres (as they are now more commonly known) are operated by local consortia under contract to their local development agencies. These centres provide hands-on, practical information, advice and support to manufacturing companies throughout their regions. This support is delivered by expert manufacturing

advisors, who are able to draw in specialist support to address specific business needs from within the organisation or from third parties.

In the case of Wales, the contract for setting up a Regional Centre for Manufacturing Excellence, and hence for the delivery of MAS services to manufacturing companies in Wales, was awarded in 2002 to a consortium led by the Manufacturing Excellence Centre (MEC) at Cardiff University under the directorship of Professor Duc Pham, in partnership with the National Centre for Product Design and Development Research (PDR) at UWIC. The administrative centre for MAS Cymru is at the Engineering Centre for Materials and Manufacturing (ECM²) at Port Talbot.

Quite independently of any Government funding for the operation of the Manufacturing Advisory Service, the Welsh European Funding Office (WEFO) has funded Centres of Excellence for Technology (CETICs). MEC itself is a CETIC, but also has separate Research Council, DTI and private funding to operate as a centre for advanced manufacturing. These institutions play an important role in facilitating knowledge transfer from academia to industry, but are separate from MAS Wales.

It should be noted that following the successful conclusion of funding negotiations between the DTI, Welsh Assembly and WDA for MAS Cymru for the three years to 2008, the WDA has re-tendered MAS Cymru through the Official Journal of the European Union, with a focus on delivering a continually improving service on an all-Wales basis, and learning from the experience of the previous three years.

In addition we look forward to the launch, later this year, of the Non Destructive Testing (NDT) Technology Validation centre in South Wales at the TWI/ECM² site. This centre will not only play a key role in the National Composite Network but will also establish a strong NDT capacity in Wales with the potential to deliver NDT excellence in the UK and, as it evolves, in Europe.

18. We are disappointed that the UK Government has decided to reduce funding for the Manufacturing Advisory Service in Wales which was regarded as a success by both industry and academia. We recommend that the Government reconsider those funding levels to enable the Service to build upon its success in Wales. (Paragraph 133)

The Government established the Manufacturing Advisory Service (MAS) in 2002 and it has proved to be a real success story, generating over £112 million of added value in England and Wales for the companies it has helped. MAS remains at the centre of Government plans for the manufacturing sector and we are keen to see it continue and develop.

At the time of the Committee's Inquiry, the initial 3-year funding for MAS was drawing to a close and discussions were underway on the continued funding of the service. SR 2004 subsequently announced an expansion of Government support for MAS to develop and build on its achievements and the UK Government has agreed to provide the Welsh Assembly Government with funding of £1,325,000 for MAS Cymru for the 3-year period 2005 to 2008, which represents a very marginal reduction on the £1,350,000 provided for the previous 3 years, and which will be match funded by the Welsh Assembly Government. The Welsh Development Agency and Welsh Assembly Government have reported that

they were pleased with the negotiations and the resultant level of funding. The Government believes that this continued support represents a significant commitment to the Manufacturing Advisory Service in Wales.

19. The UK Government and the Welsh Assembly Government have established a number of important vehicles for knowledge transfer and closer collaboration between academia and industry. However, we are concerned that Welsh academic institutions may not be receiving an equitable level of funds for those vehicles. We look to the Government to demonstrate that public funding for Welsh institutions is not playing second best to their English counterparts. We further expect the UK Government to assure us that successful but smaller institutions such as the North East Wales Institute would be able to compete on a level playing field with larger, more established universities, for technology transfer funds. (Paragraph 137)

The number of current or recently approved Knowledge Transfer Partnerships involving Welsh Knowledge Base Partners (Institutions) currently stands at eighty-three. As lead government sponsor for Knowledge Transfer Partnerships, the DTI is keen to increase the number of Partnerships within Wales and we consult on a regular basis with the Welsh Assembly Government which is an active sponsor. Whilst there are seven recognised 'KTP Offices' residing within Welsh institutions (<http://www.ktponline.org.uk/shared/offices.html#wales>) our policy is to treat all institutions on a level playing field, which enables any Knowledge Base Partner who presents a high-quality Knowledge Transfer Partnership proposal to participate.

The DTI contracts the day-to-day management and delivery of Knowledge Transfer Partnerships to 'Momenta' and we would encourage any institution that wants to engage in a Knowledge Transfer Partnership(s) or indeed increase its current participation to discuss the process with our contractor -

KTP Help line: 0870 190 2829 ktp-help@ktponline.org.uk <<mailto:ktp-help@ktponline.org.uk>>

As with research funding, Research Councils fund knowledge transfer projects, if they fall within their remit and are of high quality. In Wales, as elsewhere, Knowledge Transfer Partnerships are developed by Higher Education Institutions in collaboration with industrial partners. Applications from Wales are then considered alongside others from across the UK.

One recent example demonstrates that academic institutions in Wales are not hindered by any perceived lack of funding in taking a quantum leap in developing a knowledge-based economy. The recent announcement of a £50m investment to create the Institute of Life Science (ILS) at Swansea University underlines confidence in the new Welsh economy. It will become one of the world's premier scientific and computing facilities and will host a new European Deep Computing Visualisation Centre for Medical Applications. The centre will include a new IBM supercomputer, which is the size of a tennis court - which the university has named 'Blue C'. Designed to accelerate ILS programmes, 'Blue C' will be one of the fastest computers in the world dedicated to life sciences research. 238 high added value jobs are expected to be created by this project.

Techniums

20. We welcome the establishment of the Technium Programme in Wales. The alliance of the National Assembly, academic institutions and business has the potential to kick start the knowledge economy in Wales. It is evident that the Technium Programme will continue to need levels of financial support. We recommend that the UK Government assess what financial support it can offer out of the UK Science Budget to assist the National Assembly in the development of this programme. (Paragraph 146)

Government's research policy is to support excellent science wherever it is located in the UK and we will continue to work closely with the Welsh Assembly Government to explore opportunities for assisting good quality projects in Wales. In 2003-04 Research Councils invested a total of £40 million in research grants and studentships in Wales. In addition between 2002-03 and 2005-06 Government invested £39 million in research infrastructure in Wales under the Science Research Investment Fund. (OST)

Appendix 2

This is the Government's response to the Welsh Affairs Committee's Report on the Public Services Ombudsman (Wales) Bill.

The Committee's scrutiny took place in conjunction with scrutiny of the Bill by the Local Government and Public Services Committee of the National Assembly for Wales – to whose report Assembly Ministers will respond separately. The Government's response to each of the Welsh Affairs Committee's recommendations is set out below.

Public Services Ombudsman (Wales) Bill

1. We welcome the Public Services Ombudsman (Wales) Bill which, if enacted, would make significant improvements to the Ombudsman service in Wales. (Paragraph 15)

The Government welcomes the Committee's positive view of the improvements which the Bill would make to the Ombudsman service in Wales.

Consultation with the National Assembly for Wales

2. We welcome the Government's decision to amend the Bill to require the Secretary of State for Wales to consult the National Assembly on the appointment, in addition to the dismissal of the Public Services Ombudsman for Wales. (Paragraph 19)

The Government has listened to the views of those interested in this Bill, and made changes where we consider these would improve the Bill.

We decided to make this amendment in the light of views expressed by Committee Members, and after considering points made during the Bill's passage through the House of Lords.

Length of Tenure

3. There appeared to be a general level of agreement in the House of Lords that a seven year period of appointment was appropriate. However, that was not the views and experience of our witnesses, who considered a ten year appointment as appropriate. We recommend that the Government reconsider its decision to reduce the length of tenure of the Ombudsman in the light of our evidence. Should the Government believe that a balance needed to be made between security of tenure and the opportunity to re-invigorate the office, we recommend it reconsider appointments on a five year basis with the possibility of reappointment for a further five years. (Paragraph 23)

The issue of the length of the Ombudsman's tenure has given rise to extensive discussion, both in the course of the Committees' scrutiny of the Bill, and as the Bill has passed through its parliamentary stages in the House of Lords.

As the Committee has noted, following debate in Lords Grand Committee, the Government agreed to put down an amendment at Report Stage, reducing the length of

tenure from 10 to 7 years. This amendment has now been made and incorporated in the Bill which has passed to the House of Commons. It is a fixed term appointment, i.e. there is no provision for a second term of office.

The Secretary of State is required to consult the Assembly prior to advising Her Majesty on the appointment of the Ombudsman. If provision were made for the appointment to be renewable it would follow that the Secretary of State would consult the Assembly before advising on its renewal. As the Assembly is one of the listed authorities within the Ombudsman's jurisdiction, the Government concurs with the view expressed by Assembly Ministers that this could give rise to a perception that the Ombudsman is not entirely independent of the Assembly's influence. The Government is concerned to strike the right balance between security of tenure and opportunities to reinvigorate the office. We believe there should be a reasonable degree of security of tenure, both to attract high quality applicants and to provide some continuity. As such, we consider that a five year term of office is too short, and do not favour a renewable five year term for the reasons outlined above.

We note that the witnesses who gave evidence to the Committees were on the whole happy with the ten year term of appointment originally proposed. In particular, they did not think that being in post for 10 years would compromise the integrity and independence of the post.

We agree that a 10 year fixed term tenure would not be a problem in terms of independence and integrity. However we are persuaded that a 7 year term is long enough to provide the required degree of security of tenure, and short enough to allow a regular injection of new blood to reinvigorate the office with new approaches and new ideas.

The Government does not, therefore, intend to bring forward a further amendment to change the length of tenure.

Ombudsman's Staff

4. The transfer of the Ombudsman's staff from the civil service to the Office of the Public Services Ombudsman for Wales will reinforce the independence of the Ombudsman. We welcome that decision and applaud the Government for not merely replicating the existing arrangements, but improving upon them. (Paragraph 26)

Noted.

5. We conclude that the Bill is sufficiently flexible for the Ombudsman to appoint those staff that he or she feels necessary. Therefore, we do not see any need to include on the face of the Bill, the power to appoint Deputy Ombudsmen. (Paragraph 32)

Noted.

6. We conclude that the Bill gives sufficient flexibility for the Ombudsman to take account of the view of stakeholders and experts in the delivery of his or her duties. We agree with the Government that provisions to establish a statutory advisory board are neither necessary nor desirable. (Paragraph 36)

Noted.

Listed Authorities

7. We welcome the approach taken by the Board of Community Health Councils and agree that it should be subject to the same level of accountability as individual Community Health Councils. We recommend that the Board of Community Health Councils be included in the list of Listed Authorities. (Paragraph 38)

When the Bill has been enacted, the National Assembly for Wales will have the power to add the Board to the list of authorities subject to the Ombudsman's jurisdiction, provided the Board meets the qualifying criteria in clause 29 of the Bill.

It appears to us that the Board would meet the qualifying criteria in clause 29. Any order adding the Board to the Ombudsman's jurisdiction will need to specify whether all or only some of the Board's functions are to be subject to the Ombudsman's jurisdiction.

Assembly Ministers have confirmed that they will give careful consideration to bringing forward an Order to add the Board to the list of authorities subject to the Ombudsman's jurisdiction. If such an Order is brought forward, Assembly Ministers will consult the Board over which of its functions it considers should be brought within the Ombudsman's remit.

Welsh Language Board

8. We agree that the Bill does not need to prescribe the relationship between the Welsh Language Board and the Public Services Ombudsman for Wales. However, we would welcome further clarification from the Government on the relationship between the Welsh Language Board and the proposed Public Services Ombudsman for Wales, in relation to the Welsh Language. (Paragraph 42)

Most of the listed authorities that are subject to investigation by the Ombudsman also have a duty to prepare a Welsh Language Scheme, or have agreed to prepare a Scheme. The Welsh Language Board can look into any failures by public bodies to comply with the terms of their Welsh Language Schemes. Where those bodies are also listed authorities, and a failure to comply with the terms of their Scheme has affected an individual, it is possible that a complaint of maladministration or service failure might be made to the Ombudsman.

The Government would expect the Ombudsman to discuss with the Welsh Language Board the way in which such complaints would be handled. The current Local Government and Health Service Ombudsman for Wales and Welsh Administration Ombudsman indicated in his evidence to the Committee that he would discuss with the Welsh Language Board cases that might fall to either of them to consider, and would consider whether a concordat governing their working relationship might be needed.

We believe that this would be a reasonable approach to the matter. The Ombudsman would have the power to enter into such a concordat with the Welsh Language Board under paragraph 21 of Schedule 1 to the Bill. As the Ombudsman will be a public authority

for the purposes of section 19 of the Freedom of Information Act, it is likely that any concordat agreed with the Board would be information which should be published in accordance with the Ombudsman's publication scheme under that section.

Transfer of Cases Between Ombudsmen

9. The Minister is correct to state that the Bill provides for close co-operation between Ombudsmen in Wales and in England. However, we are not convinced that the Ombudsmen would no longer need the power to transfer cases between them when it is appropriate to do so. We recommend that the Government, retain in the Bill, the power of the Ombudsman in England to transfer cases to the Welsh Ombudsman. (Paragraph 48)

Under existing legislation in the Local Government Act 1974, the Commissioners for Local Administration in England and Wales are able to transfer cases to each other where it is appropriate to do so. Schedule 6 to the Bill removes the power of the Commissioners in England to continue to transfer such cases to the Public Services Ombudsman for Wales, and does not provide for the Ombudsman to transfer cases to the Commissioners. However, the three English Commissioners are still able to transfer cases to one another.

The amendment removing the ability to transfer cases from the English Commissioners to the Ombudsman is aimed at making a clear separation between the jurisdictions of those Commissioners and the Ombudsman. At present the English and Welsh Commissioners are governed by the same legislation. Under the Bill, the Welsh Commissioner's jurisdiction will form part of the Ombudsman's jurisdiction, and will be governed by different legislation. As such, it is important for the Bill to make such amendments as are necessary to clarify the respective jurisdictions of the English Commissioners and the Ombudsman.

The Commission for Local Administration in England has argued for the retention, or reinstating, of power for the English Commissioners to transfer cases to the Ombudsman (as the successor to the Welsh Commissioner). The Government understands the Commission's wish to keep open all possible avenues for dealing with conflicts, or perceived conflicts, of interest. However, the Bill does not remove the possibility of dealing with such cases by transferring cases between the three English Commissioners. The Commission raised the issue of internal drainage boards, some of which operate across the England/Wales border. However, in these cases where there is an overlap of jurisdiction between the Ombudsman and the English Commissioners, the provisions for consultation, co-operation and joint working in clause 25 of the Bill will apply.