

# Agenda – Economy, Infrastructure and Skills Committee

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Meeting Venue:

Committee Room 1 – Senedd

Meeting date: 9 November 2017

Meeting time: 10.30

For further information contact:

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## Private pre-meeting (10.30–10.45)

### 1 Introductions, apologies, substitutions and declarations of interest

### 2 Welsh Government Draft Budget 2018–19 – Minister for Skills and Science

(10.45–11.45)

(Pages 1 – 35)

Julie James AM, Minister for Skills and Science

Huw Morris, Director Skills, Higher Education and Lifelong Learning, Welsh Government

Simon Jones, Director for Economic Infrastructure, Welsh Government

Dean Medcraft, Director Finance & Operations, Welsh Government

Attached Documents:

Research brief

EIS(5)–25–17(p1) Minister for Skills and Science

### Break (11.45–12.00)



Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales

### **3 Welsh Government Draft Budget 2018–19 – Cabinet Secretary for Economy and Infrastructure**

(12.00–13.00)

(Pages 36 – 92)

Ken Skates AM, Cabinet Secretary for Economy and Infrastructure

Dean Medcraft, Director– Finance & Operations, Welsh Government

Simon Jones, Director Economic Infrastructure, Welsh Government

Attached Documents:

Research brief

EIS(5)–25–17(p2) Cabinet Secretary for Economy and Infrastructure

### **4 Paper(s) to note**

#### **4.1 Additional information from the Cabinet Secretary for Economy and Infrastructure regarding the Committee's inquiry on Selling Wales to the World**

(Pages 93 – 94)

Attached Documents:

EIS(5)–25–17(p3) Additional information from the Cabinet Secretary for Economy and Infrastructure

### **5 Motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting and the next Committee meeting on 15 November**

### **6 Discussion on priorities – Welsh Government Draft Budget Scrutiny 2018–19**

(13.00–13.30)

# Agenda Item 2

Document is Restricted

## Economy, Infrastructure and Skills Committee and Children, Young People and Education Committee

**Date: 9<sup>th</sup> November 2017**

**Time: 10:45-11:45**

**Title: Evidence paper on the Draft Budget 2018-19 – to be presented to the Economy, Infrastructure and Skills Committee and Children, Young People and Education Committee**

### 1.0 Introduction

This paper provides information to the Economy, Infrastructure and Skills Committee and the Children, Young People and Education Committee on the Minister for Skills & Science portfolio proposals outlined in Draft Budget 2018-19. The Draft Budget was published as part of a two stage process, an outline budget (stage 1) on 3 October followed by a detailed budget (stage 2) on 24 October. It also provides an update on specific areas of interest to the Committee.

### 2.0 Summary of budget changes

The Draft Budget 2018-19 provides a two year plan for revenue investment and a three year plan for capital investment. The tables below provide an overview of the planned revenue and capital budgets relating to the Minister for Skills & Science portfolio:

<b>TABLE 1: OVERVIEW OF THE REVENUE BUDGET</b>						
<b>Action</b>	<b>2017-18 First Supp Budget £'000</b>	<b>2018-19 Revised Baseline £'000</b>	<b>Change £'000</b>	<b>2018-19 New Plans Draft Budget £'000</b>	<b>Change £'000</b>	<b>2019-20 New Plans Draft Budget £'000</b>
<b>Revenue</b>						
Sectors:						
Life Sciences	2,896	2,896	(696)	2,200	-	2,200
Science and Innovation	10,514	10,514	(8,882)	1,632	(887)	745
Skills	176,175	175,675	(7,599)	168,076	(7,596)	160,480
ICT Infrastructure	8,517	9,017	(1,536)	7,481	500	7,981
<b>Sub Total</b>	<b>198,102</b>	<b>198,102</b>	<b>(18,713)</b>	<b>179,389</b>	<b>(7,983)</b>	<b>171,406</b>
<b>Non Cash</b>						
ICT Infrastructure	1,309	1,309	-	1,309	-	1,309
<b>TOTAL</b>	<b>199,411</b>	<b>199,411</b>	<b>(18,713)</b>	<b>180,698</b>	<b>(7,983)</b>	<b>172,715</b>

<b>TABLE 2: OVERVIEW OF THE CAPITAL BUDGET</b>					
<b>Action</b>	<b>2017-18 First Supp Budget £'000</b>	<b>2018-19 Draft Budget Allocations</b>			
		<b>2018-19 £'000</b>	<b>2019-20 £'000</b>	<b>2020-21 £'000</b>	<b>Total £'000</b>
Sectors: Life Sciences	9,711	2,090	798	801	<b>3,689</b>
Science and Innovation	12,610	8,372	8,720	8,940	<b>26,032</b>
Infrastructure	20,550	12,500	1,500	19,500	<b>33,500</b>
<b>TOTAL</b>	<b>42,871</b>	<b>22,962</b>	<b>11,018</b>	<b>29,241</b>	<b>63,221</b>
<b>2017-18 Final Budget</b>	<b>42,871</b>	<b>11,706</b>	<b>3,562</b>	<b>20,562</b>	<b>35,830</b>
<b>Change in New Plans (Note 1)</b>	<b>-</b>	<b>11,256</b>	<b>7,456</b>	<b>8,679</b>	<b>27,391</b>

*Note 1 – the changes in the new plans are explained in paragraph 4*

In addition there is an Annually Managed Expenditure (AME) budget of £12m in 2018-19 and 2019-20 which makes provision for pension liabilities in Careers Wales.

### **3.0 Revenue Changes**

Our revenue proposals reflect the challenging settlement faced by the Welsh Government and the need to re-prioritise budgets and deliver savings where possible.

Compared to the revised baseline for 2018-19 and 2019-20, the total resource DEL has decreased by £26.696m. In summary the movements for 2018-19 and 2019-20 are:

<b>Description of Movement</b>	<b>2018-19 £'000</b>	<b>2019-20 £'000</b>	<b>Total £'000</b>
Realignment of projects in line with delivery requirements <ul style="list-style-type: none"> <li>• Life Sciences</li> <li>• Innovation</li> </ul>	(696) (1,111)	- -	(696) (1,111)
Reclassification of R&D expenditure from Revenue to Capital – to comply with HM Treasury guidance	(7,771)	(887)	(8,658)
Public Sector Broadband Aggregation - Invest to Save	(500)	500	-

repayment adjustments			
Work Based Learning – reflects drawdown of EU income entitlements	(7,599)	(7,596)	(15,195)
Public Sector Broadband Aggregation – maintenance savings from upgraded network	(1,036)	-	(1,036)
<b>Total Movements</b>	<b>(18,713)</b>	<b>(7,983)</b>	<b>(26,696)</b>

#### 4.0 Capital Changes

Four year capital plans were published in the 2017-18 Final Budget, providing greater transparency and certainty to our key stakeholders and delivery partners. In this paper, we therefore discuss changes that have made to the four year capital plans since the publication of the last budget. There have been no changes to budgets between the 2017-18 Final Budget and the 2017-18 First Supplementary Budget (which is shown for information only).

The capital budget remains challenging and projects have had to be prioritised in line with our commitments to deliver *Taking Wales Forward* and *Prosperity for All*.

Over the three years the capital budget has increased by £27.391m. A description of movements between the plan as published in 2017-18 and this budget are summarised in the following table:

Description of Movement	2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Realignment of Life Sciences projects in line with delivery requirements	(1,515)	(1,202)	(199)	(2,916)
Reclassification of R&D expenditure from Revenue to Capital – comply with HM Treasury guidance	7,771	8,658	8,878	25,307
Public Sector Broadband Aggregation – Network Upgrade	5,000	-	-	5,000
<b>Total Changes in New plans</b>	<b>11,256</b>	<b>7,456</b>	<b>8,679</b>	<b>27,391</b>

The detailed level budget plans for the Economy and Infrastructure MEG were published on 24 October. To aid transparency a breakdown of changes for the portfolio Budget Expenditure Lines (BEL) is provided at **Annex A**.

## 5.0 Priorities

I set out my priorities in my written and oral evidence at the Economy, Infrastructure and Skills Committee meeting of 27 September. The paper explains how my portfolio aligns with *Prosperity for All: the National Strategy* and will deliver against its key themes and is available at:

<http://senedd.assembly.wales/documents/s66061/EIS5-21-17p1%20Minister%20for%20Skills%20and%20Science.pdf>

## 6.0 Action level summary

The 2018-19 Draft Budget is published at Action and BEL level. As detailed in paragraph 2, the summary reflects changes from the revised baseline for revenue in 2018-19 and subsequent changes in 2019-20. In the 2017-18 Final Budget the capital plans were published for four years. Therefore the changes in the plans are compared to the original plans in the financial years.

### 6.1 Sectors Action

Revenue						
BEL	2017-18 First Supp Budget £'000	2018-19 Revised Baseline £'000	2018-19 Changes £'000	2018-19 Draft Budget £'000	2019-20 Changes £'000	2019-20 Draft Budget £'000
Life Sciences	2,896	2,896	(696)	2,200	0	2,200
<b>Total</b>	<b>2,896</b>	<b>2,896</b>	<b>(696)</b>	<b>2,200</b>	<b>0</b>	<b>2,200</b>

Capital					
BEL	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Life Sciences	9,711	2,090	798	801	<b>3,689</b>
<b>Total</b>	<b>9,711</b>	<b>2,090</b>	<b>798</b>	<b>801</b>	<b>3,689</b>

### **Life Sciences Sector - Policy & Strategy Overview**

The explanations for the movements in the revenue and capital budgets are summarised in paragraphs 3 and 4.

The capital funding of £3.689m over the three years will support the commitments for strategic infrastructure investments, creating an environment for growing regenerative medicine companies to thrive. We will build on the strategic infrastructure investments already committed for the Advanced Therapeutic Medicinal Products facility, and the Welsh Wound Innovation Centre which are included in the 2017-18 budget provision of £9.711m. We will work alongside other

proposition developments such as ARCH (West Wales) and the Clinical Innovation Hub (South Wales) to maximise their economic impact.

The Life Sciences sector forms part of the wider Sectors Action where budgets have been re-prioritised and aligned to support capacity building and investment targeted to maximise the budget available.

In the **short term**, we will continue to provide revenue support and progress opportunities for the Life Sciences ecosystem in Wales. The Life Sciences Hub is being repurposed to develop opportunities for creating value from NHS-Industry engagement, including improved health and wellbeing outcomes for people, improved efficiency and value for health and care services and to support business growth, investment and jobs. This reflects our intention to support collaborative projects which are integral to deliver Prosperity for All.

In the **medium term**, we will facilitate trials and demonstrator links and assist with route to market opportunities for Life Sciences businesses within NHS Wales and key strategic subsectors.

In the **long term**, we will continue to raise the international profile of the sector by creating an international brand that highlights its innovative successful nature and attracts growth and job creation to Wales.

## 6.2 Science and Innovation Actions

Revenue						
Innovation Action						
BEL	2017-18 First Supp Budget £'000	2018-19 Revised Baseline £'000	2018-19 Changes £'000	2018-19 Draft Budget £'000	2019-20 Changes £'000	2019-20 Draft Budget £'000
Business Innovation	1,520	1,520	(1,520)	0	0	0
Innovation Centres & R&D Facilities Academia & Business Collaboration	4,199	4,199	(3,340)	859	(255)	604
<b>Sub Total</b>	<b>5,719</b>	<b>5,719</b>	<b>(4,860)</b>	<b>859</b>	<b>(255)</b>	<b>604</b>
Science Action						
Science	4,795	4,795	(4,022)	773	(632)	141
<b>Total</b>	<b>10,514</b>	<b>10,514</b>	<b>(8,882)</b>	<b>1,632</b>	<b>(887)</b>	<b>745</b>

Capital					
BEL	2017-18 First Supp Budget	2018-19 Draft Budget Allocations			
		2018-19	2019-20	2020-21	Total

	£'000	£'000	£'000	£'000	£'000
<b>Action: Innovation</b>					
Academia and Business Collaboration	11,739	3,811	4,066	4,066	11,943
<b>Sub Total</b>	<b>11,739</b>	<b>3,811</b>	<b>4,066</b>	<b>4,066</b>	<b>11,943</b>
<b>Action: Science</b>					
Science	871	4,561	4,654	4,874	14,089
<b>Sub Total</b>	<b>871</b>	<b>4,561</b>	<b>4,654</b>	<b>4,874</b>	<b>14,089</b>
<b>TOTAL</b>	<b>12,610</b>	<b>8,372</b>	<b>8,720</b>	<b>8,940</b>	<b>26,032</b>

The explanations for the movements in the revenue and capital budgets are summarised in paragraphs 3 and 4.

The total Innovation budget of £13.406m (revenue funding of £1.463m over two years and capital funding of £11.943m over three years) continues our support for the EU innovation programmes, SMART Cymru and SMART Expertise. These programmes encourage businesses to invest in innovation and develop links with academia and business innovation with the aim of enhancing the competitiveness of firms to support sustainable economic growth.

In 2018-19 there is a decrease in revenue of £4.860m compared to the 2018-19 revised baseline. There is a further decrease of £0.255m in 2019-20. Reclassification of Research & Development (R&D) expenditure from revenue to capital to comply with Treasury guidance has resulted in an adjustment between revenue and capital plans of £3.749m. In addition, activity was realigned to delivery which released £1.111m to deliver priorities in Entrepreneurship.

In 2017-18 the capital budget of £11.739m reflects the planned profile of our investment in key innovation centres such as the Semi Conductor Hub that we have invested in alongside Cardiff University. Further interventions in this area are under development with delivery partners but are not yet at the stage for investment.

The total Science budget of £14.963m (revenue £0.874m for two years and capital funding of £14.089m over three years) supports initiatives to deliver the *Science for Wales's* strategy: Sêr Cymru, Sêr Cymru 2 (which are co-financed with external funding) and National Science Academy (NSA).

There is a decrease in revenue budget of £4.022m in 2018-19 and a further £0.632m in 2019-20 as a result of reclassifying R&D expenditure.

Overall our investment in Science activities remains comparable to 2017-18 although the split between capital and revenue budgets has changed to reflect new accounting practices.

### 6.3 Deliver ICT Infrastructure Action

Revenue						
BEL	2017-18 First Supp Budget £'000	2018-19 Revised Baseline £'000	2018-19 Changes £'000	2018-19 Draft Budget £'000	2019-20 Changes £'000	2019-20 Draft Budget £'000
Digital Inclusion	1,250	1,250	0	1,250	0	1,250
Public Sector Broadband Aggregation	5,240	5,740	(1,536)	4,204	500	4,704
ICT Infrastructure Operations	2,027	2,027	0	2,027	0	2,027
<b>Sub Total</b>	<b>8,517</b>	<b>9,017</b>	<b>(1,536)</b>	<b>7,481</b>	<b>500</b>	<b>7,981</b>
Non Cash						
ICT Infrastructure Operations	1,309	1,309	0	1,309	0	1,309
<b>Sub Total</b>	<b>1,309</b>	<b>1,309</b>	<b>0</b>	<b>1,309</b>	<b>0</b>	<b>1,309</b>
<b>TOTAL</b>	<b>9,826</b>	<b>10,326</b>	<b>(1,536)</b>	<b>8,790</b>	<b>500</b>	<b>9,290</b>
Capital						
BEL	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations				
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000	
ICT Infrastructure Operations	20,550	7,500	1,500	19,500	28,500	
<b>Total</b>	<b>20,550</b>	<b>7,500</b>	<b>1,500</b>	<b>19,500</b>	<b>28,500</b>	

The ICT Infrastructure budget continues to reflect our commitment to provide fast and effective broadband to all homes and premises in Wales despite the challenging budget settlement. Delivering digital skills and providing fast, reliable broadband with mobile coverage across Wales supports our commitments in *Prosperity for All*.

The explanations for the movements in the revenue and capital budgets are summarised in paragraphs 3 and 4.

The profiled capital expenditure for Superfast over the four years reflects the anticipated end of the current project in 2017-18 and commencement in 2018-19 for the follow on programme. The core budget requirement is higher in the final year and European funding and match funding was drawdown in the early delivery stages. From 2018-19 the core budget requirement for Superfast II is managed in line with European match funding is managed in line with the delivery requirements

In 2018-19, an additional capital allocation of £5m supports the upgrade of the Public Sector Broadband Aggregation network which will help to save over £1m in 2018-19 which is built into future baselines for revenue maintenance costs.

### **Digital Inclusion BEL**

Digital Communities Wales (DCW) trains and supports organisations to engage digitally excluded people with technologies, assists with embedding digital inclusion within the organisation and encourages recruitment of volunteers to act as digital champions. It works closely with partner organisations, including libraries, to ensure free access and support to the internet for those who need it most. Following an independent evaluation, DCW was extended until 31 March 2019 and maintained at current levels.

### **Public Sector Broadband Aggregation BEL**

This budget supports the contract awarded to BT in October 2014 for a minimum of seven years that provides a mechanism for collaborative purchasing of wide area networking services for the public sector. It currently supports over 110 organisations providing over 4,500 site services. In 2018-19, there is a decrease in revenue budget resulting from a repayment of £0.5m for previous Invest to Save funding and c£1m in savings in maintenance anticipated from capital investment of £5m to upgrade the network. Therefore the changes have no impact on delivery.

### **ICT Infrastructure Operations BEL**

The four main programmes of activity are:

- **Superfast Exploitation (revenue)** – contracts and grants awarded to different providers to help businesses gain commercial benefit from superfast broadband infrastructure and create economic dividend for Wales. This is a five year project, which commenced in late 2015. The project utilises both Welsh Government and EU funding.
- **Superfast Cymru (capital)** – contract awarded to BT to develop superfast broadband infrastructure throughout Wales capable of delivering 30mbps or more. The project utilises Welsh Government, EU and BDUK funding and will be completed in 2017-18.
- An **additional phase** of Superfast Cymru will be implemented within 2018-19 and will build on the infrastructure created in the first phase to provide options for reaching those premises not included in the first phase. The project will utilise Welsh Government and EU funding.
- **Access Broadband Cymru and Ultrafast Connectivity Schemes (capital)** Demand led schemes that provide grant support to access alternative broadband solutions capable of delivering stable superfast download speeds to both residential and business premises.

## 7.0 Skills Actions

Action	BEL	2017-18 First Supp Budget £'000	2018-19 Revised Baseline £'000	2018-19 Changes £'000	2018-19 Draft Budget £'000	2019-20 Changes £'000	2019-20 Draft Budget £'000
Work -based Learning	Work Based Learning	126,808	126,308	(7,599)	118,709	(7,596)	111,113
Delivery Support Skills	Marketing and Skills	648	648	0	648	0	648
Skills Policy	Skills Policy and Engagement	1,061	1,061	0	1,061	0	1,061
Employment and Skills	Employability and Skills	28,858	28,858	0	28,858	0	28,858
Educational and Careers Choice	Careers Wales	18,800	18,800	0	18,800		18,800
<b>Total</b>		<b>176,175</b>	<b>175,675</b>	<b>(7,599)</b>	<b>168,076</b>	<b>(7,596)</b>	<b>160,480</b>

The explanations for the movements in the revenue and capital budgets are summarised in paragraphs 3 and 4.

### **Work-based Learning BEL**

The 2018-19 revised baseline excludes non recurrent funding of £0.500m for a one-year allocation to support Police Forces in Wales.

We recognise the broader role that skills and lifelong learning play in economic development and have maintained funding levels facilitated by optimising European funding. Whilst the net budget of £118.7m in 2018-19 and £111m in 2019-20 supporting Apprenticeships and Traineeships reflects reductions this is offset by increased European funding of the same value. European funding is managed based on Welsh Government requirements over the life of the projects with support from WEFO to ensure that it effectively supports the *Taking Wales Forward* commitments.

The BEL supports the following activities:

- The delivery of all-age apprenticeships (including framework development) (Circa £110m)
- The delivery of the Traineeship programme (Circa £35m)
- Support for the recruitment of apprentices aged 16-18 (Circa £2m)

- The inspiring Skills programme and other pilots aimed at increasing apprenticeship participation e.g. "Have a Go" (Circa £2m)
- Staff and marketing costs related to European funded projects (Circa £2m).
- Anticipated income of £25mESF receipts, however this could vary each year due to activity levels.

The budget supports initiatives to encourage employers to recruit young learners, particularly at key points during the year. Support for young apprentices is a priority area. It also supports the Traineeship programme which is aimed at young people who are (or at risk of) becoming NEET (Not in Education, Employment, or Training).

### **Junior Apprenticeships; and particularly 16-19 years olds**

Junior Apprenticeships are not included in the Work -based Learning BEL but are supported in the Education MEG.

The Welsh Government monitors the outcomes for both the Traineeship and the Apprenticeship programmes. Outcomes are measured in relation to framework completion rates for Apprenticeships and progression rates (in relation to moving into a job or higher learning) for the Traineeship programme. Contracts can be terminated where the outcomes are unacceptable.

The outcomes information is determined from comprehensive learner data submitted to the Welsh Government by each contracted provider.

### **Marketing and Skills BEL**

This budget funds marketing activity to promote the apprenticeship and traineeship programmes and support skills award events.

### **Skills Policy and Engagement BEL**

The Skills Policy Engagement agenda includes: leading on retaining National Occupational Standards (NOS) as the basis for our vocational education and training systems taking account of the UK skills agenda; supporting the quality assurance, dissemination, analysis and procurement of evidence to support skills, employment and learning development via robust Labour Market Information, working closely with the Regional Skills Partnerships; and acting as the skills lead in our engagement with employers. This includes working closely with wider Sector and Business Teams and leading on the Flexible Skills Programme (FSP) to meet strategic employer skills needs where these cannot be met by mainstream provision.

This budget supports:

- Formulation and communication of Welsh Government skills policy taking account of the wider cross-UK policy landscape;

- Establishing a strong employer-led regional skills delivery agenda supported by Regional Skills Partnerships; and
- Engaging and supporting key employers through strategic relationship management to meet skills needs via employer-led projects.

Budgets relating to skills policy support a range of work including:

- Labour market intelligence – the quality assurance, dissemination, analysis and procurement of evidence to support skills, employment and learning development and ensure better informed decisions regarding the labour market.
- Wales Employment and Skills Board (WESB) - WESB serves as an independent, employer-led advisory board for Welsh Government on all matters relating to post-16 employment and skills policy to ensure delivery is better aligned to the needs of employers and individuals across Wales. WESB reports directly to the Council for Economic Development (CED). This new working arrangement is providing the Welsh Government with a robust challenge and enhanced strategic perspective on skills, apprenticeships, higher education and lifelong learning matters.
- Age of Investment campaign – this campaign focuses on actively encouraging employers to retain and employ older workers and recognise the value of older workers as part of a multigenerational workforce, working closely with the Older People’s Commissioner’s office. The campaign will also emphasise the message of co-investment and promote the benefits of investing in workforce skills to employers.

Budgets relating to Regional Skills Partnerships (RSPs) provide a mechanism for ensuring skills provision in Wales matches the needs to employers, helping them access the skills they need. There are three RSPs:

- North Wales Economic Ambition Board – Regional Skills Partnership North Wales (NWEAB - RSP)
- South West and Mid Wales Regional Learning and Skills Partnership (RLSP); and
- South East Wales Learning, Skills and Innovation Partnership (LSkip).

The RSPs have developed robust employer engagement strategies to capture the skills needs of the region and, in particular, the skills needs associated with regional infrastructure projects and priority sectors. This work has proved to be timely, informing the development of regional proposals for City/ Growth Deals to UK Government. Each RSP produces an annual employment and skills plan, identifying priorities for their region based upon employer need. Regional employment and skills plans identify key economic sectors and providing a critical evidence base

from which to make skills investment decisions. The most recent set of employment and skills plans were published in August 2017.

Budgets relating to Employer Engagement and sectors provide the skills element of wider Welsh Government packages of support for employer-led projects that support high quality job creation and/or safeguarding. This work includes achieving broader and deeper relationships between strategic employers and schools, FE and HE; facilitating and increasing take up amongst strategic employers of Welsh Government-led skills programmes and projects such as apprenticeships, Business Class, FSP, and Skills Priority Programme; facilitating RSP engagement with key employers; providing 'live' intelligence from employers; communicating Welsh Government skills priorities and key messages to business; and the policy and delivery lead for the FSP.

### **Employability and Skills BEL**

This BEL funds the development and delivery of strategies, policies and programmes which assist people to access, return to, remain in and progress at work through skills and training support. It facilitates a direct response to assist the growth of individual businesses through workforce development and provides sector-based, employer-led and wider solutions to respond to identified skills needs in priority areas which are important for the economy of Wales.

Both the Jobs Growth Wales and React programmes attract European Social Funding under the current 2014 – 2020 round of programmes. Our new employability offer is expected to begin delivery in April 2019. This will be positioned as a single offer under the name, 'Working Wales', and will replace our current suite of programmes: ReAct, Jobs Growth Wales, the Employability Skills Programme and Traineeships. Between now and April 2019 these programmes will be reconfigured to inform the new delivery approach.

### **Careers Wales BEL**

Annual revenue funding of £18.800m for ports Careers Wales activity has been maintained.

In 2016, Welsh Ministers invited Careers Wales to bring forward a vision for the future delivery of careers services in Wales. Following consultation with stakeholders, in June 2016 the company published its vision *Changing Lives* which sets out how the service will be developed over the next three years. The key messages within *Changing Lives* are:

- The refocus on young people and a prevention rather than cure approach;
- A much greater use of technology in the support of delivery;
- Enhanced support to partners including employers and schools; and
- To support adults back into employment.

Changing Lives proposes a fundamental redesign of services, with digital transformation realising fully blended services to clients. Careers Wales is investing

in digital platforms and services not to replace face-to-face services, but to ensure career adviser time is effectively employed in high value activities. Informed by consultation with young people, Careers Wales have developed an innovative new approach to delivery. The world has moved on from 'one size fits all solutions' and that is reflected in the way Careers Wales delivers a highly differentiated approach to service delivery – using face to face contact, emails, web chats, webinars, social media and other channels.

As Careers Wales implement their new vision, they will be evaluating and testing new approaches with customers to ensure client needs are being addressed in service development and design. Careers Wales is investing in digital platforms and services not to replace face-to-face services, but to ensure career adviser time is effectively employed in high value activities. Informed by consultation with young people, Careers Wales have developed an innovative new approach to delivery. The Career Discovery Model will address individual needs through a range of coordinated and complementary services delivered digitally and face-to-face. Built on three complementary processes, Diagnosis, Discovery and Delivery, the model combines professional expertise with innovation, to meet the needs of individuals through the most appropriate delivery channels. This is a holistic and well rounded approach that combines individual support with engaging and inspiring activities.

Changes to the Careers Wales remit in previous years have resulted in a reduced service to young people in schools. The new delivery vision is seeking to redress this with the agreed business plan for 2017-18 re-focusing resources toward school-based delivery. Changes which are being introduced include a far stronger emphasis on support to young people in schools, both directly, through capacity building with partners, and through new resources to help teachers make connections between curriculum delivery and the world of work.

Services to adults outside of specific contracted services (such as the Individual Skills Gateway and ReAct) have been scaled back, though these clients continue to have services accessible via Careers Wales centres, the phone service, and online. The remit letter offers discretion to offer services to adults within available resource to give Careers Wales some discretion in how most appropriately to support adult clients as part of the universal offer. The lack of complaints that are made against an organisation of its size is notable and is linked to the flexibility of approach in terms of the work they undertake with adults.

There is growing evidence around the impact of Careers Information Advice and Guidance (CIAG) services to young people.

### ***Careers Wales support for NEETs:***

Careers Wales is a key partner in the Youth Engagement and Progression Framework. Careers Wales staff provide a lead in support of young people who are disengaged from Education, Employment and Training (EET) without extensive barriers. Careers Wales provide detailed reports to Welsh Government detailing the numbers of young people supported, how long it has taken to re-engage them in EET activity, and movement between tiers in the 5 Tier model. Careers Wales also

undertakes a destinations survey in October each year which is used as the basis for the NEET statistics.

The provision of CIAG services support young people to make successful transitions from compulsory to post-compulsory education and training (or employment), preventing enrolment onto inappropriate courses and reducing drop-out rates. Greater focus on engagement with young people while they are in school will feed through to reduced churn and drop-out post-16 and a reduced NEETs.

Two separate research projects reviewed the services provided by Careers Wales to clients who were NEET or in danger of becoming NEET, and the links between these services and client progression. Findings demonstrate that the work of Careers Wales helps to reduce the number and proportion of young people in Wales who are (NEET, and furthermore helps to reduce the number of clients who are at risk of leaving EET prematurely.

During 2017-2018 Careers Wales will continue to support young people in Tier 3 (up to the age of 18) where their primary requirement is careers related support until they are in an outcome or no longer require our support. Careers Wales will also be looking to improving links with partner organisation who offer support to the client group with a view to identifying appropriate support activities for individuals' to develop their career management abilities.

During 2016–17, Careers Wales developed a system of performance measures intended to trial the harmonisation of indicators of success at Company level and for specified job roles. The system developed focuses on careers advisers working with clients in education and covers three aspects of performance measurement that also exist on a pan Company basis. There will be three approaches to measuring progress and performance in 2017-18. These will include agreed key performance indicators and piloting the measurement of the outcomes outlined in the vision. In addition Careers Wales has proposed a series of aspirational achievement metrics within their business plan which will be used to inform discussions on performance and will provide some baselines for future performance.

Some examples of these metrics include:

- All KS4 learners will complete Career Check
- All Year 11 learners will be on the Careers Adviser caseload until they are settled in their post 16 destination
- 70% pupils receiving services in KS4 will receive at least 2 personalised Digital interactions
- 20% clients in Tier 3 to progress to Tier 2
- 80 % clients in Tier 3 progress within 90 days
- 10.000 employers logged in the employer database by March 2018
- 214 World of Work events – a minimum 1 per secondary school

Assessing the cost-effectiveness of Careers Wales services delivered on behalf of the Welsh Government is challenging because:

- Careers Wales is required to carry out tasks and delivery services, the end-product of which is often outside their control;
- The spread of responsibilities across the ‘careers family’: responsibility for the control and cost of outcomes is not clearly allocated; and
- The lack of readily available comparators against which to benchmark service delivery.

In light of this, in setting the remit for 2018-19, the Welsh Government will look to be more specific about its inputs and the investment it is making and the outcomes (for example, a reduction in NEET by a specific amount), allowing Careers Wales to determine the approach that is most appropriate to create achievement, then reporting back to Welsh Government on the outcomes – rather than on the detailed processes deployed to achieve them.

## **8.0 Budget Monitoring and Evaluation**

### **8.1 Budget monitoring**

All spending areas are challenged on a monthly basis and quarterly in-depth reviews are undertaken by officials to consider the latest forecasts and agree changes to budgets. The Cabinet Secretary for Economy and Infrastructure and the Minister for Skills and Science are provided with regular financial updates on the portfolio to ensure the budget remains on track to ensure that value for money outcomes are being achieved and that we continue to deliver the portfolio priorities.

### **8.2 Evaluation**

The need for and scope of evaluation is considered on a case basis during policy and programme development having regard to risk, size and scale, existing evidence and relevant factors. I have for example recently commissioned a review of the five year Ser Cymru science programme. The review will focus on the objectives and targets achieved by the programme and will help shape our key priorities about options for the future of government funded science research in Wales whilst ensuring sufficient flexibility to enable local and regional priorities to be addressed, depending on their particular needs.

The Superfast Cymru programme was evaluated in 2016 and informed delivery priorities for Superfast 2. Available at:

<http://gov.wales/statistics-and-research/evaluation-next-generation-broadband-wales-programme/?lang=en>

## **9.0 Preventative Spending**

The entire budget for Skills and Science aims to strengthen the conditions that will enable business to create jobs and sustainable economic growth. The Well-being of Future Generations (Wales) Act 2015 is integral to our approach in ensuring Wales becomes a more prosperous, resilient, healthier, fairer and equal society.

Investment in CIAG is preventative in so much that these services support a reduction on NEET individuals. The provision of CIAG services support young people to make successful transitions from compulsory to post-compulsory education and training, preventing enrolment onto inappropriate courses and reducing drop-out rates.

All programmes within the Employability and Skills BEL aim to enhance the skills and employability of individuals both in and out of the workforce in Wales and thereby improve individuals' position within the labour market. A number of programmes/activities are specifically focussed on raising essential skills levels of those in and out of employment and on engaging individuals with low or no skills who may not have participated in learning for some time.

The circular economy development in innovation provides an example of how we are working collaboratively to embed processes to achieve positive impacts in the long term. It is a key concept of the green economy, based on optimising systems rather than components, away from 'Resource to Waste' to resilient and productive circular systems. Strategic alliances with organisations such as Ellen MacArthur Foundation, McKinsey Company and multinational enterprises are at the forefront of circular economy exploration and application. The SMART team and companies assess key elements such as recyclability, re-use, greater utility, reduced obsolescence, reduced waste, and design for manufacture and material selection. This is in conjunction with the development of new products, processes and designs and will support delivery of a prosperous, resilient and globally responsible Wales.

## **10.0 Impact of Britain leaving the EU**

The European Social Fund is used to support a number of projects aimed at raising skills and job prospects across Wales's increasing employment by giving unemployed and disadvantaged people the training and support they need to enter jobs.

While the UK Government has largely guaranteed funding for projects agreed prior to 2020, it is crucial in the longer term that EU funding is replaced by a revision to the Block Grant. During the referendum campaign voters in Wales were assured that leaving the EU would not result in Wales being worse off and it is vital to public faith in political process that this promise is honoured.

Extensive work is underway across the Welsh Government to ensure we maximise our influence in discussions within the UK and, in turn, in formal EU negotiations and thereby secure the best possible outcome for Wales. We are working closely with the UK Government and other devolved governments to ensure the interests of Wales are heard and protected.

In addition, our £115m SMART suite of funding and support for Welsh businesses and universities is entirely EU funded and all their match-funding is from the private sector – so they provide incredible value for the Welsh pound. Although they were in place before the Autumn 2016 Statement and are therefore

guaranteed by the UK Treasury until 2020, but what will replace them, post-Structural Funds is far from clear. We are committed to working with UK Government to secure appropriate funding for Wales, as a responsibility of Welsh Ministers accountable to the National Assembly for Wales.

Our businesses and universities have benefited from competitive EU R&D funds like Horizon 2020. As of the end of July 2017, Horizon 2020 funding to Wales had reached €66m.

These funding streams have a side benefit in connecting our businesses and universities with the wider innovation landscape. There is already some anecdotal evidence on a UK basis that since the referendum, potential European partner organisations are being more reluctant to team up with British counterparts.

On a UK level, in November 2016 the UK Government announced an increase of £4.7 billion in R&D spending over the life of this parliament. Much of it will be delivered by the new Industrial Strategy Challenge Fund on a competitive basis.

It is not 'Barnetised' and there is the possibility that Wales will not receive a proportional share. This is an opportunity for Wales as well as a threat. Global challenges - an ageing population; climate change; the digital world - pose challenges and opportunities for Wales in the longer term.

## **11.0 Costs of Legislation**

My portfolio has a particular interest in the delivery of the Higher Education (Wales) Act 2015 and the [Further and Higher Education \(Governance and Information\) \(Wales\) Act 2014](#). The budgetary responsibilities fall to the Cabinet Secretary for Education.

We are also closely monitoring the impact of the UK Government's Higher Education and Research Act 2017 and the Digital Economy Act 2017 in particular.

The Digital Infrastructure element of the Act contains two important changes to legislation; a revised Electronic Communications Code and the introduction of powers to create a Universal Service Obligation (USO) for broadband. The Welsh Government has been working closely with the Department for Culture, Media and Sport (DCMS) on the implications. Work to implement the new Revised Electronic Communications Code by DCMS is also ongoing.

There are no budgetary implications anticipated for either the USO or revised Electronic Communications Code.

## **12.0 Cross-cutting considerations**

### **12.1 Equality**

A number of Employability and Skills programmes involve working with employers. When working with employers offering work experience placements we ensure that they are offering equality in their workplace and contributing to gender mainstreaming by reviewing and monitoring the work experience placement offer and challenging traditional employment roles where gender stereotypes may exist and assist people to take up and retain employment in non-traditional areas or industries where specific genders are underrepresented. Attention will also be placed on the type of training being requested by the employer for individuals undertaking work experience placements to ensure that occupational segregation is eliminated and opportunity is provided for training in non-traditional areas, focusing on areas where there are skills shortages.

Chwarae Teg is a pan-Wales organisation created to expand the role of women in the Welsh economy. It offers expert comment and advice on government strategy and policy, and provides gender sensitive advice and analysis. The Chwarae Teg Programme aims to ensure there is gender equality in the workplace and equal opportunity for women in business. It works with women and girls to broaden horizons and build confidence and skills; works with employers to create modern workplaces that are successful in harnessing everyone's contribution; and with influencers, educators and decision makers to build a society that values, supports and benefits both women and men equally. We also recognise the importance of our Apprenticeship programme and have maintained the funding for this activity in order to deliver the manifesto commitment of 100,000 Apprenticeships over the Assembly term. Any reduction in level 2 non-priority Apprenticeships is likely to disproportionately impact on females accessing the programme. Any reduction in available apprenticeship places will reduce the opportunities for Welsh employees to improve their skill levels and their ability to command a higher income and an improved quality of life as a direct consequence.

It has been identified that there is an issue of employers over-looking their older employees when it comes to skills development and older people being unaware of the consequences of not keeping their skills up-to-date. This, coupled with increases to the pension age and a reduction in young people entering the labour market, has led to the identification of older workers as a key focus for skills policy. The Enterprise and Business Committee investigated this issue during the previous Assembly term. This has been considered in budget decisions, with £0.100m dedicated to a communications campaign to raise awareness of these issues amongst both employers and individuals as a way of mitigating emerging issues. Labour Market Intelligence funding from the Employability and Skills BEL has also been used to assist with this, providing further evidence to inform policy decisions and to monitor progress in this area.

## **12.2 Well being of Future Generation (Wales) Act 2015**

I consider my priorities and spend in the context of how my policies will contribute to the delivery of the seven National Goals and the Sustainable Development Principles:

- Thinking about the long-term;
- Taking an integrated approach;
- Collaborating together with others;
- Involving people and communities affected by their decisions;
- Focusing on taking preventative measures

My policies will contribute to the delivery of the seven National Goals.

Take Employability and Skills policy for example:

- **A prosperous Wales:** Supporting investment in pursuit of jobs, growth and tackling poverty
- **A resilient Wales:** Increasing private investment in skills
- **A healthier Wales:** Realising the health benefits brought about through jobs and growth
- **A more equal Wales:** Delivering a responsive and flexible all-age employability offer
- **A Wales of cohesive communities:** Strong regional collaboration via Regional Skills Partnerships
- **A Wales of a vibrant culture and thriving Welsh language:** Provision of bilingual skills and learning
- **A globally responsible Wales:** Raising performance and delivering better economic outcomes

The basis for determining my priorities is always how they will improve our economy, society, environment and culture.

### **12.3 Welsh Language**

We recognise the importance of the Welsh language in developing our Plans and compliance with the Welsh Language standards. It is embedded in our delivery, for example Careers Wales services are delivered of bi-lingually. A thriving economy will support our target of one million Welsh speakers by 2050. Good quality jobs and sustainable growth will provide people with a reason to remain or return to work and live in local communities where the language thrives. The investment in broadband connectivity is a key intervention to support this ambition.

### **12.4 Reducing the impact of deprivation and poverty**

It is widely recognised that moving people into work has a dramatic impact on their health and ability to function in every day society. Up-skilling, particularly improving essential skills, and supporting in work progression and new employment opportunities makes a significant contribution to the Tackling Poverty agenda.

As a Government, we are ensuring that every aspect of Government policy – education, health, housing and communities – works together to support people into sustainable jobs.

Our cross-Welsh Government Employability Delivery Plan for Wales will provide the opportunity to ensure that Working Wales can benefit from, and align with, programmes led by other departments. We are working closely with colleagues from across Welsh Government in line with the agenda set out by the National Strategy, Prosperity for All. The Employability Delivery Plan is taking a systems based approach, taking into consideration all the levers that government has to affect change in area of employability. This will be an outline of our vision for the future; it will highlight areas we know need to be changed, and where we'd like to get to.

Employability is not just about jobs and skills, it is about getting every aspect of Government policy – education, health, housing and communities – working together to support people into sustainable jobs.

We are considering our current suite of programmes and developing Working Wales to ensure there is no duplication or inefficiency, but also to ensure people can access support in an appropriate manner, that they are tracked through the system to demonstrate progression and that other structural barriers to employment are tackled, such as transport or childcare availability.

Officials drafting the Employability Delivery Plan are working closely with those producing the Economic Delivery Plan, and indeed the relevant Health and Education plans, so that all of these are truly joined up and include complementary objectives. The Employability Delivery Plan will meet the Skills and Employability commitment outlined in the National Strategy.

Upon publication, we will begin a consultation exercise with key partners and stakeholders, to ensure that the implementation of the Delivery Plan takes place with the full support and buy in of industry professionals. Working with employers, including social businesses is critical to the success of our employability strategy. It is only by linking the requirements of businesses to the skills of the workforce that we can move more people into employment, and help them to thrive in work.

While we transition to delivery of Working Wales we are testing a number of new approaches to address the 'eligibility' lottery, and the delivery of support which allows an individual's needs to be addressed instead of focusing on their eligibility for a particular programme.

We are trialling a package of support for individuals and businesses within the Valleys Task Force Area. We will address existing gaps in our support provision for adults who are short-term unemployed, under employed and those who churn in and out of temporary employment.

We will focus on the individual's barriers to employment and incentivise their recruitment with the offer of careers advice, pre employment training support, on the job training and an employment incentive for recruiting employers.

### **13.0 Summary**

The written evidence for Draft Budget 2018-19 is presented to the Economy, Infrastructure and Skills Committee for consideration.

**Julie James AM**  
**Minister for Skills & Science**

<b>ECONOMY AND INFRASTRUCTURE - MINISTER FOR SKILLS &amp; SCIENCE PORTFOLIO</b>						
<b>RESOURCE</b>						
<b>Budget Expenditure Line</b>	<b>2017-18 Supplementary Budget June 2017 £000s</b>	<b>2018-19 Revised Baseline £000s</b>	<b>Change £000s</b>	<b>2018-19 New Plans Draft Budget £000s</b>	<b>Change £000s</b>	<b>2019-20 New Plans Draft Budget £000s</b>
Life Sciences	2,896	2,896	(696)	2,200	0	2,200
<b>Action: Sectors</b>	<b>2,896</b>	<b>2,896</b>	<b>(696)</b>	<b>2,200</b>	<b>0</b>	<b>2,200</b>
Business Innovation	1,520	1,520	(1,520)	0	0	0
Innovation Centres & R&D Facilities	2,553	2,553	(2,553)	0	0	0
Academia & Business Collaboration	1,646	1,646	(787)	859	(255)	604
<b>Action: Innovation</b>	<b>5,719</b>	<b>5,719</b>	<b>(4,860)</b>	<b>859</b>	<b>(255)</b>	<b>604</b>
Science	4,795	4,795	(4,022)	773	(632)	141
<b>Action: Science</b>	<b>4,795</b>	<b>4,795</b>	<b>(4,022)</b>	<b>773</b>	<b>(632)</b>	<b>141</b>
Digital Inclusion	1,250	1,250	0	1,250	0	1,250
Public Sector Broadband Aggregation	5,240	5,740	(1,536)	4,204	500	4,704
ICT Infrastructure Operations	2,027	2,027	0	2,027	0	2,027
<b>Action: Deliver ICT Infrastructure</b>	<b>8,517</b>	<b>9,017</b>	<b>(1,536)</b>	<b>7,481</b>	<b>500</b>	<b>7,981</b>
ICT Infrastructure Operations	1,309	1,309	0	1,309	0	1,309
<b>Action: Deliver ICT Infrastructure - Non Cash</b>	<b>1,309</b>	<b>1,309</b>	<b>0</b>	<b>1,309</b>	<b>0</b>	<b>1,309</b>
Work Based Learning	126,808	126,308	(7,599)	118,709	(7,596)	111,113
<b>Action: Work Based Learning</b>	<b>126,808</b>	<b>126,308</b>	<b>(7,599)</b>	<b>118,709</b>	<b>(7,596)</b>	<b>111,113</b>
Marketing Skills	648	648	0	648	0	648
<b>Action: Delivery Support - Skills</b>	<b>648</b>	<b>648</b>	<b>0</b>	<b>648</b>	<b>0</b>	<b>648</b>
Skills Policy Engagement	1,061	1,061	0	1,061	0	1,061
<b>Action: Skills Policy</b>	<b>1,061</b>	<b>1,061</b>	<b>0</b>	<b>1,061</b>	<b>0</b>	<b>1,061</b>
Employability and Skills	28,858	28,858	0	28,858	0	28,858
<b>Action: Employment and Skills</b>	<b>28,858</b>	<b>28,858</b>	<b>0</b>	<b>28,858</b>	<b>0</b>	<b>28,858</b>
Careers Wales	18,800	18,800	0	18,800	0	18,800
<b>Action: Educational and Careers Choice</b>	<b>18,800</b>	<b>18,800</b>	<b>0</b>	<b>18,800</b>	<b>0</b>	<b>18,800</b>
<b>TOTAL</b>	<b>199,411</b>	<b>199,411</b>	<b>(18,713)</b>	<b>180,698</b>	<b>(7,983)</b>	<b>172,715</b>

**ECONOMY AND INFRASTRUCTURE - MINISTER FOR SKILLS & SCIENCE PORTFOLIO**

**CAPITAL**

Budget Expenditure Line	2017-18 Supp Budget June 2017 £000s	2018-19			2019-20			2020-21		
		Capital Plans 2017-18 Final Budget £000s	Change £000s	New Plans Draft Budget £000s	Capital Plans 2017-18 Final Budget £000s	Change £000s	New Plans Draft Budget £000s	Capital Plans 2017-18 Final Budget £000s	Change £000s	New Plans Draft Budget £000s
Life Sciences	9,711	3,605	(1,515)	2,090	2,000	(1,202)	798	1,000	(199)	801
<b>Action: Sectors</b>	<b>9,711</b>	<b>3,605</b>	<b>(1,515)</b>	<b>2,090</b>	<b>2,000</b>	<b>(1,202)</b>	<b>798</b>	<b>1,000</b>	<b>(199)</b>	<b>801</b>
Business Innovation	-	-	1,254	1,254	-	1,254	1,254	-	1,254	1,254
Innovation Centres and R&D Facilities	-	-	945	945	-	1,200	1,200	-	1,200	1,200
Academia & Business Collaboration	11,739	62	1,550	1,612	62	1,550	1,612	62	1,550	1,612
<b>Action: Innovation</b>	<b>11,739</b>	<b>62</b>	<b>3,749</b>	<b>3,811</b>	<b>62</b>	<b>4,004</b>	<b>4,066</b>	<b>62</b>	<b>4,004</b>	<b>4,066</b>
Science	871	539	4,022	4,561	-	4,654	4,654	-	4,874	4,874
<b>Action: Science</b>	<b>871</b>	<b>539</b>	<b>4,022</b>	<b>4,561</b>	<b>-</b>	<b>4,654</b>	<b>4,654</b>	<b>-</b>	<b>4,874</b>	<b>4,874</b>
Public Sector Broadband Aggregation	-	-	5,000	5,000	-	0	-	-	0	-
ICT Infrastructure Operations	20,550	7,500	0	7,500	1,500	0	1,500	19,500	0	19,500
<b>Action: Deliver ICT Infrastructure</b>	<b>20,550</b>	<b>7,500</b>	<b>5,000</b>	<b>12,500</b>	<b>1,500</b>	<b>0</b>	<b>1,500</b>	<b>19,500</b>	<b>0</b>	<b>19,500</b>
<b>TOTAL</b>	<b>42,871</b>	<b>11,706</b>	<b>11,256</b>	<b>22,962</b>	<b>3,562</b>	<b>7,456</b>	<b>11,018</b>	<b>20,562</b>	<b>8,679</b>	<b>29,241</b>

# Agenda Item 3

Document is Restricted

## Memorandum on the Economy and Infrastructure Draft Budget Proposals for 2018-19

### Economy, Infrastructure and Skills Committee – 9 November 2017

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#### 1.0 Introduction

This paper provides information on the Economy & Infrastructure (E&I) budget proposals as outlined in the 2018-19 Draft Budget published in October 2017. The budget was published in two stages: an outline budget (stage 1) on 3 October followed by a detailed budget (stage 2) on 24 October. It also provides an update on specific areas of interest to the Committee.

It does not cover the budget detail relating to Culture which the Cabinet Secretary for Economy and Infrastructure will address at the Culture, Welsh Language and Communications Committee on 8 November 2017. It also excludes the areas of Skills, ICT Infrastructure, Science, Innovation and Life Sciences which are covered in a separate paper being presented by the Minister for Skills and Science.

*Taking Wales Forward 2016-21* outlines the priorities in delivering employment opportunities through a stronger, fairer economy, improving public services and building a united, connected and sustainable Wales. Our economy influences everything we do. A strong economy, delivering for people in every part of Wales is essential to the ambitious, healthy, prosperous and united Wales we want to see.

*The National Strategy: Prosperity for All* directly contributes to the well-being goals within the Well-Being of Future Generations (Wales) Act 2015. It sets out the revised twelve well-being objectives and has provided the framework for developing our plan. The budget plans also considers the five priority areas: early years, housing, social care, mental health and skills and employability and recognises that economic prospects are integral to the strategy. We have adopted a long-term view in developing services and creating the conditions for the economy to thrive. The budget plans have been developed alongside the strategy to ensure it aligns to our future priorities.

#### 2.0 Summary of Budget Changes

The Draft Budget 2018-19 provides a two year plan for revenue investment and a three year plan for capital investment. The tables below provide an overview of the planned revenue and capital expenditure for economy and transport activity in the portfolio.

Over the period 2018-19 to 2019-20, the total revenue budget is £347.406m and £322.612m respectively (excluding Non Cash and Annually Managed Expenditure (AME)). In overall terms, the revenue budget has increased by £6.226m in 2018-19 when compared to the revised baseline and decreased by £24.794m in 2019-20 as shown in Table 1:

TABLE 1: Overview of the Revenue Budget							
	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
<b>Revenue</b>							
Economy	49,160	(5,000)	44,160	4,026	48,186	(3,500)	44,686
Transport	299,670	(2,650)	297,020	2,200	299,220	(21,294)	277,926
<b>Sub Total</b>	<b>348,830</b>	<b>(7,650)</b>	<b>341,180</b>	<b>6,226</b>	<b>347,406</b>	<b>(24,794)</b>	<b>322,612</b>
<b>Non Cash</b>							
Transport	188,691	0	188,691	0	188,691	0	188,691
<b>TOTAL</b>	<b>537,521</b>	<b>(7,650)</b>	<b>529,871</b>	<b>6,226</b>	<b>536,097</b>	<b>(24,794)</b>	<b>511,303</b>
<b>AME</b>							
AME	123,226	0	123,226	(99,607)	23,619	128,235	151,854

Over the period 2018-19 to 2020-21, the total capital budget is £1.311bn. The summary budgets are shown in Table 2 below:

TABLE 2: Overview of the Capital Budget					
Economy	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
<b>Traditional Capital</b>					
Economy	78,357	48,486	47,847	30,141	126,474
Transport	345,683	313,231	382,611	429,780	1,125,622
<b>Sub Total</b>	<b>424,040</b>	<b>361,717</b>	<b>430,458</b>	<b>459,921</b>	<b>1,252,096</b>
<b>Financial Transactions Funding</b>					
Economy	31,250	15,720	31,500	8,000	55,220
Transport	5,000	2,200	1,200	0	3,400
<b>Sub Total</b>	<b>36,250</b>	<b>17,920</b>	<b>32,700</b>	<b>8,000</b>	<b>58,620</b>
<b>Total Capital</b>					
Economy	109,607	64,206	79,347	38,141	181,694
Transport	350,683	315,431	383,811	429,780	1,129,022
<b>TOTAL</b>	<b>460,290</b>	<b>379,637</b>	<b>463,158</b>	<b>467,921</b>	<b>1,310,716</b>
<b>2017-18 Final Budget</b>					
	458,090	304,636	365,855	431,534	1,102,025
<b>Change in New Plans</b>					
	2,200	75,001	97,303	36,387	208,691

These expenditure plans are aligned to deliver the key priorities set out in Taking Wales Forward 2016-21.

In addition funding is held in central reserves to deliver strategic infrastructure. Subject to the outcome of the independent public inquiry, reserves of £739.761m are earmarked for the M4 over the next three years. Capital funding of £173.180m, previously held in reserves to support delivery of the South Wales Metro, is now included in the core budget allocation for Transport

within the E&I MEG over the budget period. As the options for delivering the metro could include improvements in the rolling stock further funds are held in reserve should that option be taken forward as part of the wider procurement process.

## 2.1 Revenue

In shaping our spending plans for 2018-19, we have looked to minimise the impact of reductions on public transport services and growth and jobs in the short term. Over the longer term we will need to share resources across public services and collaborate with our partners to achieve long-term efficiencies. We are involving people in the future decision-making to inform our priorities.

The Two Year Budget Agreement with Plaid Cymru will progress initiatives for economic development that are important to Wales. Additional allocations of £16.1m over two years, supporting the economy and transport activities in the portfolio, are detailed in the table below:

<b>TABLE 3: Two Year Budget Agreement with Plaid Cymru – Additional Revenue Allocations</b>			
<b>Priority</b>	<b>2018-19 £'000</b>	<b>2019-20 £'000</b>	<b>Total £'000</b>
<b>New Allocations</b>			
“Arfor” – secretariat & investment for economic development in West Wales	1,000	1,000	2,000
Third Menai Crossing – feasibility study	1,000	3,000	4,000
Electric car charging points	1,000	1,000	2,000
Foundational economy programme	1,500	0	1,500
Cleddau Bridge – remove tolls	0	2,000	2,000
Traws Cymru – upgrade buses to coaches	200	200	400
Start Up grant – journalists to set up business in hyper local news	100	100	200
<b>Recurrent Allocations – 2017-18</b>			
Visit Wales	3,000	1,000	4,000
<b>Total</b> incremental change of £0.5m between 2018-19 to 2019-20	<b>7,800</b>	<b>8,300</b>	<b>16,100</b>

The movements in revenue budget allocations at an Action level from the 2017-18 First Supplementary Budget to the 2019-20 Draft Budget allocations are detailed in **Annex A**.

## 2.2 Non Cash

There has been no change to the non-cash budget.

## 2.3 Capital

Four year capital plans were published in the 2017-18 Final Budget, providing greater transparency and certainty to our key stakeholders and delivery partners. In this paper, we therefore discuss changes that have made to the four year capital plans since the publication of the last budget. This includes the changes to budgets between the 2017-18 Final Budget and the 2017-18 First

Supplementary Budget. The details under each Action are considered for the Economy budgets at paragraph 4 and Transport budgets at paragraph 6.

We will continue to adopt a preventative spend approach, evaluating the long-term benefits and outcomes of our strategic investments to maximise economic benefits and improve public services. Affordability of capital programmes continues to be a challenge. However, in addition to traditional capital and financial transaction funding, we support our investments through maximising European funding opportunities, capital borrowing powers for the M4 and innovative finance solutions.

The establishment of a new National Infrastructure Commission for Wales will be important in assessing the priorities for capital investment. The total Economy budget of £181.694m will support a wide range of priorities.

We will continue to provide access to finance for SMEs through our business development funds including those within Finance Wales. The creation of the new Development Bank of Wales will strengthen this policy initiative and is supported by £28m of financial transaction funding over the next three years.

Transport connectivity at a national, regional and local level is vital to social cohesion and access to employment opportunities. Over the next three years £1.129bn is allocated for the prioritisation of schemes set out in the National Transport Finance Plan 2015. In addition, £740m is held within Welsh Government central reserves to develop the M4 relief road, pending the outcome of the public inquiry. Recognising the development of integrated transport systems is also a key driver for economic growth. The Transport spending plans also include circa £300m for roads maintenance and improvement.

Additional capital allocations of £238.180m are summarised in the Table below:

<b>TABLE 4: Additional Allocations</b>				
<b>Project</b>	<b>2018-19 £'000</b>	<b>2019-20 £'000</b>	<b>2020-21 £'000</b>	<b>Total £'000</b>
Two Year Budget Agreement with Plaid Cymru – north to south links with particular focus on the A487 and A470	-	15,000	-	<b>15,000</b>
Llanwern station, park and ride and stabling line	30,000	10,000	10,000	<b>50,000</b>
Release of funding earmarked in reserves for South Wales Metro	54,880	82,800	35,500	<b>173,180</b>
<b>Total</b>	<b>84,880</b>	<b>107,800</b>	<b>45,500</b>	<b>238,180</b>

Innovative financing solutions help to deliver additional investment in economic infrastructure. The Mutual Investment Model was launched in February 2017 and will be utilised to deliver the final phases of the A465 dualling scheme.

The Budget Expenditure Line tables attached at **Annex B** provide a full breakdown of the portfolio's revenue and capital budgets.

The E&I MEG also includes a budget allocation for AME, which provides cover for charges that are outside the control of the portfolio, such as impairments on the property portfolio, joint ventures, investments and the roads network. The budget movements over the two years reflect the changes in the provision required for the roads network and property impairments.

### **3.0 Equality, Sustainability, Welsh Language and Demographic Considerations**

In formulating our plans the following key demographics trends and recent statistics published by the Welsh Government have been considered which suggest that:

- Wales' population is projected to increase by around 5% over the next 20 years.
- The percentage of over 65s in Wales is set to increase from around 20% to around 25% of the entire population over the next 20 years. The population aged over 75 in Wales is also projected to increase from 9% of the population in 2014 to around 13% in 2030.
- The number of young people (aged under 16) is projected to increase up to 2023 and then fall slightly up to 2030, although continuing to account for around 18% of the population over this period.
- Overall, relative income poverty rates remain stubborn, particularly for working-age people. However, the rate for pensioners has declined since the mid to late 1990s.

These are available on the Welsh Government's website:

<http://gov.wales/docs/statistics/2017/170505-future-trends-report-2017-en.pdf>

Our budget proposals have continued to look at the Well Being of Future Generations Act (2015) and how we embed the five ways of working to help us maximise our impact, inform plans which support Taking Wales Forward and take an integrated approach to considering impacts on protected groups and support a focus on our shared national goals.

Sustainable development is at the heart of the Act and is the central organising principle of our plan, ensuring that our decisions take account of the economic, social, cultural and environmental objectives and impacts. In so doing, we are adopting an approach to embed involvement, collaboration, integration, long term investment and prevention into our policies and delivery.

Our public transport improvements support our aspirations to reduce emissions by reducing car use and provide cleaner and more efficient vehicles, which is good for our health and our environment. For example, the South Wales Metro will transform the way we travel around the Cardiff Capital Region, providing faster, more frequent and joined-up services using trains, buses and light rail. The demographic changes are particularly important in planning for concessionary bus travel for both older and younger people. The Plans also include £2m for electric charging points to facilitate use of energy efficient transportation in reducing carbon emissions.

We recognise the important significance of the Welsh language to the economy of Wales and the key role of the Welsh Language Standards and Welsh language impact assessments in framing our approach to promoting the use of the Welsh language. Good quality jobs and sustainable growth will provide people with a reason to remain or return to work and live in local communities where the language thrives. A thriving economy will support our target of one million Welsh speakers by 2050.

Our plans give due regard to the requirements of the United Nations Convention on the Rights of the Child and the requirement in Wales to assess the impact of Ministers' actions on the rights of children and young people. For example, Children's Rights were considered for the National Transport Finance Plan 2015.

Our programmes and projects reflect the Welsh Government's long-term commitment to reduce the impact of deprivation and support prosperity for all. Our focus is on supporting the creation and retention of jobs that allow people to engage in a positive way with the labour market and earn a decent income, recognising that decent work strongly protects people from poverty, particularly persistent poverty.

We take a balanced approach, focusing on a range of industries and sectors to stimulate demand for all types of jobs. Our aim is to support opportunities for highly skilled individuals, as well as entry level and progression opportunities for those further from the labour market.

Our programmes and projects are also helping to address some of the challenges faced by people when accessing employment and training, to ensure those in, or at risk of poverty, are able to benefit from opportunities realised from economic growth. This includes support for skills development to equip people to take advantage of employment opportunities, delivery of an effective and affordable transport network that enables people to access jobs and training, and efforts to encourage responsible employment practices, such as flexible working arrangements, that allow people to work around caring responsibilities, or take on more hours and increase the wages they are able to earn.

Transport plays a vital role in driving Wales' economic competitiveness, connecting people, communities and business to jobs, facilities and markets. Our focus is to provide a sustainable, multimodal and integrated transport system which enables our communities to be united and to prosper, providing access for all our people to the opportunities they need to live healthy, sustainable and fulfilling lives.

That integrated system is a key lever for the delivery of the Welsh Government's wider agenda on supporting prosperity for all and addressing social cohesion.

#### **4.0 ECONOMY – FUNDING OF ACTIONS**

Compared to the 2018-19 revised baseline budget, there is a net increase in the revenue allocation of £4.026m and a reduction of £3.5m in 2019-20 within the overall Economy programme area. The total capital allocation over the period 2018-19 to 2020-21 is £181.694m.

Economy	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	49,160	(5,000)	44,160	4,026	48,186	(3,500)	44,686
<b>Total Resource</b>	<b>49,160</b>	<b>(5,000)</b>	<b>44,160</b>	<b>4,026</b>	<b>48,186</b>	<b>(3,500)</b>	<b>44,686</b>

Economy	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	78,357	48,486	47,847	30,141	126,474
FT Funding	31,250	15,720	31,500	8,000	55,220
<b>TOTAL</b>	<b>109,607</b>	<b>64,206</b>	<b>79,347</b>	<b>38,141</b>	<b>181,694</b>
<b>2017-18 Final Budget</b>	<b>109,607</b>	<b>68,559</b>	<b>84,288</b>	<b>41,606</b>	<b>194,453</b>
<b>Change in New Plans</b>	<b>0</b>	<b>(4,353)</b>	<b>(4,941)</b>	<b>(3,465)</b>	<b>(12,759)</b>

Our budget allocations will drive investment in the economy as we start to deliver the key priorities in *Taking Wales Forward*. Although future revenue financial settlements are not yet determined, resources are focused on activities to deliver the best opportunities for all individuals in the immediate term.

The detailed breakdown of the activities by Budget Expenditure Line is shown at **Annex B**.

#### 4.1 Sectors

Sectors Action <sup>1</sup>	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	31,262	(5,000)	26,262	697	26,959	(3,500)	23,459
<b>Total Resource</b>	<b>31,262</b>	<b>(5,000)</b>	<b>26,262</b>	<b>697</b>	<b>26,959</b>	<b>(3,500)</b>	<b>23,459</b>

<sup>1</sup> Excludes Life Sciences – scrutinised as part of Minister for Skills & Science portfolio

Sectors Action <sup>1</sup>	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	59,857	45,081	45,270	26,755	117,106
FTR	25,750	8,500	25,400	3,000	36,900
<b>TOTAL</b>	<b>85,607</b>	<b>53,581</b>	<b>70,670</b>	<b>29,755</b>	<b>154,006</b>
<b>2017-18 Final Budget</b>	<b>85,607</b>	<b>57,814</b>	<b>75,473</b>	<b>33,061</b>	<b>166,348</b>
<b>Change in New Plans</b>	<b>0</b>	<b>(4,233)</b>	<b>(4,803)</b>	<b>(3,306)</b>	<b>(12,342)</b>

<sup>1</sup> Excludes Life Sciences – scrutinised as part of Minister for Skills & Science portfolio

The Sectors budgets are key to delivering growth and sustainable jobs, and also contribute towards the tackling poverty, education and equality of opportunity agendas.

The 2016 Budget Agreement with Plaid Cymru provided £5m revenue funding for Visit Wales and explains the movement in the revised revenue baseline from 2017-18. As part of the new Two Year Budget Agreement with Plaid Cymru, recurrent funding of £3m in 2018-19 and £1m in 2019-20 will enable us to build on the successful Wales brand to reinforce a contemporary, compelling and engaging identity for Wales, that drives the nation forward as a place to do business and study and that inspires the people of Wales to create their future with confidence; and to modernise our global digital presence.

In delivering our Economic Action Plan (see paragraph 5.1 below) the allocations for “Arfor” £2m over two years and the foundational economy programme funding of £1.5m in 2018-19 will be important initiatives to create employment opportunities and generate wealth. The movement in 2019-20 of £3.5m is as a result of non recurrent funding in the agreement (£2m Visit Wales and £1.5m “Arfor”).

The increase in the Sectors revenue budget of £0.697m against the revised baseline results from the total additional funding of £5.5m (from the Two Year Budget Agreement) offset by the realignment across sector budgets of £4.803m, based on delivery requirements and the reclassification of a number of ICT projects as capital expenditure. The difference £0.697m represents Life Sciences budget which is included in the Minister for Skills and Science paper. This is also re-allocated to Entrepreneurship.

The Sectors capital budget of £154.006m over the three years supports investments for growth and jobs. Capital projects have also been reprioritised in line with delivery, and the resulting available budget of £12.342m has been reallocated to fund Innovation and Science Research & Development activity, following a reclassification of this expenditure from revenue to capital to comply with statutory accounting standards.

Financial transaction funding includes £28m for the Development Bank of Wales (DBW) investment funds. DBW is discussed further at paragraph 5.5 below.

## 4.2 Entrepreneurship

Entrepreneurship & Business Information Action	2017-18 First Supp budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	4,231	0	4,231	6,710	10,941	0	10,941
<b>Total Resource</b>	<b>4,231</b>	<b>0</b>	<b>4,231</b>	<b>6,710</b>	<b>10,941</b>	<b>0</b>	<b>10,941</b>

The Entrepreneurship and Business Information budget of £10.941m supports youth entrepreneurship, start-ups, micro-businesses, SMEs, social enterprise and responsible business practices. Responsible business practices will facilitate corporate social responsibility commitments by requiring businesses to behave ethically and contribute positively to the economy. The budget also levers in a total of £49m of EU funding through the £85m Business Wales 2014-2020 programme.

The additional core budget requirement includes £6.6m to support the programme profile, as the drawdown of EU monies was prioritised at the start of the programme. Consequently, the core budget requirement was lower in the early years of the programme and has increased in line with planned delivery. The additional £6.6m has been drawn from Sectors (£4.8m), Life Sciences (£0.7m) and Innovation (£1.1m) budgets.

There is also an additional recurrent allocation of £0.1m in 2018-19 as part of the Two Year Budget Agreement with Plaid Cymru for start up grants for journalists seeking to set up their own business in hyper local news.

## 4.3 Major Events

Major Events Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	3,918	0	3,918	0	3,918	0	3,918
<b>Total Resource</b>	<b>3,918</b>	<b>0</b>	<b>3,918</b>	<b>0</b>	<b>3,918</b>	<b>0</b>	<b>3,918</b>

In recognition of the importance of hosting Major Events such as the UEFA Euro 2016 in building a prosperous Wales and enhancing Wales's international reputation, the budget has been maintained at £3.918m. In 2016-17, 35 events were supported - 20 cultural and 15 sporting - with a geographical spread across Wales. We estimate that around 348,360 visitors travelled to Wales to enjoy the events hosted here; spending an additional £52.7m and supporting over 1,215 jobs in the tourism sector.

#### 4.4 Property Related Infrastructure

Deliver Property Related Infrastructure Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	4,026	0	4,026	0	4,026	0	4,026
<b>Total Resource</b>	<b>4,026</b>	<b>0</b>	<b>4,026</b>	<b>0</b>	<b>4,026</b>	<b>0</b>	<b>4,026</b>

Property Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	18,396	3,405	2,577	3,386	9,368
FTR	5,500	7,220	6,100	5,000	18,320
<b>TOTAL</b>	<b>23,896</b>	<b>10,625</b>	<b>8,677</b>	<b>8,386</b>	<b>27,688</b>
<b>2017-18 Final Budget</b>	<b>23,896</b>	<b>10,625</b>	<b>8,677</b>	<b>8,386</b>	<b>27,688</b>
<b>Change in New Plans</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The revenue budget of £4.026m covers the management and development of the property portfolio, land reclamation activity and property offers to business.

There are no changes to the total capital allocations in this Draft Budget. The capital budget of £27.688m is net of £7.5m capital receipts over the three years will provide for the development of strategic sites to support sector and spatial priorities across Wales. This includes funding for the design and construction of a 50,000 sq ft industrial building in Ebbw Vale for the Technology Park which is aligned with the action plan for *Our Valleys, Our Future*.

#### 4.5 Corporate Programmes

Corporate Programmes Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	3,983	0	3,983	(1,641)	2,342	0	2,342
<b>Total Resource</b>	<b>3,983</b>	<b>0</b>	<b>3,983</b>	<b>(1,641)</b>	<b>2,342</b>	<b>0</b>	<b>2,342</b>

Corporate Programmes Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	104	0	0	0	0
<b>TOTAL</b>	<b>104</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>2017-18 Final Budget</b>	<b>104</b>	<b>120</b>	<b>138</b>	<b>159</b>	<b>417</b>
<b>Change in New Plans</b>	<b>0</b>	<b>(120)</b>	<b>(138)</b>	<b>(159)</b>	<b>(417)</b>

The revenue budget includes an annual budget of £0.8m for Healthy Working Wales which delivers workplace initiatives supporting our healthy and active ambitions. The remaining revenue budget supports economic analysis, reviews and strategic engagement. The decrease of £1.641m revenue and capital of £0.417m over the three years is in relation to a budget transfer for the National Loan Fund from the E&I MEG to the Central Services and Administration MEG.

#### 4.6 Development Bank of Wales

Development Bank of Wales Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	1,740	0	1,740	(1,740)	0	0	0
<b>Total Resource</b>	<b>1,740</b>	<b>0</b>	<b>1,740</b>	<b>(1,740)</b>	<b>0</b>	<b>0</b>	<b>0</b>

The operating grant to Finance Wales is no longer required resulting in an efficiency saving of £1.740m. The new Development Bank of Wales will be self sustaining with no requirement for funding.

### 5.0 ECONOMY – KEY POLICIES

Additional information has been provided in response to the specific areas highlighted by the Committee as follows:

#### 5.1 Prosperous and Secure Strategy

To provide more detail on how we will implement the commitments set out in *Prosperity for All* strategy, we will publish, later this autumn, an Economic Action Plan. The Plan will focus on seven of the twelve Well-Being for All objectives:

- Support people and businesses to drive prosperity.
- Tackle regional inequality and promote fair work.
- Drive sustainable growth and combat climate change.
- Build ambition and encourage learning for life.

- Equip everyone with the right skills for a changing World.
- Deliver modern and connected infrastructure.
- Promote and protect Wales' place in the World.

The Plan will be wide-ranging and will draw on our levers across Welsh Government to grow our economy, spread opportunity and promote well-being. The Plan will drive a number of changes including:

## **5.2 A New Economic Contract**

An Economic Contract will shape our relationship with business, based on a mutual understanding of our respective roles and the contribution we can all make to achieving shared objectives for a more prosperous and secure Wales.

## **5.3 National Sectors and the Foundation Economy**

To better support prosperity across all parts of Wales, we will be focusing on fewer national sectors and a number of foundation sectors. Further detail will be included in the Economic Action Plan.

As part of the Two Year Budget Agreement, an additional allocation of £1.5m in 2018-19 (within the Sectors Action, as described above) will support a programme focussed on the care sector and procurement in urban and rural Wales. The development of the foundational economy is important as it makes a significant contribution in Wales.

## **5.4 Regionally Focussed Economic Development**

We recognise that Wales has regions that have distinct opportunities and challenges. Using the Local Government Reform footprint – we will establish regional leads charged with engaging with the regions and helping to shape Welsh Government delivery so that we better respond to the specific challenges and opportunities in each region. Recognising the importance of the Welsh language in supporting local economic opportunities, the Two Year Budget Agreement provides an additional £2m of funding for “Arfor” (within the Sectors Action, as described above) to support secretariat and investment for development of the economy in West Wales.

## **5.5 The Development Bank of Wales**

The Development Bank of Wales (DBW) will be a core component part of the Welsh Government's economic policy and delivery. It is supported with £28m FT funding over the three years. The DBW remit will be to improve SMEs ability to access finance and support creation and safeguarding jobs. It will, at the same time, improve the integration of the provision of investment related advice and support to businesses by working more closely with Business Wales.

Some of the key impacts and outputs will be to:-

- Drive up investment levels to £80m per annum within five years. Finance Wales invested £56m in Welsh SMEs in 2016-17.

- Achieve a minimum target of 1:1.15 Private Sector Leverage (PSL).
- Increase jobs created and safeguarded to over 5,500 per annum by 2021-22.
- Improve the integration of the provision of advice and support through Business Wales.

Going forward, one of the step changes which the DBW will provide is the creation of a new Intelligence Unit. This will enable the DBW to better understand the market and undertake in-depth analysis of SME behaviours with their changing needs. Future funds will be informed by analysing these evolving market needs and conditions. The DBW will also have an enhanced strategy team, which will work more formally with the Office of National Statistics and Welsh Universities to better review economic trends including the SME market.

The strategic overview of the Development Bank of Wales is available at:

<http://www.financewales.co.uk/PDF/DBW%20Strategic%20Outline%20Brochure%20digital1.pdf>

## 5.6 City Regions

The development of city regions in the Swansea Bay and Cardiff Capital City will lead to sustainable economic growth and provide a framework, beyond the investment, that allows regions to work together to set economic priorities and deliver key functions as a region, including land use planning, skills, transport and economic development.

The Cardiff Capital Region City Deal was established with an Investment Fund for the Region of £1.2bn over a 20-year period. Over its lifetime, the Cardiff Capital Region City Deal aims to deliver up to 25,000 new jobs and lever an additional £4 billion of private sector investment.

With £734m of planned investment, the Deal places the South Wales Metro at the centre of a significant infrastructure programme; made up of circa £503m from the Welsh Government, £125m from the UK Government and circa £106m from ERDF. The Deal also sees a further £495m (£375m from the UK Government and £120m from local authorities) available to prioritise in line with the objectives of the Deal. The full allocation of the funding is subject to the Cardiff Capital Region City Deal's successful completion of the Five Year Gateway Reviews, which will evaluate the impact of the Deal's investment of the funding in the five year period up to the Review. The assessments will be underpinned by an independent review of the economic benefits and economic impact of the investments and whether projects developed by local authorities, have been delivered on time and to budget.

The Swansea Bay City Deal will be underpinned by a total investment package of £1.274bn made up of £125.4m Welsh Government funding, £115.6m of UK Government funding, £396m of other public sector money and £637m from the private sector. Over the next 15 years, this Deal aims to boost the local economy by £1.8 bn and generate almost 10,000 new jobs. The next milestone will be the establishment of the Joint Cabinet and the formal submission of full

business cases in relation to the eleven identified projects including Health, Energy, Economic Acceleration and Smart Manufacturing.

Detailed business cases are being developed by the local partners for the eleven major project proposals which underpin this deal for approval by the Welsh and UK Governments. Swansea Bay City Region is also working with the Welsh and UK Government to develop and agree formal governance arrangements to provide strong leadership and accountability for the Deal's successful delivery.

Swansea Bay City Region are working with the Welsh and UK Governments to develop an agreed implementation, monitoring and evaluation plan, which sets out the proposed approach to evaluating the impact of delivery.

## 5.7 Enterprise Zones

The Enterprise Zones programme aims to provide the infrastructure to create excellent locations for business investment and offer specific incentives to attract new businesses to these prime locations in Wales. The revenue allocation is £0.831m in 2018-19 and £1m in 2019-20 (within the Sectors action) to support feasibility studies and business cases. Enterprise Zones research has shown that area based initiatives can have positive impacts on employment and regional GDP<sup>1</sup>. Capital budgets for economic development and investment in infrastructure are available to support prioritised projects. With the exception of a £2.5m allocation in 2018-19 for Llangefni Link Road, strategic Enterprise Zone projects are embedded in the sector business development activity and therefore there is no designated capital allocation to the programme itself.

Enterprise Zones objectives are to:

- Grow the local economy and provision of new jobs
- Act as a catalyst for growth elsewhere in Wales
- Improve the attractiveness of the Enterprise Zone for investors
- Strengthen the competitiveness of the Welsh economy.

The Enterprise Zones Key Performance Indicators are published twice yearly to enable monitoring of progress in key areas such as jobs, investment, land development, business support and enquiries and are available at the following link: <http://gov.wales/docs/det/publications/170719-kpi-16-17-en.pdf>

## 5.8 Local Growth Zones

In 2018-19, the regional development and delivery budget of £0.263m (within the Sectors Action) supports a number of regional priorities including the local growth zone strategy and other regional and cross border initiatives, including the Mersey Dee Alliance and North Wales Economic Ambition Board.

Reports from the Task and Finish Groups in both Powys and the Teifi Valley have provided wide ranging recommendations which cut across a number of Ministerial portfolios. A number of actions are being taken forward in collaboration with local authorities and the private sector including public

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<sup>1</sup> <http://www.whatworksgrowth.org/policy-reviews/area-based-initiatives/>

transport improvements such as additional train services on the Cambrian Main Line.

Information in relation to Local Growth Zones is available on the Welsh Government's web site: <http://gov.wales/topics/businessandconomy/growing-the-economy/local-growth-zones/?lang=en>

## **5.9 Business Improvement Districts (BID)**

Business Improvement Districts are now part of the Communities & Children Portfolio.

## **5.10 Brexit Considerations**

In terms of financial implications for the portfolio of the UK leaving the European Union, extensive work is underway across the Welsh Government to ensure we maximise our influence in discussions within the UK and in turn in formal EU negotiations and thereby secure the best possible outcome for Wales. A UK Treasury guarantee on funding for current European Structural and Investment (EIS) Funds and other EU programmes provides some degree of certainty for investments made before our exit from the EU. Beyond the date of exit, however, there remains uncertainty about how that guarantee will work in practice, including the implications of any transition deal, exit agreement, or "no deal".

We are also pressing the UK Government to confirm successor funding to replace our EU ESI funds, which are multi-annual allocations provided to the Welsh Government based on need rather than population. We have been clear since the referendum result that Wales should not lose a penny of current EU funding, honouring promises made during the campaign. We are committed to working with UK Government to secure appropriate funding for Wales, as a responsibility of Welsh Ministers accountable to the National Assembly for Wales.

We also expect the UK Government to honour its commitments to the transfer of powers and responsibilities from the EU to Wales. For this to be meaningful it must be accompanied by an appropriate level of funding to enable us to deliver those new responsibilities.

The UK is scheduled to leave the European Union in March 2019. Our new relationships with EU and with the rest of the world is one of the defining questions of our times. Since the referendum we have been engaging widely with businesses right across Wales to understand the risks and opportunities of Brexit.

We recognise of course that businesses have concerns around the uncertainty ahead and about specific issues around access to the Single Market and tariff and non-tariff barriers. But there may also be potential opportunities presented by Brexit and it is important that we work together to explore those opportunities.

We are focussing our efforts on protecting jobs and the economy for the longer term, through the allocation of funding to specific activities such as the Development Bank of Wales, communicating our pro-business message and by

engaging directly with business on their priorities.

We are working hard to protect our share of European trade during the Brexit negotiations and beyond, with an emphasis on full and unfettered access to the single market and a smooth transition. In addition we need to focus on supporting businesses to prepare to deal with the regulatory changes caused by Brexit. Beyond that we will also want to focus on supporting businesses looking to maximise the opportunity of any new and expanding markets around the world, in line with whatever trading arrangements are in place.

Proactive campaigns are also supporting businesses and tourism. The Two Year Budget Agreement with Plaid Cymru provides recurrent funding of £3m in 2018-19 and £1m in 2019-20 which will enable us to build on the successful Wales brand.

We are hearing evidence that some firms are delaying investment decisions, or that they are planning based on a worst case scenario. This is why it is so important that we are clear that Wales remains open for business and that we stand ready to continue to support business in making the case for future investment in Wales. One of our biggest efforts to the potential negative impact of Brexit is making our businesses ready and able to export and trade and we are increasing our efforts to grow the number and scale of Welsh based businesses that are exporting through bringing forward a pro-active plan for export support.

We remain committed to the priorities set out in our white paper, *Securing Wales' Future*, and we have been undertaking widespread engagement since the EU referendum with businesses of all sizes and sectors across Wales. In terms of the key messages, businesses are still telling us that access to the single market is the over-riding factor.

This year, we commissioned a research report on the impact of Brexit on key businesses and sectors in Wales from Cardiff Business School. This work used information gathered directly from a number of anchor and regionally important companies, as well as a number of other businesses through a series of roundtable events. In its report Cardiff Business School has examined the impact of Brexit on different sectors in Wales and we are currently considering the findings of this work and whether it is possible to make the report publicly available.

A series of workshops on EU Transition have also been held with our revised Anchor Company and Regionally Important Company Group. These focus on four key themes, which are: Innovation and R&D; Selling Wales to the world and to itself; Export, trade, regulations and exiting the EU; and Entrepreneurship and SMEs.

We are continuing to build on the evidence base in relation to Brexit through our regular discussions with businesses in Wales, and are currently pulling together a broader proposal for future engagement with SMEs. Work on Brexit scenario planning is also commencing through our priority sector teams. The establishment of the working group with representatives from the Council for Economic Renewal, business community, Wales TUC and the Wales Coop will

develop increased understanding of the challenges and opportunities of the exit from the EU.

The timescales and scope of UK Government legislation in relation to Customs and Trade is unclear at this stage, however, amending these systems will have an economic impact, and will particularly impact on the ports and harbours of Wales. We are working with counterparts in the UK Government to understand what is proposed in this legislation, in order that we can mitigate the risks for Wales and maximise the benefits.

## **5.11 Export & Inward Investment Support**

Inward investment remains a driver of economic development in Wales and we work with overseas companies and those based in the UK to bring further investment and jobs into Wales.

In 2018-19, £1.707m has been allocated for export support activity (within the Sectors Action). Stimulating exports to new and existing markets is a key priority over the next five years. We are assisting companies to grow their business through exporting and have a comprehensive range of services to support them to achieve that ambition. We can help them to become export and market ready and then connect them with opportunities and customers in their chosen markets by supporting companies to travel to overseas markets, exhibit at trade fairs, or meet with potential customers.

For trade performance an evaluation of value for money is measured by the value of new export business secured by the companies supported. In 2016-17, new orders worth £70m in new business were reported. This was a return on investment of over 40:1 on net programme expenditure.

Inward investment activity is delivered through events, sponsorships, seminars and research subscriptions. It also includes support for inward visits. The outcomes are monitored closely in terms of delivering value for money. Each spend is justified against a detailed business case.

The Department for International Trade's annual report for 2016-17 reported that 85 inward investments projects were secured in Wales, with the potential to create or safeguard over 11,500 jobs (almost 11% of the UK total number of jobs); this was slightly below the record levels reported in previous years but still the third highest number of projects ever secured. This equated to 3.8% of the overall number of inward investment projects secured by the UK for 2016-17.

Our performance with regards to securing investment from companies headquartered elsewhere in the UK has improved in recent years, with 2016-17 seeing the highest level of UK investment recorded since our records began five years ago. Last year saw 82 investments by companies headquartered in other UK regions, creating or safeguarding more than 5,500 jobs. The previous highest level of investment was in 2014-15 when 58 projects were recorded.

Our export support programmes comply with the Welsh Government's standards for equality, sustainability and Welsh Language. Trade and Inward investment activity that is taking place outside of Wales has been granted an exemption

under the Welsh Language Standards. Therefore, the Standards do not apply when producing literature/hosting events in overseas markets.

## 5.12 Support for the steel industry

The Welsh Government is committed to safeguarding a sustainable steel industry in Wales which includes the retention of a relevant skills base for the sector. Innovation is also vital to ensure the steel industry in Wales remains globally competitive for the long term.

A recent Written Statement on 20 September provides update on the developments at Tata Steel available at:

<http://gov.wales/about/cabinet/cabinetstatements/2017/tataupdate/?lang=en>

The Two Year Budget Agreement includes the commitment that £30m of funding for the Tata power plant is available within the current package of support available to the company as part of Tata's commitment to steel production in South Wales.

Wider support to the steel industry is delivered within Sectors budgets. Sustainable investment in the steel industry continues to be a priority for economic development.

## 5.13 Partnership for Growth 2013-2020 – Tourism Strategy

We will continue to deliver the Tourism strategy by increasing visitor spend, building on the success of our themed year marketing campaigns and capital investment for new and existing business to help drive up quality and develop new and exciting tourism products throughout Wales.

The Tourism revenue budget of £13.762m in 2018-19 and £11.762m in 2019-20 (within the Sectors Action) supports promotional activity and capital investment. The sector budgets have been reprioritised to provide an additional marketing budget of £0.5m per annum to market Wales as a business destination. This Draft Budget includes a £5m capital investment over three years to support the Tourism Investment Support Scheme and strategic projects in *Taking Wales Forward*.

A review of the Partnership for Growth 2013-2020 Strategy was undertaken in November 2016 and is available here:

<http://gov.wales/docs/drah/publications/161116-strategy-review-en.pdf>

We are on track to exceed the strategic target of 10% growth in real terms from staying visitor earnings by 2020:

- There has been strong growth in trips and expenditure by staying visitors to Wales In the period January to June 2017, the volume of overnight trips rose by 6.3% to 4.24m compared with the same period in 2016 with expenditure increasing by 9.5% to £724m.
- The volume of international visitors continued to grow in 2016 exceeding one million trips, spending a record £444m.

- In the year to June 2017, there was a strong performance of day visits with almost 101m trips and £4.7bn spend.

A refreshed brand was introduced in 2016, this was reinforced with the introduction of a series of tourism themed years including Adventure (2016), Legends (2017), The Sea (2018) and Discovery (2019) providing a focal point for Visit Wales' marketing and campaigns activity. We support innovative new projects from the private and public sectors aligned with these themes through the Tourism Product Innovation and Regional Tourism Engagement Funding schemes.

The additional funding of £4m in the Two Year Budget Agreement for Visit Wales will help us to build on the Wales brand. This new approach is working with Year of Adventure seeing an additional £370m generated for the Welsh economy in 2016 from Visit Wales marketing – an 18% increase on 2015 figures. Visit Wales' proactive travel trade programme targeting domestic, international and inbound tour operators is also achieving results. In 2016, £9m of visitor spend to Wales was influenced by this programme, approximately equivalent to 206 jobs.

Visit Wales' consumer facing international marketing programmes continue to gain traction in key markets such as Germany and North America, and reach is being expanded beyond these key markets through focused airline route marketing partnerships.

Looking forward, we will be launching an ambitious new tourism route at the end of 2017 'The Wales Way' which will include a new world class family of tourism routes. Visit Wales has also embarked on a new approach to attracting leading business events to Wales with a Business Events programme that will capitalise on the significant potential identified to draw large international association events and conferences to Wales.

Meanwhile, the refreshed Wales brand and our flagship tourism campaigns represent a major step forward in the way we promote Wales internationally. The next step is investment in a Wales Digital Gateway project which will deliver improved integration between our existing external Wales facing sites (wales.com, visitwales.com, tradeandinvest.wales, studyinwales.ac.uk) which will provide easier access to information on Wales.

#### **5.14 City and Growth Deals**

We remain committed to delivering successful Deals for all regions of Wales with the Welsh Government continuing to be a full partner in their development and delivery. Deals offer Wales and our regions an opportunity to unlock additional Treasury funding to support interventions that can deliver sustainable economic growth.

However, Deals are not simply project delivery and funding vehicles, they are critical tools in providing a framework that allows regions to drive a new way of collaborative working, setting priorities as a single voice which supports local economic ambitions and objectives and delivering key functions at a strategic level. City regions detail is included at paragraph 5.6.

Powys and Ceredigion are developing 'Growing Mid Wales', which draws together local business, academic leaders and national and local government to create a vision for the future growth of Mid Wales. Our expectation is also that Powys and Ceredigion should not be excluded from the benefits of the City Deals that already exist.

We are working closely with the North Wales Region and the North Wales Ambition Board to consider how a North Wales Growth Deal can best support their ambitions to bring further economic growth. As discussions commence, it is too early to say at this stage what form the Welsh Government's support will take.

### **5.15 Establishment of the National Infrastructure Commission**

The National Infrastructure Commission will play a key role in planning for Wales' long term infrastructure needs and helping prioritise strategic investment decisions. The Commission will be a publicly appointed, non-statutory advisory body whose remit will cover to economic and environment infrastructure.

It will also need to take into account the relationships between economic and environment with social infrastructure, such as housing, in providing advice. Membership will be a maximum of 12, including the chair.

Following public consultation, an Assembly inquiry and debate, the next step is to commence the public appointments exercise this autumn. Draft person specifications for the chair and members have been shared with the EIS Committee which will pre-scrutinise the appointment of the chair.

### **5.16 Business Support/Finance**

The Wales Audit Office will be carrying out a study on the Welsh Government's provision of business finance. The overall focus will be on whether the Welsh Government is managing its business finance activity effectively and achieving the expected outcomes.

The study will be conducted in two phases:

- Phase one will look at the landscape of business finance and review the Welsh Government's strategic approach and analyse both expenditure and outputs/outcomes data.
- Phase two will review the operational delivery of business finance in more detail.

Further updates will be provided to the Committee when the recommendations are published.

We will be taking action to implement the commitment in *Prosperity for All* to "simplify and rationalise the range of financial support we offer companies, ensuring it is clear, easily understood and responsive." The Economic Action Plan will provide more detail on this.

## 5.17 Preventative Spending

The importance of taking a preventative approach across our policy areas is recognised and is embedded into economic development activity. All Economic development programmes are subject to value for money criteria. There is evidence that well paid work is the best route out of poverty and the greatest protection against poverty for those at risk. We continue to create opportunities for individuals and families with business support initiatives and targeted investment across Wales.

Persistent poverty is damaging to individuals and communities and can lead to material and psychological harm, as well as wider social consequences. Addressing and responding to the issues caused by poverty is expensive. By supporting jobs and sustainable growth, and taking action to try to alleviate some of the challenges faced by people when accessing jobs, we aim to reduce the likelihood of families experiencing poverty, particularly deep and persistent poverty, and avoid the long term costs that poverty bring to society. Supporting families and communities by creating employment opportunities helps support children to give them the best chance and supports early years as a priority area in *Prosperity for All*.

Transitioning to a low carbon society is also vital for social, economic, environmental and well being in the long term. It supports the Well-Being for All objective, to drive sustainable growth and combat climate change. Decarbonisation requires a fundamental change to three major national infrastructure networks: power, transport and heat. Energy and Environment programmes particularly are intended to be preventative with sustainability at the heart of future energy developments. Our support to business focuses on different technologies from community scale to major infrastructure projects such as Wylfa Newydd. The Environmental Protection Scheme is important to develop renewable energy sources. These developments will assist in mitigating the impacts of climate change and contribute to reducing carbon emissions by 2050.

## 6.0 TRANSPORT FUNDING OF ACTIONS

There is an increase of £2.2m to the Transport revenue budget from the 2018-19 revised baseline and a further £21.294m reduction in 2019-20. This is the net result of a number of actions such as additional allocations as a result of the Two Year Budget Agreement with Plaid Cymru, adjustments to reflect capital/revenue swaps in Motorway and Trunk Roads to rebalance the baseline and anticipated savings in relation to the Rail Franchise.

The capital allocation for the period 2018-19 to 2020-21 is £1.129bn which supports the National Transport Finance Plan. When this figure is considered alongside funding identified for the M4 and South Wales Metro held in central reserves, this reflects a significant level of capital funding for Transport Infrastructure over the coming capital budget period. It is still necessary however, to prioritise activity and manage budgets to ensure that the delivery of schemes within the National Transport Finance Plan are both affordable and deliverable.

Transport	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	299,670	(2,650)	297,020	2,200	299,220	(21,294)	277,926
Non Cash	188,691	0	188,691	0	188,691	0	188,691
<b>Total Resource</b>	<b>488,361</b>	<b>(2,650)</b>	<b>485,711</b>	<b>2,200</b>	<b>487,911</b>	<b>(21,294)</b>	<b>466,617</b>

Transport	2017-18 Supp budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	345,683	313,231	382,611	429,780	1,125,622
FT Funding	5,000	2,200	1,200	0	3,400
<b>TOTAL</b>	<b>350,683</b>	<b>315,431</b>	<b>383,811</b>	<b>429,780</b>	<b>1,129,022</b>
<b>2017-18 Final Budget</b>	<b>348,483</b>	<b>236,077</b>	<b>281,567</b>	<b>389,928</b>	<b>907,572</b>
<b>Change in New Plans</b>	<b>2,200</b>	<b>79,354</b>	<b>102,244</b>	<b>39,852</b>	<b>221,450</b>

## 6.1 Motorway & Trunk Road Network Operations

Motorway & Trunk Road Network Operations Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	51,789	0	51,789	32,161	83,950	0	83,950
Non Cash	188,691	0	188,691	0	188,691	0	188,691
<b>Total Resource</b>	<b>240,480</b>	<b>0</b>	<b>240,480</b>	<b>32,161</b>	<b>272,641</b>	<b>0</b>	<b>272,641</b>

Motorway & Trunk Road Network Operations Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	81,990	40,763	40,997	51,613	133,373
<b>TOTAL</b>	<b>81,990</b>	<b>40,763</b>	<b>40,997</b>	<b>51,613</b>	<b>133,373</b>
<b>2017-18 Final Budget</b>	<b>81,990</b>	<b>71,166</b>	<b>71,500</b>	<b>81,613</b>	<b>224,279</b>
<b>Change in New Plans</b>	<b>0</b>	<b>(30,403)</b>	<b>(30,503)</b>	<b>(30,000)</b>	<b>(90,906)</b>

Welsh Ministers have a statutory duty to provide a safe and reliable Motorway and Trunk Road Network. It is therefore important to ensure that appropriate funding is available to fulfil this objective in respect of both ongoing management & maintenance and improvement. The movement of c£30m between revenue and capital (whilst effectively retaining the overall budget envelope) reflects the nature of work that is required to comply with the requirements of the latest Trunk Road & Maintenance Manual (TRMM 2016) giving due regard to the type of spend being incurred. The revenue element is effectively managed in line with the anticipated efficiencies for the rail franchise. The revenue allocations for 2018-19 and 2019-20 also include an additional £1m each year for delivery of electric charging points which is provided as part of the Two Year Budget Agreement with Plaid Cymru.

In addition to the capital funding provided under this action, funding for significant improvements on the existing network and major road schemes adding to the network are provided for in the capital funding under the Road, Rail, Air and Sea Services Investment Action. In addition there are repayments of £0.503m in 2018-19 and 2019-20 for the Invest to Save funding for the LED lighting project.

Over the budget period, maintenance budgets will be continually monitored to ensure that we are responsive to reactive works and prioritise capital investment where it is most needed.

## 6.2 Road, Rail, Air and Sea Services & Investment

Road, Rail, Air and Sea Services & Investment Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	188,581	(1,050)	187,531	(29,645)	157,886	(23,607)	134,279
<b>Total Resource</b>	<b>188,581</b>	<b>(1,050)</b>	<b>187,531</b>	<b>(29,645)</b>	<b>157,886</b>	<b>(23,607)</b>	<b>134,279</b>

Road, Rail, Air and Sea Services & Investment Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	183,346	208,804	280,263	331,467	820,534
FT Funding	5,000	2,200	1,200	0	3,400
<b>TOTAL</b>	<b>188,346</b>	<b>211,004</b>	<b>281,463</b>	<b>331,467</b>	<b>823,934</b>
<b>2017-18 Final Budget</b>	<b>186,746</b>	<b>113,211</b>	<b>158,367</b>	<b>261,615</b>	<b>533,193</b>
<b>Change in New Plans</b>	<b>1,600</b>	<b>97,793</b>	<b>123,096</b>	<b>69,852</b>	<b>290,741</b>

The revised revenue baseline for 2018-19 excludes non recurrent funding of £0.750m for free Wi-Fi on trains and the 50 busiest stations and £0.3m for a feasibility study to re-open the railway between Carmarthen and Aberystwyth.

The revenue budget primarily supports the Wales and Borders Rail Franchise and Intra Wales Air Service. The revenue budget in 2018-19 includes £31.702m and a further £27.607m in 2019-20 relating to anticipated savings that may be deliverable in the early years of the new contract for Wales & borders rail services. This will be heavily predicated on the selection of the preferred bidder and solution, as well as ongoing negotiations with the Department for Transport and UK Government.

The revenue budget also reflects additional allocations as a result of the Two Year Budget Agreement with Plaid Cymru for design and development of the third Menai crossing (£1m in 2018-19 and £3m in 2019-20) and for removing tolls from Cleddau Bridge (£2m in 2019-20).

In 2018-19 the movement of £29.645m results from savings of £31.702m which are offset with reprioritised funding of £1.057m for the aviation framework and £1m for the Third Menai Crossing. In 2019-20 the saving of £27.607m is offset with funding of £4m from the Budget Agreement.

The capital budget funds road, rail and aviation capital improvements. There is an increase of £97.793m in 2018-19, £123.096m in 2019-20 and £69.852m in 2020-21 to progress priorities within the National Transport Finance Plan. This includes the release of funds from reserves for the South Wales Metro of £173.180m and an additional allocation of £50m to deliver a new railway station at Llanwern (Newport) along with stabilising lines and a major park and ride facility. Additional capital funding of c£30m is available for roads infrastructure which is being managed in line with the motorway and trunk road reduced capital and revenue requirements to comply with the TRMM 2016. Further funding for the M4 relief road is also held in reserves ready for allocation when delivery programmes are confirmed and pending the outcome of the public inquiry for the M4.

The additional funding for 2019-20 includes £15m for north to south over-taking improvements to the A487 and A470 which was part of the Two Year Budget Agreement with Plaid Cymru. This will complement other activity already in train to improve connectivity across North Wales and between North & South Wales.

For rail, the budget will also fund delivery of South Wales Metro Phase 2, development of North Wales Metro, completion of the Ebbw Vale frequency enhancement scheme and other rail related projects.

The draft budget also continues to include Financial Transaction funding made available to support investment within the aviation industry. Other opportunities to utilise Financial Transactions funding will continue to be explored along with other innovative financing solutions.

### 6.3 Sustainable Travel

Sustainable Travel Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	54,536	(1,600)	52,936	(1,316)	51,620	2,313	53,933
<b>Total Resource</b>	<b>54,536</b>	<b>(1,600)</b>	<b>52,936</b>	<b>(1,316)</b>	<b>51,620</b>	<b>2,313</b>	<b>53,933</b>

Sustainable Travel Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	73,447	56,764	54,451	39,800	151,015
<b>TOTAL</b>	<b>73,447</b>	<b>56,764</b>	<b>54,451</b>	<b>39,800</b>	<b>151,015</b>
<b>2017-18 Final Budget</b>	<b>72,847</b>	<b>44,800</b>	<b>44,800</b>	<b>39,800</b>	<b>129,400</b>
<b>Change in New Plans</b>	<b>600</b>	<b>11,964</b>	<b>9,651</b>	<b>0</b>	<b>21,615</b>

This budget supports investment in integrated transport, active travel, Concessionary Bus Travel, smartcards and local transport schemes proposed by local authorities.

The revised baseline for 2018-19 excludes non recurrent funding of £0.2m for a feasibility study into a national cycleway; and a Ports Infrastructure Fund of £1.4m (originally a £2m revenue fund subsequently offset by £0.6m transferred for capital expenditure for this initiative).

The new Two Year Budget Agreement includes an additional recurrent allocation of £0.2m in 2018-19 for the upgrade of some Traws Cymru services from buses to coaches.

The revenue budget movements of £1.516m in 2018-19 and £2.313m in 2019-20 reflect reprioritisation to align (primarily) current delivery requirements with rail services.

The main movement in capital funding is in relation to the Concessionary Fares scheme. When taken with the Local Authorities' own contributions the overall funding envelope provided for concessionary fares (across both revenue and capital) is considered sufficient to meet Local Authorities' obligations based on the 'no better, no worse' principle and anticipated demand.

## 6.4 Youth Concessionary Fares Action

Youth Concessionary Fares Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	0	0	0	1,000	1,000	0	1,000
<b>Total Resource</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,000</b>	<b>1,000</b>	<b>0</b>	<b>1,000</b>

Funding to support the Young Persons Discounted Bus Travel was introduced on an 18-month pilot basis in September 2015. Evaluation of the current scheme is ongoing to determine its impact, with a view to informing future provision. A further year of the trial is on-going and we have recently issued a consultation document on proposals for 2018-19. We will also work with the bus industry to determine the potential to continue this initiative on a commercial basis and potentially with a much reduced amount from Welsh Government, following the initial funding awarded to pump prime the scheme.

## 6.5 Improve Road Safety

Improve Road Safety Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	4,764	0	4,764	0	4,764	0	4,764
<b>Total Resource</b>	<b>4,764</b>	<b>0</b>	<b>4,764</b>	<b>0</b>	<b>4,764</b>	<b>0</b>	<b>4,764</b>

Improve Road Safety Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	6,900	6,900	6,900	6,900	<b>20,700</b>
<b>TOTAL</b>	<b>6,900</b>	<b>6,900</b>	<b>6,900</b>	<b>6,900</b>	<b>20,700</b>
<b>2017-18 Final Budget</b>	<b>6,900</b>	<b>6,900</b>	<b>6,900</b>	<b>6,900</b>	<b>20,700</b>
<b>Change in New Plans</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The road safety budgets have been maintained at planned levels. The Road Safety Framework for Wales sets out our safety targets and is available at: <http://gov.wales/topics/transport/road-users/road-safety-framework/?lang=en>

Revenue funding supports the engagement and funding of external partners in the public, private and third sectors achieve casualty reduction, using the road safety governance structures The capital budget supports road safety engineering improvements on the trunk and local road networks.

## **7.0 TRANSPORT - KEY POLICIES**

Additional information is provided in response to the specific requests made by the Committee as follows:

### **7.1 National Transport Finance Plan**

For 2018-19, the Transport priorities will be set in the context of budget availability and the National Transport Finance Plan (NTFP) which was published on 16 July 2015. This sets out the investment priorities in services and infrastructure and focuses on the projects which could be delivered during the five years from publication.

Transport has a vital role to play in improving Wales' economic competitiveness and access to jobs and services. The NTFP sets out how and when improvements to the road and public transport networks could be delivered to help businesses prosper and ensure people can access the opportunities they need to live healthy, sustainable and fulfilling lives. The role that Transport plays in delivering Welsh Government objectives are clearly set out within the key themes of 'Programme for Government; Taking Wales Forward' and as an enabler to the priority areas in *Prosperity for All*.

There is a strong evidence based approach for understanding the performance of the transport system, assessing the need for intervention and considering the social, cultural environmental and economic impacts of our plans for the transport system. The schemes in the NTFP target five key priority areas: economic growth, tackling poverty, sustainable travel and safety, and improving access to employment and to services helping us meet our wider wellbeing objectives. The investments identified will deliver a more integrated and sustainable transport system for all.

Actions in the NTFP will:

- Improve public transport and active travel availability, quality, safety and access.
- Assist in reducing any disadvantage to protected groups and those on low incomes through the provision of a quality, integrated public transport and network (including the provision of accessible, bilingual information) and through maintain funding for socially necessary bus services.

A set of national datasets provide consistent and comparable information across the whole of Wales and highlight areas where the transport system is under-performing. The datasets are updated regularly and are used to monitor the performance of the system, providing early alerts to emerging issues and information on longer term trends. The transport data is combined with other data sources, such as the census and land use data, to provide information on the social and environmental impacts of the transport system. The transport

data falls into five categories - journey times, the number of trips made, safety related, supplementary information and contextual information.

The NTFP is a live document and is currently being refreshed. The updated document will reflect progress to date on those interventions already identified, newly emerging priorities and budget availability. The refreshed NTFP is expected to be published in the autumn and will set out our priorities over the remaining Plan period 2018-19 to 2020-21.

## **7.2 Rail Franchise**

Discussions with the UK Government are ongoing. The cost of the delay in issuing the tender specification should not have an impact in 2018-19 (or beyond). We have, however, tried to mitigate additional costs brought about by the delay 'in-year' through utilising available resources on other activities. In principle, the procurement exercise should be completed within the current financial year, therefore there is no explicit provision for procurement activity in the 2018-19 budget. Delivery costs are expected to be accommodated within the overall budget envelope for the provision of rail services and Metro infrastructure. This is subject to the UK Government transferring powers to time and with an appropriate funding settlement as we take full responsibility for franchise costs from the Department for Transport. Any delay to the transfer of powers could push some procurement activity into 2018-19. This is being closely monitored.

## **7.3 Delivery of the M4 Relief Road**

Funding for the M4 relief road continues to be held in reserves which are managed by the Cabinet Secretary for Finance and Local Government.

The Public Inquiry is ongoing and is expected to report in the spring. In the interim we are continuing to progress discussions with affected parties to try and ensure that we are in the best possible position to start works should the decision be taken to proceed following publication of the Inspector's report. Delivery of the new route around Newport is now considered even more critical given the recent announcement by UK Government to abolish tolls on the Severn crossings. The additional traffic that this decision will generate will exacerbate the issues already experienced within the area.

## **7.4 Trunk Road and Motorway Network**

Delivery continues on a number of other strategically important schemes including:

- A465 Heads of the Valleys road between Gilwern and Brynmawr: Whilst complementing other schemes along the Heads of the Valleys route this scheme will improve accessibility to and from an area recognised as one of the most economically deprived in Wales.
- Newtown bypass: Providing improved North/South journey times and removing congestion from the town centre.

- Developing/progressing work on numerous other routes around Wales including A55 Corridor across North Wales, A40 West Wales and pinch point schemes to ease traffic congestion and improve journey times across Wales. This is in addition to the significant day to day management of the Motorway and Trunk Road Network which comprises the largest single asset on the Welsh Government balance sheet.

All of these activities are programmed in the context of available and anticipated budgets. However, it must be recognised that all expenditure is subject to inflationary pressures and risk. We aim to manage this by including risk and optimism bias in our projects as well as having clear points at which assumptions and estimates are reviewed and updated which includes forecasts of inflation. In the case of construction projects this is often at key stages of development and delivery. The contracts also include construction inflation indices (includes the cost of materials and labour). We also try manage the impact of inflation within budget baselines, usually through finding efficiencies and managing delivery requirements across the portfolio.

## 7.5 Delivery of Active Travel Policy

Active Travel is funded primarily through the Local Transport Fund, the Safe Routes in Communities Grant and the Road Safety Grant. The specific number and size of active travel schemes varies each year according to the type, strength and size of bids submitted by local authorities. The 2017-18 published budget reflected that, due to budget pressures and the discretionary nature of some grants, the Sustainable Transport Action would reduce from 2018-19. Given our commitment to Active Travel, remaining funding within the Local Transport Fund, along with funding provided in the Safe Routes in Communities Grant will focus on Local Authority bids that deliver active travel schemes. Local Authorities are due to submit their integrated travel maps in November of this year. At this stage it is not sensible to allocate substantial capital amounts for expenditure next year as there is likely to be a considerable amount of detailed design and contract preparation work for those schemes which are to be taken forward. Once I have reviewed the plans I will be in a position to re-prioritise my budget and allocate accordingly. As a first step I have already identified an additional £5m for next year for taking this design work forward. This is through the re-programming of other activities.

This will be in addition to the active travel schemes being delivered within our own road and rail budgets e.g. provisions for cyclists in the new Wales and Borders Rail Services contract and provisions for walkers and cyclists considered within new road schemes. However, we will also continue to work in partnership with local authorities and other stakeholders to ensure that key priorities are met and to identify other suitable sources of finance that will aid in delivery.

My road safety capital budget also has an important role to play in encouraging active travel, and I will be amending the criteria to ensure that schemes which protect the interests of active travel users achieve greater focus when spending decisions are made.

Funding for Active Travel is complex and I have therefore asked my officials to undertake a detailed review of the entire funding approach for active travel and will provide a statement on this in due course. I want to increase the aggregate

spend on Active Travel in the coming years and my statement will set out how this will be achieved.

## **7.6 Investment in Rail Infrastructure**

Next year is a transitional year for the provision of rail services. Until October 2018 the current arrangements will apply for the Arriva Trains Wales franchise. From October new arrangements will come into effect as a result of the ongoing procurement exercise. Funding rail services will remain a major area of Welsh Government funding and activity and we anticipate a period of transformation as a result of the procurement. The details of the transformation, including a growth in services across Wales, will be known once we have received bids at the end of December 2017.

The budget provides for delivery of the anticipated infrastructure required for facilitating the South Wales Metro on the basis of an indicative profile. The actual infrastructure solution required to deliver Metro services will depend on the solution proposed by the preferred bidder. This will be known in more detail following submission of bids.

Investment in the North Wales Metro will create a reliable, efficient and quality integrated transport network connecting people, communities and businesses to jobs, facilities, and services, maximising the economic opportunities of connectivity across Wales and our borders. The project will deliver transport modernisation across North Wales with a focus on development of a metro solution in the more urbanised parts of North East Wales.

## **7.7 Support for Bus Services**

Bus and community transport continues to be an important consideration for the budget as these sectors provide connectivity for the public, who greatly rely on public transport. The recent oral statement on 10 October provides a current update on developments. Available at:

<http://gov.wales/about/cabinet/cabinetstatements/2017/concessionaryfares/?lang=en>

A consultation on bus services in Wales was launched on 8 March 2017 following the successful Bus Summit on 23 January 2017. The responses are being assessed in the context of future budget requirements.

Amongst other things, the consultation recognises the overlap of funding to the bus industry from various sectors such as Local Government, Health & Education. It is anticipated that by pooling budgets, benefits, efficiencies and synergies will result to deliver significant improvements to bus services in Wales.

In 2018-19 and 2019-20 annual bus support funding of c£90m supports service delivery and includes maintaining the bus service support grant at £25m. Whilst services are considered affordable for the current year it is clear that with inflationary pressures and an ageing population Welsh Government's ability to continue to fully support all initiatives will become unsustainable unless current baseline funding significantly increases or there is a fundamental change to the way in which services are supported. The consultation on bus services in Wales will be a significant step in this.

We continue to support the work of Bus Users Cymru and the Community Transport Association in Wales to ensure that bus passengers' views are represented effectively in developing our policies for the bus network. Community transport makes an important contribution to an integrated public transport network and social cohesion, particularly in remote and rural communities.

The Welsh Government funded TrawsCymru long distance bus network has been substantially improved over the last four years with new and more frequent services introduced on key strategic transport corridors not served by rail. As a result of this investment the TrawsCymru bus network carried a record 1.6 million passengers in 2016-17. The Welsh Government in July initiated a major 12 month trial of weekend free travel across the TrawsCymru network which has generated significant passenger growth in the off peak period. As part of the TrawsCymru network we have also re-introduced a daily coach service linking Aberystwyth and key centres in west Wales to Swansea and Cardiff. As part of the Two Year Budget Agreement with Plaid Cymru additional funding of £0.2m in 2018-19 and 2019-20 has also been made available to upgrade some TrawsCymru buses to coaches.

Agreement has been made to fund two full-time posts within the METRO local authorities in north and south Wales to lead, co-ordinate and deliver the bus elements within the next five years, within the envelope of a statutory bus QPS. In addition, it would be used to help shape future investment in the bus network outside the METRO areas. One appointment has been made in south and shortly we will make an appointment in north Wales.

Local authorities are responsible in law for reimbursing bus operators for carrying older or disabled pass holders under the free concessionary bus travel scheme. Authorities are also obliged to ensure that those bus operators are "no better and no worse off" as a result. The Welsh Government's budget in support of the local authorities' expenditure on reimbursement will continue to meet their responsibilities, supplementing the contributions that local authorities continue to make from their own budgets, reflecting the historical funding that they provided before the scheme was introduced in 2002. Collectively, these local authority contributions amount to some £10.3m annually. In addition, we meet the cost of local authorities' administration via a £3 per live card in circulation, each year.

In terms of discounted travel for young people £1m has been re-prioritised to continue the Young Persons Discounted Bus Travel which was introduced on an 18-month pilot basis in September 2015. Evaluation of the current scheme is ongoing to determine its impact, with a view to determining future provision. A further year of the trial is on-going and a consultation on the package for 2018-19 has recently been launched. It will close on 4 January 2018. We will also work with the bus industry to determine the potential to continue this initiative on a commercial basis and potentially with a much reduced amount from Welsh Government, following the initial funding award to pump prime the scheme.

To date, some 16,000 applications for MyTravelPasses have been received against an age cohort of some 110,000. The Confederation of Passenger Transport (the bus industry trade association) has been tasked with developing

and implementing a marketing and publicity campaign for MyTravelPass during 2017-18.

## **7.8 Support for Local Transport Priorities**

The local transport priorities budget line (Sustainable Travel Action) makes available funding to local authorities for local transport schemes that support the economy, improve road safety and enable active travel. We continue to work in partnership with local authorities and other key organisations to ensure the key priorities are met and to identify other suitable sources of finance that will aid in delivery.

The budget includes explicit provision to support a new fund known as the Local Transport Network Fund. This fund, which provides £12m for schemes over the next three years, will allow Local Authorities to bid for funding for schemes that focus on easing congestion, particularly on public transport routes. This will complement some of the schemes being delivered under the 'pinch point' programme on our own trunk roads. An allocation of £2.8m has been provided for 2017-18, primarily focused on improving bus reliability and reducing journey times.

## **7.9 Preventative Spending**

The majority of Transport expenditure for programmes and policies may be attributed to preventative spend such as: active travel in terms of promoting sustainable modes of transport and thus reducing environmental impacts and increasing activity levels which support health outcomes. Concessionary bus travel is particularly important in rural areas and vital for social cohesion and well being. Our investment in road safety, road maintenance and improvements in network management helps to prevent more significant issues and accidents over the longer term. An important example of how our transport services will be transformed is the South Wales Metro with potential opportunities to deliver much more for regions than an improved public transport network. As an integral part of the Cardiff Capital Region City Deal this will be the catalyst for the broader regeneration, helping to shape the regional economic and social infrastructure, social mobility and equality of opportunity for some of our most deprived areas. In delivering better outcomes preventative spending measures are therefore important for the long-term.

## **8.0 EVIDENCE BASE FOR BUDGET DECISIONS**

Evidence from a wide range of sources underpins our financial decisions to deliver the Programme for Government such as: published research, stakeholder consultations, previous policy evaluations and statistics.

Independent analysis and evidence from a number of organisations is also considered. For example, the Public Policy Institute for Wales has published several reports relating to the Economic and Infrastructure portfolio. These reports have highlighted the importance of connective infrastructure in supporting economic growth and this is reflected in our spending on Transport and ICT infrastructure.

Appraisals are undertaken on projects/programmes and are either conducted internally or by external contractors. These are used to inform future funding decisions.

The evidence and scope of the appraisal undertaken during policy and programme development is assessed on the basis of risk, size and scale, existing evidence base and other factors. On large projects such as the M4 relief road it is appropriate to collect evidence from a range of sources. In contrast, for smaller inventions with individual companies it is appropriate to rely on a narrower range of sources or the existing evidence base, subject to our normal due diligence processes. Feasibility studies are undertaken prior to the commencement of key projects to assess suitability in delivering against our goals, whilst gateway reviews for large projects are completed to challenge all aspects of a business case including the essential value for money assessment. Whilst the reviews are project specific, they can help to build up a useful source of information for considering other projects. Internal and external audit reports can be helpful in a similar way.

The national strategy is a key part of how we respond to the Well-Being of Future Generations Act. Taken together with more detailed action plans, such as the Economic Action Plan, it will help us to articulate what we understand about where the Government can make the most contribution to the National Goals and Indicators.

## **9.0 MONITORING BUDGETS**

In developing the plans detailed in-depth review for the draft budget have been undertaken and aligned to the national strategy. During in-year delivery of programmes, all business areas are challenged on a monthly basis, and quarterly in-depth reviews are undertaken by officials to enable appropriate advice to the Cabinet Secretary for Economy and Infrastructure on the latest forecasts, and to agree budget movements as necessary. Further detailed work will support the delivery of the Economic Action Plan.

## **10.0 EVALUATIONS/REVIEWS**

Outcomes are monitored for each of the projects and contracts that are managed within the portfolio. Feasibility studies are undertaken prior to the commencement of key projects to assess suitability for going forward in delivering against our wellbeing goals.

Evaluation of projects and programmes are undertaken during and at the end of projects and can be undertaken internally or by external contractors.

Commissioning evaluations and research is one way of gathering evidence on policies and programmes, but is not the only way and is not always the most appropriate.

The portfolio uses a variety of approaches in gathering evidence and for evaluation of policy and programmes. Some of these inform the process through expert advice and learning.

Gateway reviews for large projects are undertaken to assess value for money and both internal and external audits have and will be undertaken, which provide further evidence to support policy outcomes.

For example, the Public Policy Institute for Wales (PPIW) is co-funded by the Economic and Social Research Council and the Welsh Government and aims to provide the Welsh Government with authoritative independent analysis and advice.

In addition, the existing evidence base is sometimes used to shape programmes and policy and there is not always a need, or a good value for money argument to produce new evidence. For example, the What Works Centre for Local Growth has produced a reports analysing which policies are most effective in supporting and increasing local economic growth.

<http://www.whatworksgrowth.org/>

Similarly, the OECD has conducted a review of local economic and employment development policy approaches in OECD Countries and considered how these might be applied in Wales.

[http://www.oecd-ilibrary.org/industry-and-services/a-review-of-local-economic-and-employment-development-policy-approaches-in-oecd-countries-policy-transferability-to-wales\\_5km7rq3vv2hg-en](http://www.oecd-ilibrary.org/industry-and-services/a-review-of-local-economic-and-employment-development-policy-approaches-in-oecd-countries-policy-transferability-to-wales_5km7rq3vv2hg-en)

The need for and scope of evaluation can be taken on a case by case basis during policy and programme development having regard to the risk, size and scale, existing evidence base and other factors.

## **11.0 LEGISLATION**

### **11.1 The Wales Act 2017**

The Wales Act will expand the National Assembly's legislative competence in several transport areas. It will also expand the executive functions of the Welsh Ministers in transport, particularly in the areas of ports and road traffic. The Wales Act is anticipated to come into force in April 2018. The Wales Act will place new duties on the Welsh Ministers in regards to ports and harbours. To meet these duties, staff resource has been reprioritised. The other new powers granted by the Act are discretionary functions, and the financial implications of policy development will be factored into the policy development. Consultations have been published on potential changes to the taxi and private hire vehicle licensing regime, and the organisation of bus services in anticipation of the expanded powers coming into force. Both consultations note that these potential changes could be cost neutral, making better use of the existing resources spent in this area.

### **11.2 Bus Services Act 2017**

The Bus Services Act 2017 mainly applies to England only and legislation currently in force in relation to bus services in Wales will remain in place. The Act amends the Equality Act 2010, introducing a requirement on bus operators to provide accessible information to disabled passenger during the journey,

including next stop audio visual announcement systems. The provision amends the Equality Act 2010, and provides that the Regulations and supporting guidance shall be made by the Secretary of State for Transport in consultation with the devolved governments in Wales and Scotland. The relevant provisions in the Bus Services Bill being passed through UK Legislation that will apply in Wales will be cost neutral to the public sector in Wales, although the Regulations that follow may add about 0.4% to the cost of operating bus services in Wales (if audio visual next stop announcements are included in the Regulations).

## **12.0 WELL BEING OF FUTURE GENERATIONS (WALES) ACT 2015**

The Well-being of Future Generations Act has provided the framework for developing our plans. We have adopted a long-term perspective and are taking an integrated approach in our decision-making to support the seven goals contained in the Act. We have also continued to look at how we embed the five ways of working to help us maximise our impact, inform plans which support Taking Wales Forward, better consider impacts on protected groups and support a focus on our shared national goals.

For this Draft Budget three priority areas were discussed with the Future Generations Commissioner: procurement, decarbonisation and participatory budgeting. These priorities have informed our approach. Transport for Wales, for example, has a sustainable and ethical procurement panel, which includes representatives from the Welsh Government, Network Rail, Construction Industry Training Board, Constructing Excellence in Wales and Wales Council for Voluntary procurement of the Metro, including supply chain and skills requirements, environmental considerations and cultural issues in line with the aims of the Act.

In addition, we have been liaising with the Future Generations Commissioner for Wales to ensure that we properly adopt the approach to long term planning and help deliver the fundamental changes required as part of the Act.

## **13.0 REDUCING THE IMPACT OF DEPRIVATION AND POVERTY**

A Joseph Rowntree Foundation report<sup>2</sup>, published in 2016, counted the public service cost of poverty in the UK at around £69 billion. This evidence is clear that deprivation and poverty has a significant negative impact. It damages childhoods, affects educational attainment, causes material and physical harm including health issues, and leads to wider social consequences for our communities and society. This has significant implications for the public purse.

The focus of our budget is on actions that have the potential to support the creation and retention of jobs in the economy, recognising that decent employment can strongly protect people from poverty. We are also funding activities that aim to try to address some of the barriers people face when accessing work and training opportunities, so they are more likely to benefit from economic growth. By supporting job creation and retention, and taking actions that can help people access work, we aim to reduce the likelihood of individuals and families experiencing poverty, particularly deep and persistent poverty, and reduce its negative impacts.

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<sup>2</sup> JRF Counting the Cost of UK Poverty <https://www.jrf.org.uk/report/counting-cost-uk-poverty>

ANNEX A

Overview of Revenue Budget Changes - 2017-18 First Supplementary Budget to 2019-20 Draft Budget

REVENUE		Economy £'000	Transport £'000	Total Resource £'000
<b>2017-18 First Supplementary Budget</b>		<b>49,160</b>	<b>488,361</b>	<b>537,521</b>
<b>Baseline Adjustments</b>				
Sectors	Visit Wales	(5,000)		(5,000)
Road, Rail, Air, Sea Services and Investment	Feasibility study for re-opening the railway line from Carmarthen to Aberystwyth		(300)	(300)
	Free Wi-Fi on trains and the 50 busiest stations.		(750)	(750)
Sustainable Travel	Feasibility study for national cycleway		(200)	(200)
	Budget Agreement £2m for ports development - £0.6m was reallocated for capital infrastructure such as promoting streamlined and sustainable intermodal freight systems.		(1,400)	(1,400)
<b>Total</b>		<b>(5,000)</b>	<b>(2,650)</b>	<b>(7,650)</b>
<b>2018-19 Revised Baseline</b>		<b>44,160</b>	<b>485,711</b>	<b>529,871</b>
<b>Budget Realignment in 2018-19</b>				
Corporate programmes	Transfer National Loans Fund to Central Administration MEG	(1,641)	-	(1,641)
Finance Wales	Operating grant no longer required	(1,740)		(1,740)
Road, Rail, Air, Sea Services and Investment	Rail franchise efficiencies		(31,702)	(31,702)
	Aviation - funding for development framework with Cardiff International Airport Ltd		1,057	1,057
Motorway & Trunk Road Operations	Capital to revenue adjustment to reflect compliance with TRMM and re-prioritisation of projects in line with delivery		31,161	31,161
Sectors	Realignment of projects in line with delivery requirements	(4,803)		(4,803)
Entrepreneurship	Additional core budget requirement to deliver EU programmes (Sectors £4.8m; Innovation £1.1m & Life Sciences Sector £0.7m)	6,610		6,610
Sustainable Travel	Adjustments between capital and revenue in line with latest forecasts		(1,516)	(1,516)
Youth Concessionary Fares	Funding re-prioritised to support young persons discounted travel		1,000	1,000
<b>Total</b>		<b>(1,574)</b>	<b>-</b>	<b>(1,574)</b>
<b>Two Year Budget Agreement – Plaid Cymru</b>				
Sectors	“Arfor” – secretariat & investment for economic development in West Wales	1,000	-	1,000
	Foundational economy programme	1,500	-	1,500
	Visit Wales	3,000	-	3,000
Entrepreneurship	Start Up grant – journalists to set up business in hyper local news	100		100
Road, Rail, Air & Sea	Third Menai Crossing – feasibility study	-	1,000	1,000

Services Investment				
Motorway & Trunk Road Operations	Electric car charging points	-	1,000	1,000
Sustainable Travel	Traws Cymru - upgrade buses to coaches	-	200	200
<b>Total</b>		<b>5,600</b>	<b>2,200</b>	<b>7,800</b>
<b>2018-19 Draft Plans</b>		<b>48,186</b>	<b>487,911</b>	<b>536,097</b>
<b>Budget Realignment in 2019-20</b>				
Road, Rail, Air, Sea Services and Investment	Rail franchise efficiencies	-	(27,607)	(27,607)
Sustainable Travel	Adjustments between capital and revenue in line with latest forecasts	-	2,313	2,313
<b>Total</b>		<b>-</b>	<b>(25,294)</b>	<b>(25,294)</b>
<b>Two Year Budget Agreement – Plaid Cymru</b>				
Sectors	Foundational economy programme (2018-19 only)	(1,500)	-	(1,500)
	Visit Wales (recurrent funding at a reduced level)	(2,000)	-	(2,000)
Road, Rail, Air & Sea Services Investment	Third Menai Crossing – feasibility study	-	2,000	2,000
	Cleddau Bridge - remove tolls	-	2,000	2,000
<b>Total</b>		<b>(3,500)</b>	<b>4,000</b>	<b>500</b>
<b>2019-20 Draft Plans</b>		<b>44,686</b>	<b>466,617</b>	<b>511,303</b>

## ECONOMY & INFRASTRUCTURE MEG

### Draft Budget Allocations 2018-19

RESOURCE						
Budget Expenditure Line	2017-18 First Supp Budget £000s	2018-19 Revised Baseline £000s	Change £000s	2018-19 New Plans Draft Budget £000s	Change £000s	2019-20 New Plans Draft Budget £000s
Construction	514	514	(250)	264	185	449
Business Development	0	0	2,500	2,500	(1,500)	1,000
Business Solutions	1,226	1,226	(792)	434	0	434
Trade and Inward Investment	1,892	1,892	0	1,892	0	1,892
Enterprise Zones	927	927	(96)	831	199	1,030
Energy & Environment	1,106	1,106	352	1,458	295	1,753
Advanced Materials & Manufacture	1,070	1,070	(544)	526	624	1,150
Creative Industries	851	851	785	1,636	72	1,708
Financial & Professional Services	145	145	5	150	0	150
ICT	5,946	5,946	(3,394)	2,552	(724)	1,828
Single Investment Fund	1,560	1,560	(869)	691	(651)	40
Regional Development and Delivery	263	263	0	263	0	263
Tourism	15,762	10,762	3,000	13,762	(2,000)	11,762
<b>Action: Sectors</b>	<b>31,262</b>	<b>26,262</b>	<b>697</b>	<b>26,959</b>	<b>(3,500)</b>	<b>23,459</b>
Youth Entrepreneurship	1,319	1,319	449	1,768	0	1,768
Social Enterprise and Economy	814	814	(84)	730	0	730
Entrepreneurship Delivery Start Up & Business Wales	2,098	2,098	6,345	8,443	0	8,443
<b>Action: Entrepreneurship &amp; Business Information</b>	<b>4,231</b>	<b>4,231</b>	<b>6,710</b>	<b>10,941</b>	<b>0</b>	<b>10,941</b>
Major Events Unit	3,918	3,918	0	3,918	0	3,918
<b>Action: Major Events</b>	<b>3,918</b>	<b>3,918</b>	<b>0</b>	<b>3,918</b>	<b>0</b>	<b>3,918</b>
Property Infrastructure	24,090	4,026	0	4,026	0	4,026
<b>Action: Deliver Property Related Infrastructure (Expenditure)</b>	<b>24,090</b>	<b>4,026</b>	<b>0</b>	<b>4,026</b>	<b>0</b>	<b>4,026</b>
Property Infrastructure	(20,064)	0	0	0	0	0
<b>Action: Deliver Property Related Infrastructure</b>	<b>(20,064)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>(Income)</b>						
Economic Analysis	157	157	0	157	0	157
Strategic Engagement	293	293	0	293	0	293
Healthy Working Wales	800	800	0	800	0	800
Corporate Programmes & Services	992	992	0	992	0	992
National Loans Fund	1,641	1,641	(1,641)	0	0	0
Strategic Business Events and Communications	100	100	0	100	0	100
<b>Action: Corporate Programmes</b>	<b>3,983</b>	<b>3,983</b>	<b>(1,641)</b>	<b>2,342</b>	<b>0</b>	<b>2,342</b>
Development Bank of Wales	1,740	1,740	(1,740)	0	0	0
<b>Action: Development Bank of Wales</b>	<b>1,740</b>	<b>1,740</b>	<b>(1,740)</b>	<b>0</b>	<b>0</b>	<b>0</b>
Network Asset Management & Support	4,525	4,525	2,161	6,686	0	6,686
Network Operations	47,264	47,264	30,000	77,264	0	77,264
<b>Action: Motorway &amp; Trunk Road Operations</b>	<b>51,789</b>	<b>51,789</b>	<b>32,161</b>	<b>83,950</b>	<b>0</b>	<b>83,950</b>
Network Operations Non Cash	188,691	188,691	0	188,691	0	188,691
<b>Action: Improve and Maintain Trunk Road Network (Domestic Routes) - Non Cash</b>	<b>188,691</b>	<b>188,691</b>	<b>0</b>	<b>188,691</b>	<b>0</b>	<b>188,691</b>
Aviation	4,548	4,548	1,057	5,605	0	5,605
New Road Construction and Improvement	0	0	1,000	1,000	4,000	5,000
Rail Franchise & Service Improvements	184,033	182,983	(31,702)	151,281	(27,607)	123,674
<b>Action: Road, Rail, Air and Sea Services and Investment</b>	<b>188,581</b>	<b>187,531</b>	<b>(29,645)</b>	<b>157,886</b>	<b>(23,607)</b>	<b>134,279</b>
Bus Support	28,427	28,427	778	29,205	0	29,205
Smartcards	2,000	2,000	(1,034)	966	0	966
Concessionary Fares	22,359	22,359	(1,190)	21,169	2,313	23,482
Infrastructure Developments	1,400	0	0	0	0	0
Sustainable Travel & Walking & Cycling	350	150	130	280	0	280
<b>Action: Sustainable Travel</b>	<b>54,536</b>	<b>52,936</b>	<b>(1,316)</b>	<b>51,620</b>	<b>2,313</b>	<b>53,933</b>
Youth Concessionary Fares	0	0	1,000	1,000	0	1,000
<b>Action: Youth Concessionary Fares</b>	<b>0</b>	<b>0</b>	<b>1,000</b>	<b>1,000</b>	<b>0</b>	<b>1,000</b>
Road Safety	4,764	4,764	0	4,764	0	4,764
<b>Action: Improve Road Safety</b>	<b>4,764</b>	<b>4,764</b>	<b>0</b>	<b>4,764</b>	<b>0</b>	<b>4,764</b>
<b>TOTAL</b>	<b>537,521</b>	<b>529,871</b>	<b>6,226</b>	<b>536,097</b>	<b>(24,794)</b>	<b>511,303</b>

CAPITAL										
Budget Expenditure Line	2017-18 First Supp Budget  £000s	2018-19			2019-20			2020-21		
		2018-19 Capital Plans as per 2017-18 Final Budget £000s	2018-19 Changes  £000s	2018-19 New Plans Draft Budget  £000s	2019-20 Capital Plans as per 2017-18 Final Budget £000s	2019-20 Changes  £000s	2019-20 New Plans Draft Budget  £000s	2020-21 Capital Plans as per 2017-18 Final Budget £000s	2020-21 Changes  £000s	2020-21 New Plans Draft Budget  £000s
Business Development	0	5,000	(5,000)	0	6,000	(6,000)	0	5,000	(5,000)	0
Construction	195	151	(200)	(49)	278	(300)	(22)	150	(172)	(22)
Business Solutions	31,387	25,790	(6,156)	19,634	21,993	0	21,993	14,911	0	14,911
Enterprise Zones	0	0	2,500	2,500	0	0	0	0	0	0
Business Finance Funds	17,750	7,000	0	7,000	18,000	0	18,000	3,000	0	3,000
Energy & Environment	11,000	6,295	(320)	5,975	5,345	8,302	13,647	1,500	3,927	5,427
Advanced Materials & Manufacturing	10,409	4,496	(612)	3,884	10,683	737	11,420	3,000	(535)	2,465
Creative Industries	2,949	1,070	6,592	7,662	5,000	(4,485)	515	2,500	(1,511)	989
Financial & Professional Services	7,752	3,012	(221)	2,791	2,174	536	2,710	1,000	870	1,870
ICT	165	1,000	1,184	2,184	2,000	(1,593)	407	1,000	(885)	115
Tourism	4,000	4,000	(2,000)	2,000	4,000	(2,000)	2,000	1,000	0	1,000
<b>Action: Sectors</b>	<b>85,607</b>	<b>57,814</b>	<b>(4,233)</b>	<b>53,581</b>	<b>75,473</b>	<b>(4,803)</b>	<b>70,670</b>	<b>33,061</b>	<b>(3,306)</b>	<b>29,755</b>
Property Infrastructure	33,896	18,125	(7,500)	10,625	16,177	(7,500)	8,677	15,886	(7,500)	8,386
<b>Action: Deliver Property Related Infrastructure (Expenditure)</b>	<b>33,896</b>	<b>18,125</b>	<b>(7,500)</b>	<b>10,625</b>	<b>16,177</b>	<b>(7,500)</b>	<b>8,677</b>	<b>15,886</b>	<b>(7,500)</b>	<b>8,386</b>
Property Infrastructure	(10,000)	(7,500)	(7,500)	0	(7,500)	7,500	0	(7,500)	7,500	0
<b>Action: Deliver Property Related Infrastructure (Income)</b>	<b>(10,000)</b>	<b>(7,500)</b>	<b>7,500</b>	<b>0</b>	<b>(7,500)</b>	<b>7,500</b>	<b>0</b>	<b>(7,500)</b>	<b>7,500</b>	<b>0</b>
National Loans Fund	104	120	(120)	0	138	(138)	0	159	(159)	0
<b>Action: Corporate Programmes</b>	<b>104</b>	<b>120</b>	<b>(120)</b>	<b>0</b>	<b>138</b>	<b>(138)</b>	<b>0</b>	<b>159</b>	<b>(159)</b>	<b>0</b>
Network Asset Management & Support	0	0	100	100	0	0	0	0	0	0
Network Operations	81,990	71,166	(30,503)	40,663	71,500	(30,503)	40,997	81,613	(30,000)	51,613
<b>Action: Motorway &amp; Trunk Road Operations</b>	<b>81,990</b>	<b>71,166</b>	<b>(30,403)</b>	<b>40,763</b>	<b>71,500</b>	<b>(30,503)</b>	<b>40,997</b>	<b>81,613</b>	<b>(30,000)</b>	<b>51,613</b>
Aviation	9,721	6,777	0	6,777	6,073	0	6,073	0	0	0

New Road Construction and Improvement	156,562	51,354	26,900	78,254	63,794	42,600	106,394	144,115	29,725	173,840
Rail Franchise	0	0	0	0	0	0	0	0	0	0
Rail Investment	22,063	55,080	70,893	125,973	88,500	80,496	168,996	117,500	40,127	157,627
<b>Action: Road, Rail, Air and Sea Services and Investment</b>	<b>188,346</b>	<b>113,211</b>	<b>97,793</b>	<b>211,004</b>	<b>158,367</b>	<b>123,096</b>	<b>281,463</b>	<b>261,615</b>	<b>69,852</b>	<b>331,467</b>
Smartcards	1,000	1,000	0	1,000	1,000	0	1,000	1,000	0	1,000
Local Transport Priorities	25,400	10,150	0	10,150	10,150	0	10,150	5,150	0	5,150
Concessionary Fares	39,297	27,000	11,964	38,964	27,000	9,651	36,651	27,000	0	27,000
Infrastructure Developments	600	0	0	0	0	0	0	0	0	0
Sustainable Travel & Walking & Cycling	7,150	6,650	0	6,650	6,650	0	6,650	6,650	0	6,650
<b>Action: Sustainable Travel</b>	<b>73,447</b>	<b>44,800</b>	<b>11,964</b>	<b>56,764</b>	<b>44,800</b>	<b>9,651</b>	<b>54,451</b>	<b>39,800</b>	<b>0</b>	<b>39,800</b>
Road Safety	6,900	6,900	0	6,900	6,900	0	6,900	6,900	0	6,900
<b>Action: Improve Road Safety</b>	<b>6,900</b>	<b>6,900</b>	<b>0</b>	<b>6,900</b>	<b>6,900</b>	<b>0</b>	<b>6,900</b>	<b>6,900</b>	<b>0</b>	<b>6,900</b>
<b>TOTAL</b>	<b>460,290</b>	<b>304,636</b>	<b>75,001</b>	<b>379,637</b>	<b>365,855</b>	<b>97,303</b>	<b>463,158</b>	<b>431,534</b>	<b>36,387</b>	<b>467,921</b>

**Ken Skates AC/AM**  
**Ysgrifennydd y Cabinet dros yr Economi a'r Seilwaith**  
**Cabinet Secretary for Economy and Infrastructure**

**Agenda Item 4.1**



**Llywodraeth Cymru**  
**Welsh Government**

Russell George AM/AC  
Chair of Economy, Infrastructure & Skills Committee

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26 October 2017

Dear Russell

Thank you for the opportunity to present evidence to the Committee about the ways in which the Welsh Government sells Wales to the world. I welcomed the chance to showcase the excellent work that we have done to ensure that Wales is at the forefront when it comes to promoting tourism, trade and investment.

During one of the questions about the Department for International Trade's (DIT) involvement in Welsh inward investment projects, the conversation strayed on to working with DIT to promote Wales as part of the GREAT campaign and I didn't have the opportunity to complete my answer. I would like to set out my response to the original statement in order that the Committee can take an informed approach to the final report.

I understand that DIT has made an assertion to the Committee that it has a level of involvement in the majority of our inward investment projects. The high levels of involvement quoted by DIT relate to the method in which DIT's Hub function in London records projects from across the UK regions and DIT's assertion overstates its involvement when compared with our records.

All of the Devolved Administrations have signed a Memorandum of Understanding with DIT to enable us to access its resources, especially in markets where we do not have an overseas presence. This MOU requires us to record our inward investment projects with DIT and, in turn, the information associated with these projects is reported at both UK and regional levels in DIT's annual report.

DIT does not discern between the practical advice and support that it provides to companies (and/or delivery partners) and the administrative processes it uses to capture details of the project on its database. All of these support mechanisms are defined as involvement. This means that when DIT processes the project data we provide, it automatically registers the administration of the project as having benefited from DIT involvement. This means that, even when a company has approached Wales directly and worked solely with my officials to bring an investment into Wales, DIT's administrative processing of the data associated with the project counts as involvement, when clearly it hasn't been involved. This is also the case when a company that is already in Wales, and being account managed by the Welsh Government, expands its presence and we report this expansion to DIT.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

My officials have voiced their concerns on a number of occasions over the last five years about this as we believe that it is an artificial representation of DIT's involvement, not just in Wales but across the Devolved Administrations. However, DIT remains committed to its assertion that this is an accurate way of recording its involvement and the terms of the MOU require DIT to record in this way.

Whilst I am not aware of the figure quoted by DIT to the Committee, I know that on previous occasions DIT has claimed involvement in more than 90 per cent of our projects. According to our data, if we just count the involvement where DIT has made a meaningful contribution to the delivery of the project, this figure is actually 26 per cent of all projects recorded by Wales in the past five years.

Clearly there are discrepancies between the ways in which DIT and the Welsh Government classify and record involvement in a project. This is not a new issue and, despite addressing this with DIT and its predecessor, UKTI, it appears to be a complex matter to resolve. I am satisfied that the way in which my officials record DIT involvement is a more meaningful measure.

I also mentioned during the evidence session that we have experienced a significant drop in the number of referrals that are being sent to us from DIT. Again, this is disappointing and shows how DIT's support can be seen as lacking on occasion with a perceived focus on other regions of the UK. At one point during the last financial year, our referrals from DIT were down by 60 per cent in a year on year comparison.

Of course, despite the fall in referrals, I welcome the support that DIT's overseas offices provide. This network, especially in markets where we do not have a presence, has proved to be a valuable resource that we are able to access. I have no doubt that without access to this resource our success in attracting new inward investment projects would be affected.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Skates', written in a cursive style.

**Ken Skates AC/AM**

Ysgrifennydd y Cabinet dros yr Economi a'r Seilwaith  
Cabinet Secretary for Economy and Infrastructure