

Date: 31 October 2001
Time: 2.00 – 5.30pm
Venue: Committee Room 1, National Assembly Building, Cardiff Bay
Title : **RESPONSE TO THE DRAFT BUDGET PROPOSALS FOR 2002-03 AND FUTURE YEARS**

(A Paper from the Economic Development Minister)

Purpose

1. To inform the Committee's discussion of the Government's Draft Budget.

Summary

2. The budget proposals support the themes of A Winning Wales and focus on innovation, entrepreneurship, internationalisation and ICT infrastructure. In addition, there are new resources for the WDA for site development and the WTB for the marketing and development of tourism in Wales.

Timing

3. The Finance Minister announced the draft budget on 18 October. This is an opportunity for the Committee to discuss the budget proposals before the Government's discussion of the Final Budget on 6 November.

Action for the Committee

4. The Committee should note the Draft Budget and use the paper to inform its discussion of the proposals. The Committee's response to the Draft Budget proposals should reach the Economic Development Minister by 2 November.

Compliance

5. The Committee is being consulted on the Draft Budget in line with the requirements of Standing Order 19. There are no issues of compliance associated with this paper.

Point for Contact

ECONOMIC DEVELOPMENT MEG – DRAFT BUDGET OCTOBER 2001

Introduction

1. This was a not a Spending Review year. The Government of the Assembly has nevertheless made available significant additional resources from reserves and underspends across the Assembly in previous years to support policy priorities. Details of the budget can be found at <http://www.wales.gov.uk/themesbudgetandstrategic/content/budget2001/index.htm>

2. Across the Assembly, the overall funding to promote economic development either directly or indirectly will be at least £1.6 billion next year; this is scheduled to increase to £1.8 billion by 2003-04.

3. The Economic Development MEG baseline is scheduled to increase by almost £50 million in 2002-03 compared to the 2001-02 baseline. In addition there are significant resources for economic development included in the Rural Recovery Plan and the Corus regeneration package.

4. However, even this huge annual investment understates the total resources available to support A Winning Wales: for example, spending on agricultural support and by local authorities is not included.

Key points of Draft Budget

5. The additional provision will support the emerging messages from work on finalising the National Economic Development Strategy and focuses on 4 key areas:

a) Innovation

	01-02	02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total
SMART Wales	3,352	3,352	648	4,000	3,352	648	4000
Innovation Design & Technology	1,759	2,259	1,300	3,559	3,759	1,300	5,059

Projects in Pathway to Prosperity Fund	1,450	650	600 (from EYF)	1,250	1,250	0	1,250
Total	6,561	5,151	2,548	8,809	8,361	1,948	10,309

6. The draft budget recognises that businesses in Wales need to become more innovative. I have therefore increased resources available to support the Regional Technology Plan. As well as resources in the Economic Development MEG, these also include support for academic/industry links from the Education and Life-long Learning Research Development Fund and from the WDA's activities using its own resources

7. There are many excellent programmes sponsored by Assembly to support innovation and academic/industry links including:

- Innovation grants to SMEs - SMART Wales
- Advice on use of new technology - Innovation and Technology Counsellors and Know-How Wales
- Advise on how to get to the prototype stage - Design Wales
- Company-college links – Teaching Company Scheme, Colleges and Businesses in Partnership scheme, and Centres of Excellence Project

8. The draft budget provides an additional £2.5m (including £600k from resources carried forward) for innovation next year and £2m in subsequent years. In addition, £800k is new this year is to support Inventors Clubs and the Innovation Credits scheme.

9. Including the new resources this year, direct investment in this area will increase from £5.7m to £10.3m in 3 years. I am considering how the additional resources in the Economic Development MEG can best be used to support the Regional Technology Plan, which is a Partnership commitment.

b) Entrepreneurship

	01-02		02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total	
Enterprise Development and Support	750	1,750	(+2,000 from RRP)	3,750	1,750	(+2,000 from RRP)	3,750	
Business Birth Rate Strategy			1,000	1,000		4,000	4,000	

10. Wales has a lower rate of business start-ups than the UK average. This is why the

Partnership Agreement gave a commitment to introduce a Business Birth Rate Strategy. This Strategy will provide help to small businesses to start up and grow and is an essential and integral part of Entrepreneurship Action Plan. The draft budget provides an additional £1m in the first year and £4m in subsequent years to support the Business Birth Rate Strategy. It will take some time for services to become fully operational.

11. A Task and Finish Group has been looking at the support needs of small businesses across Wales. I expect shortly to announce a new Enterprise Support Grant. Baseline provision already includes a £1m increase for 2002-03 and subsequent years to fund this new grant. This will be topped up with £2m a year for first 2 years from funding for the Rural Recovery Plan.

12. This is not the total available to support small business start up and grow. There is also the funding for Training and Enterprise Support in the Education and Life-Long Learning MEG and the range of schemes in Finance Wales. Finance Wales is Wales' own user friendly development banking institution and will shortly have access to Objective One funding which, with match funding, will more than double the resources it has available to help SMEs.

c) Promotion of Wales overseas

Promotion of Wales Overseas

	01-02	02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total
International Trade	5,066	6,066	434	6,500	7,066	600	7,666
International Relations	1,104	1,104	246	1,350	1,104	305	1,409
Misc European Support Services	400	400	50	450	400	50	450
Total	6,570	7,560	730	8,300	8,560	955	9,515

13. The Wales World Nation initiative has got off to a flying start with specially developed promotional material on Wales, judged by many to be the best in the UK. We must keep the momentum going to establish Wales' own clear identity. We also need to strengthen our existing overseas trade links and develop new ones if we are to meet our ambitions in betterwales and Plan for Wales. And the need for internationalisation of companies in Wales will be an important message in the National Economic Development Strategy.

14. WalesTrade International is doing an excellent job. Its overseas trade programmes so far this financial year have identified £84m of trading opportunities, of which £31m have been converted to firm orders. The additional funding will allow enlargement of WTI's

internationalisation programmes, focusing in particular on first time exporters, and will strengthen its overseas representation. The additional resources will also support additional activities in Europe and help strengthen Wales' presence in EC.

15. Overall funding in this area will increase by nearly 50% in the next 2 years. Between them, WTI activities and the Wales World Nation initiative are successfully working to improve the promotion of Wales overseas.

d) ICT Development and Support

	01-02	02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total
Broadband telecommunications	0	0	6,000	6,000	0	6,000	6,000
Public sector network	0	0	1,750	1,750	0	3,250	3,250
All Wales network of ICT Support Centres	0	0	750	750	0	750	750
Total	0	0	8,500	8,500	0	10,000	10,000

16. The Finance Minister announced on 15 October additional resources for local authorities to support the development of e-Government. In her budget statement, she then announced further funding in this financial year to support the introduction of broadband access to each local authority. The additional funding in the draft budget is to support the running of these projects and for their future enhancement.

17. All projects which are being funded are very much in line with Cymru Arlein Online for a Better Wales, the WDA's Analysis Report on Ubiquitous Telecommunications Infrastructure, and the supply and demand issues being addressed as part of the provision and take up of broadband across the UK. A digitally inclusive E Wales will help meet the Assembly's equal opportunities, sustainable development and social inclusion commitments.

- **Broadband Telecommunications and Public Sector Network**

18. £18.4m is to be spent in the current financial year on creating a Lifelong Learning Network. This has been announced at the earliest opportunity to enable links into current local authority plans for infrastructure and hence to retain the flexibility to meet local needs. In addition, £7.75m in 2002-03 and £9.25m in 2003-04 will support the Network and drive forward aggregation of public sector demand. Much of the £2.6m DTI money announced last week will

be used as part of this plan to provide "last mile" connections in rural areas

19. From an SME perspective, in the short term only those businesses that need very high-speed connectivity to the Internet are going to benefit from the cost savings associated with having additional Points of Presence in Wales. However, the project will be scaleable in the longer term to enable provision of broadband to businesses as well as public sector.

- **All Wales Network of ICT Support Centres**

20. The new funding is provide a secure core funding the All Wales network and to ensure its long term future. The Support Centres are a valuable source of impartial advice for businesses looking for help and guidance to get on the e-business ladder. The network is offered and co-ordinated on all Wales basis therefore ensuring that **all** our businesses can access the services offered.

21. The Support Centres are fully integrated into the overall Business Support Centre network in Wales with many actually co-located at Business Connect sites. They are fully involved in projects such as Wales SME Business and OpportunitE Wales, and the services they offer complement these projects.

Additional Funding for WDA

a) WDA - Capital Expenditure

	01-02	02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total
Capital Expenditure BEL	66,742	46,674		46,674	50,321		50,321
Llanidloes Access Road			800 from EYF			1,600 from EYF	
Advance site development			13,100 from EYF				

22. A new access road to Llanidloes industrial estate will ease traffic problems caused by heavy lorries having to go through the town and will allow direct access for heavy lorries from A470 trunk road. This will not only save the nuisance and problems for residents but also make the industrial estate a more attractive location for companies thereby contributing to the economic recovery of an extensive sub-region of Mid Wales.

23. There is a scarcity of appropriate property in the right place to allow maximum development of knowledge based projects. If these are not available, it is more difficult to attract investors that are essential for the future prosperity of Wales. This additional funding will allow the WDA to bring forward several sites to attract new knowledge-based developments in Wales, and will speed up the rollout of further Technium centres across Wales.

b) WDA – current expenditure

	01-02	02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total
WDA current expenditure	170,482	151,568	700	152,268	148,294		148,294
Broadband Wholesaling			300 from EYF				
Structural funds partnership			1,810	1,810		1,878	1,878

24. Currently, SMEs buying broadband access cannot achieve adequate discounts and we need to establish way of achieving an economy of scale. There is an additional £1m next year (£0.7m new provision and £0.3m EYF) to pump prime a block purchase of broadband access for selling on to SMEs, with the WDA acting as a wholesaler. This would allow SMEs in certain areas to gain much more economic access to broadband and to help them use the Internet to make their businesses more competitive. We recognise that legal and regulatory issues will need to be properly explored before this can come to fruition but are very hopeful these can be overcome.

25. There is a need to actively support Regional Partnerships set up for structural funds programmes if we want to maintain the momentum of the European programmes. We have asked WDA to provide support to many of them. The additional money for this will ensure the WDA is properly funded to give the right support to the partnerships it sponsors.

Additional support for tourism

	01-02	02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total
WTB SEG	20,386	20,536		20,536	21,890		21,890
From EYF			2,200	2,200			

26. The tourism industry in Wales has been affected by Foot and Mouth disease and recent

events may also affect the number of overseas trips to Wales. Tourism is essential to Wales and the draft budget provides an additional £2.2m in 2002-03 from EYF to allow increased marketing and development of tourism in Wales. This is on top of the already sharp increase in the Board's budget and the extra resources available through Objective One.

Regional Selective Assistance

	01-02	02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total
RSA	44,551	48,933	-4,382	44,551	61,151	-16,000	44,551

27. RSA is the main source of financial assistance to industry. A recent independent evaluation showed RSA provides value for money and remains an important tool in attracting inward investment to Wales. Expenditure each year is demand led and depends on companies' progress in meeting job and expenditure triggers.

28. RSA applications and the number of offers we are making are at record levels this year. This augurs well for the future and shows companies' intentions to invest in Wales. Officials are working closely with companies for both existing and new projects to offer maximum support to ensure maximum investment and job creation in Wales.

29. The changes proposed in the draft budget are designed to bring provision in line with expected outturn for this year and the actual outturn for the previous 2 years. The Finance Minister in her statement has reiterated the Government's commitment to ensure that no worthwhile project is turned down on basis of resource availability. If RSA expenditure in any particular year exceeds the provision available, we will ensure additional funds are found to meet the increased commitment. We are re-categorising it more appropriately as the demand-led service for industry it has become.

Structural Funds

	01-02	02-03			03-04		
	Plans	B'line	Change	Total	B'line	Change	Total
ERDF	92,621	99,221		99,221	110,051		110,051
ESF	33,000	58,000		58,000	58,000		58,000
European Structural funds Programme Support	718	779		779	779		779
FIFG	800	1,300		1,300	1,470		1,470
EAGGF	8,100	11,200		11,200	12,400		12,400

30. The agreed budgets will achieve the N+2 target for 2000-2006 Programme and therefore will avoid any decommitment problems. The agreed budgets will also ensure funding available to complete Pre-2000 Programmes. These budgets will fund projects to develop the skills and the potential of the people of Wales and to increase the growth and prosperity of the economy in Wales. These expenditure plans put us at the forefront of European Structural Funds spend in the UK.

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