

Date: 12 June 2002
Time: 14:00 to 17:30
Venue: Committee Room 1, National Assembly for Wales, Cardiff Bay
Title : BUDGET ISSUES PAPER (A paper from the Economic Development Minister)

Purpose

1. To assist the Committee in its consideration of advice on priorities for the 2002 budget planning round for budgets in the Economic Development MEG.

Summary

2. The attached paper provides a summary of the economy and performance in 2001-02 and contains links to more detailed information. It lists my proposed priorities for the 2002 budget planning round and reports on the issues raised in the Finance Minister's commissioning letter of 21 May.

Timing

3. The Committee has to respond to the Finance Minister's letter by 16 July, outlining its priorities for the 2002 budget planning round.

Action for the Committee

4. The Committee is invited to use this information to inform the discussion of budget priorities for future years.

Contact Point

5. EDD Business Unit ICM3-David Hobbs

ECONOMIC DEVELOPMENT MEG: CONSIDERATION OF PRIORITIES FOR THE 2002 BUDGET PLANNING ROUND

The Economy

UK has:

- Most favourable tax regime for small businesses in any advanced industrial country
- Lowest effective corporation tax rate in G7
- Lowest interest and inflation rates for a generation

Wales has:

- Unemployment in recent months lowest since mid 70s
- 35,000 more jobs since December 1998

1. Evidence continues to point towards a global recovery after the slowdown during 2001. There are increasing signs of optimism in the largest economies (excluding Japan) though the pace of recovery in the US may not be as quick as hoped. The outlook for the UK appears good though the last two quarters growth data has been sluggish. The labour market continues to perform well and inflation remains within the target range. Prospects for the manufacturing sector look better than for some time. The service sector continues to perform well.

2. Nevertheless, on top of the Corus job losses announced in February 2001, there have been significant high-profile announcements of job losses in 2001-02 for companies such as Solectron, Hitachi, Bosal, NTL, Corning Optical Fibre, Sony, GEAES, Alcan, Airbus Industries, ESM and Cray Valley.

3. Despite these losses, Wales had the largest fall in ILO unemployment of any region in the UK over the year to March 2002. In the year to April 2002, the claimant count rate fell faster in Wales than in any other UK region. Unemployment is extremely low by historical standards (comparable with mid 70s). The small falls in the activity rate and in employment are well within the margins of error for the data.

4. Over a slightly longer time frame, there has been an encouraging rise in employment: between December 1998 and December 2001 there were 35,000 more employee jobs in Wales – within this total service sector jobs rose by 54,000 while manufacturing fell by 17,000 (all net figures).

5. However, to make further progress to achieve a more prosperous Welsh economy, the main challenges are:

- Reducing economic inactivity; and

- Improving productivity through encouraging innovation and enterprise.

6. Key drivers here are: the skills of our workforce; releasing the potential of our businesses, universities, communities, individuals; and information and communication technologies. Communities will only thrive if we have innovative individuals and businesses within them.

7. For more information see the reports presented to Economic Development Committee on 8 May.

Quarterly Economic Report

http://www.wales.gov.uk/newsite.dbs?37D6A7190007D619000011ED00000000+current+3CE3D274000B241C0000153200000000+cur_date+05_2002

Quarterly Statistical Bulletin http://www.wales.gov.uk/newsite.dbs?37D6A7190007D619000011ED00000000+current+3CE3D287000BE7F10000153700000000+cur_date+05_2002

A Winning Wales - A Modern Economy

8. Following public consultation, A Winning Wales was approved by Plenary on 13 December 2001 as the national economic development strategy for Wales: <http://www.wales.gov.uk/themesbudgetandstrategic/content/neds/index.html> .

9. As Economic Development Minister, my main function is to ensure delivery of the vision of the future Welsh economy contained in A Winning Wales (see Annex A), which was finalised and launched after the publication of the Plan for Wales. We are implementing the action plan set out in A Winning Wales, the main aims of which are:

- Encouraging innovation
- Encouraging entrepreneurship
- Developing the Learning Country
- Promoting ICT
- Supporting businesses

- Setting a fresh direction
- Establishing Wales in the World
- Creating strong communities
- Supporting Rural Wales
- Improving the Research base

10. This I will achieve through:

- Working closely with other Ministers in the Welsh Assembly Government
- Ensuring maximum benefit to Wales from the Structural Funds programmes
- Programmes developed and delivered by Economic Development Department and its partners in Team Wales and other Assembly Departments, including support for the European Structural Funds programmes.
- Effective Sponsorship of Economic Sponsored Bodies

Progress with Implementing A Winning Wales

11. Implementation of A Winning Wales is being taken forward on a project management basis with Team Wales. An Annual Report will be produced each year, with six-monthly updates.

12. Considerable progress is being made with the Structural Funds programmes and, as the recent Welsh Affairs Committee report confirms, Wales compares well with other UK regions in implementing Objective One. The key achievements are as follows:

| | Objective 1 | Objective 2* | Objective 3 |
|-----------------------------|--------------------|---------------------|--------------------|
| Number of Projects Approved | 533 | 25 | 273 |
| Value of Grant Committed | £320.2m | £2.4m | £28.4m |
| % of total Grant Committed | 28.1% | 3.2% | 34.8% |
| Amount of Grant Paid | £89.0m | £0.2m | £10.0m |

**The Objective 2 SPD was approved a year later than the programming documents for Objectives 1 and 3*

13. For other programmes funded by the Economic Development MEG, I gave a list of key achievements for 2001-02 to the Economic Development Committee on 22 May:

14. In summary, 2001-02 was a very successful year for the Assembly's economic development programmes. Excellent progress was made by WEFO on the Structural Funds programmes, record numbers of offers of Regional Selective Assistance were made and significantly higher numbers of jobs created and safeguarded by Regional Selective Assistance (RSA), the Welsh Development Agency (WDA) and the Wales Tourist Board (WTB). End year reports for RSA, the WDA, WTB and WEFO will be presented to the Economic Development Committee shortly.

Funding Provision for Economic Development

15. Expenditure across the Economic Development MEG was up over 70% last year, showing the importance the Welsh Assembly Government places on economic development. The biggest increase was on the Structural Funds Programmes, with expenditure beating expectations. However, expenditure on other Assembly Government economic development programmes was up by over 50%.

16. Expenditure for the Economic Development MEG for 2000-01 and 2001-02, and planned provision for 2002-03 to 2004-05 are shown in Annex B.

Priorities for the 2002 Budget Planning Round

17. To be successful in this I believe we need to concentrate on the following priorities:

a) Structural Funds Programmes

18. The main priority of this spending review is to ensure adequate levels of funding for the Structural Funds programmes, so as to gain the maximum benefit for Wales. In the 2000 Spending Review, the Welsh Assembly Government was able to secure additional funding for Wales over and above the usual Barnett formula arrangements to ensure Wales was not disadvantaged by the additional expenditure on the European programmes. We are endeavouring to ensure a similar successful outcome for Wales in the current review.

19. Match funding for these programmes is, in the first instance, the responsibility of the applicant and this ensures local ownership of, and commitment to, the project. The various sources of match funding include local authorities, ASPBs, the voluntary sector, Assembly Government schemes, lottery funding and the private sector. The Assembly Government has also made specific match funding available to support projects where no other source of match

funding is available. The Assembly Government will keep the match funding position under review to ensure no worthwhile project is rejected for lack of public sector match funding.

b) Infrastructure and Skills

20. To achieve the goals and vision set out in A Winning Wales; we have to ensure that:

- The appropriate infrastructure is in place to support the type of businesses we wish to develop
- The people of Wales have the necessary skills for the types of businesses that will produce the diverse, dynamic, added value economy we are encouraging

21. I will support bids put forward by other Ministers that will help promote economic development, as a priority for additional expenditure in this budget planning round. In this context, as part of our 'Establishing Wales in the World' objective, I will be supporting proposals for a National Events Strategy for Wales, to maximise the benefits from our major events e.g. the Ryder Cup 2010.

c) e-Solutions and Implementing Cymru Arlein

22. On ICT, we must continue to make progress with the Lifelong Learning Network and making broadband services accessible to all in Wales. My second priority for the Economic Development MEG will be to secure funding to enhance the available connectivity in Wales

d) Creating Strong Communities

23. I will continue work with Cabinet colleagues to encourage the development of the social economy and to support the further development of the Credit Union movement. My main priority here will be the establishment of a Community Development Financial Institution to ensure Wales gains the maximum benefit from the new Community Investment Tax Credit.

24. I will work with Cabinet colleagues to ensure regeneration funds are used to best effect in support of Communities First, and to ensure adequate resources are available to continue the implementation of the Corus response plan.

e) Encouraging Innovation and Entrepreneurship

25. With regard to the Economic Development Department, I shall focus on the improvement of business support services and on measures to encourage innovation and entrepreneurship.

26. My priorities for the budget round will be to ensure adequate funding for future years for the

Regional Centre of Manufacturing Excellence, the Technology Commercialisation Centre, and the Genetics Knowledge Park. Developments such as these are essential to our ability to develop a value-added, knowledge-driven economy in Wales.

27. I will need to address the level of additional funding required in future to enhance support for innovation and research and development activity based in, or substantially exploited in, Wales. As part of the implementation of the recommendations of the Business Support Review, the SMART Wales innovation grants schemes were transferred to the Welsh Development Agency. In line with one of the main commitments in A Winning Wales, I will come forward with proposals for a more focused and joined-up framework for innovation support, including:

- Strong marketing of the Research and Development tax credit solution
- An enhanced field-force to support businesses in innovating;
- A revised and enhanced innovation assistance scheme based on SMART Wales and the other innovation activities undertaken by the Welsh Development Agency

28. I will also focus on increasing the birth rate of new businesses and looking at ways in which we can encourage potentially successful businesses to grow and prosper in Wales. The new Assembly Investment Grant has got off to an excellent start with a great deal of interest in the small business community. A priority must be to ensure adequate funding for this scheme in future years as the uptake of grant increases.

29. Funding was given in the last budget for a new business birth rate strategy as part of the Entrepreneurship Action Plan. I will monitor progress of this in supporting businesses to be established and to grow.

30. Where necessary, I will re-prioritise my budget to achieve the outcomes needed in the areas of innovation, enterprise and work to reduce inactivity. I will also identify ways of increasing the contributions of all the relevant business support measures, including RSA, to the innovation agenda.

f) Improving the Research Base

31. Following the recommendations in the EDC's Review of Business Services, the Assembly Government has established an Economic Research Advisory Panel. The Panel met for the first time on 7 June and an early task will be to agree its research programme for the first 12-18 months. It is apparent that we need more information on the state of the Welsh Economy, and the interactions within it, if we are to develop more evidence-based programmes. This will require additional funds over and above the current baselines.

Issues for consideration

Sustainable Development

32. This year issues related to sustainable development have very much been at the front of the economic development agenda and A Winning Wales clearly sets out the vision for "Setting a Fresh Direction" in its action plan. The Economic Development Committee is currently carrying out an energy review and I made a statement recently in Plenary about future energy policy.

33. We submitted, and got approved by the EC, a Regional Plan for Innovative Actions to help take forward the sustainable development agenda. We established Carbon Trust Wales and made a significant contribution to the Carbon Trust UK's development plan to utilise funds raised by the Climate Change Levy. A major conference on Business and the Environment was held in 2001-02 and an increased number of businesses introduced environmental management systems.

Social Deprivation

34. The policies and programmes funded by the Economic Development MEG are focused on the most disadvantaged areas. The Objective One programme, the WDA and RSA concentrate on creating and sustaining employment in West Wales (both North and South) and the Valleys. By increasing available employment in these areas, and by increasing the opportunities for better quality jobs through programmes for innovation and enterprise, our economic development activities will reduce inactivity and increase the wealth and well being of Wales. The development of a framework for the social economy will help to highlight the contribution which that sector can make to tackling economic deprivation.

35. I am also working with Cabinet colleagues to secure the regeneration of the communities most affected by the run down of Wales' traditional heavy industry, and to help those individuals who have lost their jobs to quickly re-enter employment.

Equality

36. Within the action plan for A Winning Wales, one of the main action points is to extend programmes that provide equality of opportunity for all. I am fully committed to the development of employment opportunities in Wales that are truly open to all. We have successfully attracted projects in the service and knowledge based industries. This has increased the number of jobs where flexible working arrangements are possible and where employment is available to anyone with the right skills or ability to learn those skills.

37. Equality of Opportunities is a crosscutting theme for all of the Structural Fund programmes, and WEFO has set up a Unit to promote awareness and encourage projects to consider equality of opportunities. The Structural Funds programmes also have an element of funding aimed specifically at increasing equality of opportunity. Included in this is the EQUAL programme. Within mainstream budgets, the WDA works with Chwarae Teg and is working to ensure that the "Potentia" diversity programme becomes part of its everyday business activities. This year, with Education colleagues, we will support a third round of projects under the Work-life Challenge Fund.

Simplification

38. The Business Support Review made a series of recommendations for improving support to businesses in Wales. Implementation of the agreed recommendations is currently under way and I expect improved and simplified arrangements to be in place in the next few months.

39. For example, in 2001 simplified arrangements were introduced for small case RSA ensuring companies are able to claim grant payments in a much less bureaucratic and more timely way. Then in March 2002, the new Assembly Investment Grant was launched offering easier access to funds to encourage investment in small companies across Wales.

40. I have already mentioned my intention to come forward with proposals for a more focused programme of innovation support and will continue to look for ways in which business support can be further improved and simplified.

Delivery

41. Implementation of A Winning Wales is being taken forward on a project management basis with Team Wales. As part of this, I will ensure closer and more joined-up working to improve the delivery of support to individual companies.

42. Five year reviews of the WDA and of WIDAB (Welsh Industrial Development Advisory Board) have been recently carried out. The first stage of a review for the Wales Tourist Board has also been undertaken. These reviews concluded that the ASPBs should continue. There were some recommendations for improvement; these are being considered.

43. Independent UK reviews of RSA and SMART were completed in the last 2 years. Both concluded that the schemes continued to provide value for money. SMART will be further considered this year as part of proposals I will bring forward on improving innovation support. I will also consider whether RSA could be developed to better serve the needs of Wales and provide support for taking forward the Assembly's goals.

Conclusions

44. My spending priorities for the 2002 budget planning round for the Economic Development MEG, in priority order, are:

1. The Structural Funds programmes
2. Enhanced broadband connectivity
3. Creating strong communities
4. Support to encourage innovation and enterprise
5. Improvements to the research base.

45. I will also strongly support bids by Cabinet colleagues to improve skills or infrastructure in line with the goals and vision in A Winning Wales.

Annex A

A Winning Wales - Successful Outcomes For 2010

Employment

- 135,000 increase in employment (employed plus self-employed) with particular emphasis on communities and groups with low participation rates.
- As part of total increase, employment in financial and business services to increase by 20,000.

Encouraging Innovation

- Increase business R&D expenditure to more than 1% of Welsh GDP

Encouraging Entrepreneurship

- Raise the stock of Welsh businesses to achieve the UK average level of VAT-registered businesses per 10,000 people aged 16 and over.

The Learning Country

- The proportion of adults of working age without qualifications to reduce from 1 in 4 in 1996 to 1 in 10.
- The proportion of adults of working age with a Level 4 qualification to increase from 1 in 5 in 1996 to over 3 in 10.

Promoting ICT

- Increase the proportion of Welsh businesses using e-commerce to the UK average.

Wales and The World

- At least match the UK export growth rate over the period.
- Tourism expenditure in Wales to increase by an average of at least 6% per year over the period.

Complementary Measures

- Household disposable income to increase to 95% of UK

Annex B

ECONOMIC DEVELOPMENT MEG: EXPENDITURE FOR 2000-01 AND 2001-02, AND PLANNED PROVISION FOR 2002-03 TO 2004-05 *

| | £m | | | | |
|-------------------------------------|----------------|----------------|--------------------------|-------------------------|-------------------------|
| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 |
| ECONOMIC DEVELOPMENT MEG | Outturn | Outturn | Planned Provision | Indicative Plans | Indicative Plans |
| ICT Advice Infrastructure | | 4.0 | 11.2 | 10.0 | 10.0 |
| Other Economic Development | 0.6 | 0.4 | 0.6 | 0.6 | 0.6 |
| Pathway to Prosperity Fund | 2.7 | 13.7 | 21.8 | 20.5 | 20.5 |
| Rural Recovery Plan | | 8.6 | | | |
| RSA & Other Business Support | 45.3 | 65.0 | 59.6 | 65.7 | 65.7 |
| Wales Tourist Board | 16.4 | 23.8 | 20.7 | 21.9 | 21.9 |
| Welsh Development Agency | 106.2 | 161.2 | 202.0 | 205.8 | 205.8 |
| WEFO – European Funding | 67.5 | 156.0 | 203.9 | 216.3 | 216.3 |
| Cardiff Bay Development Corporation | 17.9 | 11.7 | 16.0 | 15.8 | 15.8 |
| TOTAL | 256.6 | 444.4 | 535.8 | 556.6 | 556.6 |

* Resource Accounting and Budgeting

The figures for 2000-01 and 2001-02 are shown on a cash basis. For 2002-03 onwards, the figures are on a resource basis. The change reflects the UK Government's move to a resource-based system of public expenditure planning and control. This reflects the true costs of services and relates the costs to the year in which they are incurred.

Main Differences Between Cash and Resource Budgeting

- **Cash** payments and receipts score in the financial year that they occur, rather than the year they relate to if it is different.
- Budgeting on a **resource** basis takes account of depreciation, cost of capital, losses on the sale of assets, provisions for bad debts and accruals associated with debtors and creditors.

The impact on Economic Development MEG budgets is in the WDA budget, with an increase of £41.9m in 2002-03 reflecting the true cost of WDA operations. Although this is now included in the Assembly's budgets, it does not represent an increase for WDA programmes.