



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

Edwina Hart AM
Minister for Economy, Science and Transport
Welsh Government

23 October 2014

Dear Minister,

Welsh Government Draft Budget Proposals 2015–16

Thank you for attending the meeting of the Enterprise and Business Committee on 16 October as part of our scrutiny of the draft budget proposals for 2015–16 and providing the information we requested for this meeting in our letter of 24 July. We were pleased to see the detail on individual budget expenditure lines in Annex A, which greatly facilitates our work, along with the six-monthly update in Annex C, which you agreed to provide during last year's discussion on the budget.

As in previous years, the Committee has focused its scrutiny on prioritisation and value for money. These elements of the budget are particularly important in the context of the substantial reductions being made in some areas. We make a number of recommendations below and ask that you respond to the Committee on these points.

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This letter is being copied to the Chair of the Finance Committee and, along with your reply, will be published on our website.

Revenue Reductions to the Economy and Science Budget

Aside from the loss of the UK budget consequential that supported business rate schemes, a further £16.5 million of economy and science revenue reductions are identifiable in your paper. When asked how you had prioritised your commitments in terms of these reductions, you told the Committee that you had tried to protect funding streams relating to employment and tackling poverty.

1. You offered to provide a note on how you are seeking to maximise use of EU structural funds and private investment to reduce the burden on your departmental budget.

The revenue allocations for economy and science in 2015–16 show a net **reduction of £27.4 million** on the 2014–15 supplementary budget baseline. This amounts to a **decrease** of 25.3% in real terms. Part of this reduction is accounted for by the £17.4 million the Welsh Government received in 2014–15 as a UK budget consequential to support business rates schemes, which increased the budget for that year only. However your paper identified a further £16.5 million of reductions in the economy and science revenue allocations (owing to a baseline reduction of £8.144 million identified in the indicative plans for 2015–16) and a further baseline reduction of £8.4 million in 2015–16 ‘as a result of a prioritisation of portfolio budgets across Welsh Government’.

You told Committee about some of the savings that you had found in order to make these cuts—for example, a reduction of £500,000 in the ‘running costs’ of Finance Wales.

2. We would like to know more about the mechanisms your department use to identify savings in a systematic way on an ongoing basis. We would also like a note that shows precisely how the £16.5 million reduction in the economy and science revenue allocations has been achieved, and identifies whether the reductions have been achieved through efficiency savings or reductions in funding. We would also be interested in your assessment as to whether any of the current savings could have been made earlier.

Wales Economic Growth Fund

You mentioned the Wales Economic Growth Fund, which has seen its budget reduced to zero despite the fact that it was designed to help create jobs and tackle poverty. You told the Committee that, for any future programmes in these areas, you would ask for central funding for specific businesses. You also mentioned that you had undertaken a review of the Wales Economic Growth Fund.

3. We would appreciate further information on the extent of support that might be available from the centre for projects that might previously have been funded through the Wales Economic Growth Fund. We would also like to receive a copy of the review that you have undertaken of the Wales Economic Growth Fund.

City Regions and Enterprise Zones

We asked you about the allocations that had been made to City Regions and Enterprise Zones and how you assessed their effectiveness.

4. We look forward to the information that you committed to provide on the projects and expenditure to date within each of the Enterprise Zones, and request that you look at ways to present data on the performance and achievements of each Zone, in order to facilitate scrutiny.

Tourism and Major Events

We welcome your commitment to maintain the capital allocation of £2 million for tourism and note that the stakeholders we spoke to as part of our tourism inquiry found the Tourism Investment Support Scheme very useful. We also note that your budget for 2015–16 shows reduced revenue allocation for major events, ‘in line with spending priorities’.

5. You have agreed to provide the Committee with a breakdown of tourism projects that have been supported through TISS, in addition to those funded through other capital schemes. You also offered to provide a list of major events supported across Wales with details of their economic impact, including specifically the economic impact on Welsh businesses.

Broadband

The origin of the additional £10 million capital funding for Superfast Cymru remains unclear. You explained that £12 million had come from the UK Government, match-funded by the EU, towards ‘infill phase 1’ of Broadband Delivery UK.

6. The Committee would like clarification as to whether the £10 million of capital funding allocated to Superfast Cymru in 2015–16 is a change to the level of Welsh Government funding announced when the contract was awarded to BT in 2012. The Committee would also like further detail of the

funding allocated to and outcomes expected from the infill phase 1 project, the Welsh Government review of Superfast Cymru and the independent review of the work of Broadband Delivery UK. We would be interested in information about how broadband infrastructure schemes in Wales are linked to Enterprise Zones and inward investment.

Transport

The Committee notes that the preparation of the National Transport Plan is out of sync with the budget process, transport budget allocations having been made before the plan is complete. We also remain unsure how the Plan is evaluated in terms of its contribution to Programme for Government and Wales Transport Strategy objectives, as opposed to the assessment of individual projects and their impact.

7. We would like more information on how the National Transport Plan links with the budget-setting process and how the plan as a whole is evaluated in terms of its impact on the Wales Transport Strategy and Programme for Government. In addition, you have already agreed to send the Committee a copy of a report by the Public Policy Institute for Wales on approaches to strategic transport planning.

You told us about savings of between £3 million and £4 million that you had made in the road maintenance budget as a result of changing the inspection regime.

8. It would be useful if you could share with the Committee details of the savings made in the road maintenance budget as a result of inspection regime changes, including the nature of the changes and how this has generated the savings you referred to.

We note that Welsh Government guidance requires local authorities to give estimated costs and sources of funding for projects included in their Local Transport Plans. However, you indicated that this would not be practical in the National Transport Plan.

9. We would like a further explanation as to why it is impractical for the Welsh Government to provide estimated costs for projects under the National Transport Plan given that local authorities are asked to do so.

You agreed to clarify which budget would make provision for the costs of any legal challenge related to the M4 relief road. We look forward to that information but remain concerned about several other issues. When we wrote to you during the summer we asked that you provide details of any allocations in the draft budget for the M4 project around Newport. You explained at the meeting that £7 million of capital funding had been allocated to the M4 project for 2015–16, but this information was not in your paper. Given its scale and importance, we would also like more detail on your assessment of the long-term affordability of the project. We understand that you may have to work with the Minister for Finance to provide this information.

10. The Committee would like further information on how the M4 project will be funded and the basis on which you consider it to be affordable.

On the Active Travel (Wales) Act 2013, your paper refers to a role for the Minister for Natural Resources, but during the meeting you indicated that responsibility for this falls within your portfolio.

11. The Committee would like clarification of your role and that of the Minister for Natural Resources as regards the Active Travel (Wales) Act 2013.

Thank you once again for assisting the Committee in its scrutiny of the draft budget for 2015–16. We look forward to your response to the points raised in this letter.

Yours sincerely,

A handwritten signature in black ink that reads "William Graham". The signature is written in a cursive style with a large, sweeping initial 'W'.

William Graham AM, Chair, Enterprise and Business Committee

cc Jocelyn Davies AM, Chair, Finance Committee

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

Huw Lewis AM
Minister for Education and Skills
Welsh Government

Cynulliad
Cenedlaethol
Cymru
National
Assembly for
Wales



21 October 2014

Dear Minister

Welsh Government Draft Budget Proposals 2015–16

Thank you for attending the Enterprise and Business Committee meeting on 16 October and responding to the requests set out in my letter to you dated 24 July 2014 for information on preventative spending, key policies, prioritisation of Programme for Government commitments and provision for legislation.

The main focus of our budget scrutiny this year has been on budget prioritisation and value for money. Our scrutiny has also concentrated on whether your policies have contributed to achieving your three cross-cutting themes of jobs and growth, educational attainment, and supporting children, families and deprived communities.

The Committee has made a number of recommendations for your considered response.

We are also sending this letter to the Chair of the Finance Committee to inform that Committee's overarching strategic scrutiny of the Draft Budget. Both this letter and your response will be published on our website.

Committee's remit – Further Education

On a point of clarification it is worth noting that Further Education sits primarily within the remit of the Children, Young People and Education Committee, which has responsibility for scrutinising 14–19 learning. However, skills, vocational qualifications, adult community learning, and work based learning are all within the Enterprise and Business Committee's remit. Further Education is therefore relevant to this Committee's scrutiny in terms of its relationship with the skills agenda and the economy.

1. As the Further Education colleges are a key provider of work based learning the Committee would like further details about the impact that decreases in funding will have on the capacity of Further Education colleges to provide vocational courses.

2. We note from the Welsh Government Strategic Integrated Impact Assessment that learners aged 19+ will be more adversely affected than 16–18 year olds. The Committee has some concerns about the potential impact on the economy in Wales and the skills agenda and urges the Welsh Government to continue to consider the implications of its prioritisation of available funds.

Apprenticeships

In light of the decrease in funding for apprenticeships, the Deputy Minister and her officials estimated that the number of apprenticeship new starts will fall to a level of 17,000–19,000, from a peak of 28,000 in the academic year 2012/13. Concerns had been expressed from the National Training Federation Wales (NTfW) that new starts would fall by more than the Deputy Minister's estimated figure, but the Deputy Minister stated that the £5 million additional funds should make the estimate achievable.

3. We would like assurances that the Deputy Minister's figure of 17,000–19,000 new starts for 2015/16 has been accurately estimated and we seek clarification on how this figure will be monitored going forward.

4. The peak of 28,000 new starts recorded in the 2012/13 academic year far exceeds the number of new starts recorded in any other academic year since the apprenticeship scheme began. We would like clarification on whether a sustainable development appraisal was undertaken prior to the implementation of the Welsh Government's Apprenticeship scheme.

5. We would also like clarification on whether there is a contingency for additional funds if the estimated figure for new starts is not met in the 2014/15 or 2015/16 academic years.

6. We would like a breakdown of the estimated new starts for 2015/16 into the respective priority areas (Higher Apprenticeships and 16–24 year olds) and non–priority areas by sector.

Equality

We are concerned with the likely negative effects of the budget proposals on apprenticeships for those aged over 25 years, especially for female learners.

The Deputy Minister said that an equality impact assessment had been undertaken to evaluate the effects of the decrease in funding for apprenticeships in 2015–16. This assessment showed some gender equalisation in traditionally female dominated non–priority apprenticeships had occurred. However, there was little evidence to show any gender equalisation in traditionally male dominated non–priority apprenticeships.

7. We would like further details on how you propose to monitor and evaluate the impact of the budget proposals on the over 25 years of age cohort and the potential gender inequalities.

Jobs Growth Wales

The 2015–16 draft budget shows a decrease in funding for Jobs Growth Wales to £9.3 million. Your paper states that this will result in 15% or 600 fewer opportunities in 2015–16, although the Welsh Government target of providing 16,000 opportunities over 4 years has been met. During the budget scrutiny session the Deputy Minister said that the decrease in funding would result in fewer starts in 2015–16 and suggested some of these will be in-year (2014–15).

The Deputy Minister said in her evidence:

“we believe that the in-year cuts will cause around 1,000 fewer starts and around 600 otherwise; so, around 1,500 or 1,600.”

8. We would like clarification on the estimated number of fewer starts; how many of these are in-year 2014–15 and how many will be in 2015–16.

9. The Committee is interested in how the reduction in the number of opportunities will be applied to the different elements of the programme. We would also like a breakdown of the estimated number of fewer opportunities into the respective private sector, third sector, self-employment and graduate strands and clarification on whether any of these strands have been prioritised in the 2015–16 funding.

10. In addition, have any particular industry sectors been prioritised in terms of creating Jobs Growth Wales opportunities?

European Funding

The Deputy Minister said that discussions have been held with the Welsh European Funding Office (WEFO) and that they agreed to an increase in intervention rates that will lever in more money from European Structural Funds than would have otherwise been the case. The Deputy Minister said that a large scale review of European Social Fund projects had been undertaken which resulted in a refocusing of funds on certain projects.

11. The Deputy Minister agreed to provide further information on the potential for improved intervention rates that were re-negotiated with WEFO and we would also welcome further information on how European funds have been used to achieve greater value for money following the review of European Social Fund projects.

Work Based Learning in the Social Care sector

The Committee wishes to highlight the importance of developing the social care workforce and attracting young people in particular to work in the sector. The Committee is aware of action being undertaken in respect of co-investment between government and employers into post-19 skills and training but believes the 16 to 18 age group should also be targeted for Work Based Learning and apprenticeships in the social care sector. The Deputy Minister provided a positive response to the suggestion of working with Care Forum Wales on this issue and stated her commitment to develop discussions with Health and Social Care colleagues within the Welsh Government.

12. We would appreciate updates on any future discussions held with Health and Social Care sector organisations and within the Welsh Government on the issue of targeting the 16-18 age group for Work Based Learning and apprenticeships.

Higher Education

We are aware of the review currently being undertaken by Professor Sir Ian Diamond into Higher Education funding in Wales, as well as the Higher Education (Wales) Bill that proposes changes to governance.

13. We would still like further clarification on how the Welsh Government is ensuring and monitoring, with the Higher Education Funding Council (HEFCW), that the Minister's priorities for the Higher Education sector are being delivered, in particular post graduate study, research funding, STEM and expensive subjects and widening access initiatives and monitoring how value for money is being achieved.

Youth Entrepreneurship

The Ministers will be aware of the importance of Youth Entrepreneurship to this Committee having undertaken an inquiry and published a report on this topic in November 2013.

Although we appreciate that funding is in place, from the information provided by the Minister, there is no dedicated budget to support the Youth Entrepreneurship Strategy Action Plan.

14. We would appreciate further details on how the Welsh Government will ensure that Youth Entrepreneurship is prioritised in other budgets and how the impact on promoting Youth Entrepreneurship is evaluated.

Carers Wales

The budget for Careers Wales has seen a significant decrease of £10.5 million in 2015–16 (–34%) compared with the Supplementary Budget 2014–15. As a result of the budget proposals both you and the Deputy Minister have referred to the necessity for a change in the remit of Careers Wales with a refocus on web based and online services.

15. With Members’ concerns raised about a shift away from face-to-face services towards greater online provision, we welcome the Deputy Minister’s agreement to reassess the situation if demand for face-to-face services exceeds Welsh Government estimates.

16. We would like further details on how you propose to evaluate and monitor the impact of budget cuts on those groups that utilise Careers Wales services, especially with the refocus to web based and online services.

Thank you for assisting the Committee in our scrutiny work, and we look forward to receiving your response to the points raised in this letter as soon as possible.

Yours sincerely,

A handwritten signature in black ink that reads "William Graham". The signature is written in a cursive, flowing style.

William Graham AM
Chair, Enterprise and Business Committee

cc Jocelyn Davies AM, Chair, Finance Committee