

## Questions for the Cabinet Secretary for Economy and Transport

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1. **To understand how the draft budget provides for the delivery of the next rail franchise and Metro from October 2018:**
  - What is your view of the affordability of the next rail franchise given that the tender has been opened without agreement with the Department for Transport on the £1 billion of funding for the franchise which is currently in dispute?
  - During general scrutiny the Cabinet Secretary referred to “mitigating projects” being considered as a contingency if agreement is not reached. Can a potential £67m annual revenue shortfall in franchise funding be mitigated without significant loss of service?
  - What is the basis for decisions on budget allocations for Metro Phase 2 (electrification of the Core Valley lines)? Why has only £173m of a total Welsh Government capital requirement of £503m been moved from reserves?
  - How does the draft budget provide for the North Wales Metro? What allocations have been made and what will they fund?
  
2. **To understand how the draft budget provides highways investment, particularly the M4 relief road:**
  - Approximately £740m is held in capital reserves for the M4 relief road over the next three years. What is the basis for this allocation given the total project cost estimate of about £1.1 billion?
  - The draft budget includes £375m borrowing, although this funding is not reallocated, so that no borrowing has been specifically allocated for the M4 relief road project. How and when will borrowing powers be used?
  - Do wider Welsh Government highways projects remain affordable given reports that the Cabinet Secretary has initiated a review of section 2 of the A465 dualling scheme?
  - Approximately £740m has been held in reserve for the M4 relief road over the next three years, compared to £300m for road maintenance and improvement more generally. Does this represent

underinvestment in the wider trunk road network at the expense of the M4?

**3. To understand how the Well-being of Future Generations Act 2015 has influenced the draft budget, particularly with regard to the M4 relief road:**

- How does the Cabinet Secretary's stated objective of "maximising economic benefits" square with the obligation under the Well-being of Future Generations Act to improve the social, economic, environmental and cultural wellbeing of Wales?
- The Future Generations Commissioner has said in supplementary evidence to the M4 inquiry that she "fundamentally disagrees" with the interpretation of the Act put forward by the Welsh Government's counsel to the inquiry. Given this comment, does the Cabinet Secretary consider that there may be a need to fundamentally change the approach to implementing the Act taken by his Department?

**4. To discuss how the draft budget supports local authorities' transport obligations:**

- How does the Cabinet Secretary take account of changes in the local government settlement when deciding his transport budget allocations for local authorities?
- Can the Cabinet Secretary give an example from this or any past year of where the transport budget has changed to reflect pressures on transport spending arising from reductions in the local government settlement?

[Note: the relevant funding streams include: the Local Transport Fund; Safe Routes in Communities; Road Safety Grant; Local Transport Network Fund and Bus Services Support Grant].

- The Bus Services Support Grant has been frozen at £25m since 2013–14 and will remain at this level until 2019–20. What assessment was made of the overall level of spending by local authorities in support of socially necessary but uneconomic bus services in deciding on this allocation?
- Why does the Cabinet Secretary describe funding for active travel as "complex"? Can he explain why he has commissioned a "detailed review" of the approach to funding active travel and provide further detail on the methodology of the review?

**5. To discuss funding for, and the future of, concessionary travel in Wales:**

- Is the all Wales mandatory concessionary fares scheme affordable in the short and long term? When does the Cabinet Secretary anticipate that demographic pressures from an aging population etc. will require changes to the scheme? What options are being considered?
- The Welsh Government has increased reimbursement rates for Community Transport operators participating in the all Wales scheme by 8.7% backdated to April 2016. How has the overall funding allocation for the scheme changed to reflect this?
- What approach is being taken to the evaluation of the current youth concessionary fares scheme which the Cabinet Secretary refers to in his paper? What changes to the scheme are being considered and why?
- Can the Cabinet Secretary provide a breakdown of budget allocations and expenditure on youth concessionary fares since the introduction of mytravelpass in 2015, including expenditure per pass?
- The Cabinet Secretary's paper refers to "the potential to continue..[the youth concessionary fares]...initiative on a commercial basis and potentially with a much reduced amount from the Welsh Government". Why is the youth concessionary fares scheme not funded on the same basis as the all Wales scheme?

**6. To explore how the draft budget relates to the forthcoming Economic Action Plan.**

- Given the Cabinet Secretary is currently developing his Economic Action Plan, to what extent has this informed the allocations in his budget?
- Does the Cabinet Secretary intend to re-present his budget once the Economic Action Plan is published, to show the specific resources allocated to each aspect of the Plan, along with the outputs and outcomes expected to be achieved?
- Objective 3 in the [Welsh Government's Strategic Equality Plan](#) is to "Identify and reduce the causes of employment, skills and pay inequalities related to gender, ethnicity, age and disability". Which specific budget allocations have been made to achieve this objective?

**7. To discuss the Cabinet Secretary's intentions with regard to support for the Foundational Economy:**

- Can he provide further detail on the £1.5 million allocated to supporting the Foundational Economy in 2018–19, and what it is expected to achieve?
- Can the Cabinet Secretary explain why there is no similar allocation for 2019–20?
- Are there any other allocations in his budget that support the Foundational Economy specifically?

**8. To probe the Cabinet Secretary for further detail on the budget allocations made in support of the Development Bank of Wales (DBW):**

- The Cabinet Secretary’s paper outlines that £28 million in capital funding has been allocated to support the investment funds of the Development Bank over the next three financial years. What impact will this have on the fee income earned by the Development Bank?
- Does the Cabinet Secretary agree with the view expressed in the Strategic Overview document (page 8) produced by the Development Bank that **“the most critical risk the new bank faces is securing the funding it needs”**?
- Can the Cabinet Secretary share the full details of any analysis that has been undertaken of the costs of establishing the DBW Head Office in Wrexham, and can he clarify whether any allocations have been made in the budget regarding this?

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Ysgrifennydd y Cabinet dros yr Economi a  
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Llywodraeth Cymru  
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Russell George AM  
Chair Economy, Infrastructure & Skills Committee

21 November 2017

Dear *Russell*

Thank you for your questions to support the scrutiny of the 2018-19 Draft Budget Plans for my portfolio which raise important issues.

### **1. Rail Franchise and Metro**

#### **Affordability & Financial Issues**

On 7<sup>th</sup> September I had a constructive meeting with the Secretary of State and agreed a way forward that would allow us to proceed with the procurement process for the rail franchise while discussions seeking resolution on the funding issue continued with HM Treasury and the Department for Transport (DfT). This agreement is the best outcome for passengers, who will not face the uncertainty of whether the Welsh Government will be transforming rail services at the end of the current franchise term.

The current financial arrangement for the franchise dates back to 2006, based on costs established in 2003. We must ensure that the Welsh Government is not financially disadvantaged under the new arrangements for both rail services and the Metro infrastructure.

We have an agreement with the DfT is to provide £125m in 2014 prices towards the Valley Lines scheme. The Welsh Government has full freedom to optimise the final scope of the scheme following Green Book guidance so as to achieve best value for money.

The Draft Budget is predicated on circa £60m annual savings in the early years of the new franchise. We have a legitimate case for a sustainable financial settlement to go alongside devolution of franchising powers. If the UK Government takes the decision not to engage with us on the facts and evidence, then we will need to consider a number of options to mitigate the cost risks.

The anticipated budget required for the subsidy is based on the Outline Business Case. The revenue costs for providing rail services have been estimated and a funding envelope has been indicated as available to support services, which exclude the impact of the a series of financial matters.

My officials continue to manage these financial matters which will determine the final affordability of Wales and Borders rail services and the South Wales Metro. These risks will become clearer during discussions with UK Government and once we have a winning bid. At that point, the implications of these financial matters and how they will be dealt with will be part of the investment decision.

I cannot provide further detail of these at the moment due to ongoing negotiations, but a significant component of the additional cost being placed on us would be removed if the UK Government recognised that the Welsh Government can not be expected to fund inflationary cost increases on Network Rail's charges which were last baselined at the start of the current franchise

The bidders have been incentivised to introduce improvements to the services as soon as possible but some of the infrastructure and rolling stock improvements will not be immediate. The subsidy amount in the early years recognises the timescale that bidders will need to introduce their service improvements. There will be no fare increases or service reductions as a direct result of the lower franchise subsidy in the early periods of the next contract.

## **Metro Funding**

Funding for the South Wales Metro was provided within the MEG during the 2017-18 budget planning round. The £173m is in addition to the funding already provided in the portfolio's core budgets as part of the 2017-18 Final Published Budget. The actual delivery profile for Metro will be heavily influenced by the solution identified by the preferred bidder for the new rail services contract. Therefore, there will be further allocations of funding in future budget rounds ensuring that the full £503m is provided.

The Draft Budget includes an indicative profile for delivery of the anticipated infrastructure. 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 the bids.

The "Moving North Wales Forward" plan was launched in March 2017. Funding of £50m over four years was allocated in the 2017-18 Budget to develop the North East Wales Metro which will include road, rail, bus and active travel schemes. Work is currently ongoing to develop a programme of investments focusing initially on key employment hubs across the region which will inform the funding profile over the coming years. Whilst a number of schemes are being taken forward within existing budget provision of £50m, delivering the Metro vision will require significant funding beyond 2020-21 as it will inevitably involve delivering major infrastructure improvements.

## **2. Highways Investment**

### **M4 Relief Road Funding**

As highlighted in your questions the current estimate for the project is £1.1 billion. In line with early indicative delivery requirements, funding of £740m is earmarked in central reserves for the M4 relief road over the next three years. Pending the outcome of the public enquiry this allocation will be re assessed and may be re-profiled. The timescale for this major infrastructure project will go beyond the budget period with further funding required beyond 2020-21. This will be assessed in future budgets.

As outlined in the Welsh Government Draft Budget, borrowing powers may also be used for projects such as the M4. However the borrowing of £375m is not designated and is available for capital investment across portfolios. When the independent public enquiry has concluded I will be discussing the financial requirements with the Cabinet Secretary for Finance during future budget planning rounds.

### **Highway Projects - A465**

I will update Assembly Members with the findings of the review of the A465 Section 2 scheme before the end of the month. The review will consider the current construction programme and cost, together with how the work is delivering against the social and environmental expectations. It will also consider what mitigation measures have been put in place to address any deficiencies.

The publication of four year capital budgets in 2017-18 has allowed for better planning of long term projects. In order to manage budgets and ensure that major highway projects are affordable there is also existing good practice in the industry. Schemes are procured using the Early Contractor Involvement method of procuring supported by efficient planning, the provision of reliable costs and timely delivery. A variety of contractual structures and mechanisms are used when delivering infrastructure projects and use is made of industry standard mechanisms, for example “fixed price” and “target cost” contracts. Adjustments to spend profiles are used to manage such mechanisms.

Programme and project management of road schemes are delivered in accordance with the bespoke “Welsh Government: Road Projects Procedures Guidance” which incorporates the Welsh Transport Appraisal Guidance – WelTAG. A recent external consultant review of the guidance has concluded that it represents good practice. Areas for improvement identified as part of this review are being implemented and may include the production of updated terms and conditions, the introduction of strategy documentation at the start of any procurement process and updating the way we commission our advisers.

Innovative financing of schemes is also important in maximising the budget availability. The remaining dualling of the A465 road is to be progressed by a Mutual Investment Model, starting next year. The private-sector partner has not yet been appointed.

### **Investment in the Trunk Roads Network**

The Welsh Government operates, maintains and upgrades the £15bn Welsh strategic road network to comply with the statutory responsibility to provide a safe and reliable trunk road network. As well as regular maintenance, this is delivered through capital improvement projects managed by the Network Management Division but largely delivered through the Trunk Road Agents. Funding for the M4 will not compromise our ability to maintain the safety and serviceability of the network. Traffic volumes on the M4 remain high and are factored into the long term planning for maintenance.

Projects to be delivered are determined by the Network Management Division’s planning team and are based on factors such as performance and asset condition. The total provision in the Draft Budget to support roads infrastructure, maintenance and improvement is c£658m over three years. We take investment in the motorway and trunk road network very seriously and last financial year invested over £130m in maintenance and minor improvement alone.

The remaining capital budget of £358m over the financial years 2018-19 to 2020-21 for New Road Construction and Improvement, including the Newtown By Pass, A494 A55 Deeside

Corridor, improvements in the A55 for Abergwyngregyn to Tai'r Meibion and major improvements for Junctions 15 and 16 on the A55. This also includes £15m for the north to south dualling for the A487 and the A470 allocated as part of the Plaid Cymru Two Year Agreement.

### **3. Well Being and Future Generations Act 2015 and M4 Relief Scheme**

Sustainability is the central organising principle in our planning process, ensuring that our decisions take account of not just economic, but social, cultural and environmental objectives and impacts as well. In so doing, we are adopting an approach to embed involvement, collaboration, integration, long term investment and prevention into our policies and delivery.

In considering the M4 relief road there are significant potential community, health and environmental benefits. Some examples are:

- Helping to create a healthier and more cohesive community by stimulating economic growth and regeneration. Locally, the scheme would provide improved access to employment sites with the capacity to cater for 15,000 jobs.
- Ensuring that as many construction jobs as possible are filled by local workers and at least 20% of those to be new entrant trainees and apprenticeships.
- Improving air quality as a result of the scheme, most notably in urban areas adjacent to the existing M4 corridor.
- Doubling the woodland lost to the scheme by planting over 110 hectares of new woodland. I am keen to explore how public access can be promoted to these areas to maximise the amenity value to society as well as realising the environmental benefits that woodland brings.

The Project will provide the long-term, sustainable solution to the serious problems associated with the M4 around Newport. In concert with Metro, it forms an essential part of our vision for a world-class, integrated transport network for Wales.

The Public Inquiry into the M4 Project is nearing completion. Independent inspectors are robustly scrutinising all aspects of the scheme not just economic impacts including climate change adaptation and sustainable development. This is an open and transparent process that allows everyone to have their say, both for and against, so that we can fully consider the economic, social, cultural and environmental objectives and impacts.

Our budget proposals have 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 and take an integrated approach to considering impacts on protected groups, support a focus on our shared national goals and deliver a sustainable economy and nation for future generations.

Our refreshed Wales Transport Strategy will be developing policies that will positively impact on travel behaviour and reduce the negative impact traffic has on our communities and quality of life. The Strategy will reflect the well-being goals and principles as well as delivering our national strategy *Prosperity for All*.

Should the M4 relief road go ahead, it must be delivered sustainably, with cross cutting benefits felt locally and across Wales. The scheme has 15 objectives that aim to bring cross-cutting benefits across all aspects of wellbeing. Alongside a robust Business Case,



the scheme would produce positive effects on people and the environment. For example, the nearly 3km shorter route would not just reduce journey times, accidents and congestion it would reduce carbon emissions and improve air quality.

I am mindful of our requirements to reduce CO2 emissions 80% by 2050. The M4 Project, as with other congestion pinch point schemes, will contribute to achieving our goal, alongside Metro and electrification of the rail network and the implementation of electric cars.

I am keen to collaborate with the Future Generations Commissioner and ensure that all projects, and our wider transport strategy, maximise contribution to the wellbeing of Wales. The Commissioner's submissions to the Inquiry are welcomed and will be taken into account, alongside all others, in decision making on this project. The Commissioner has been involved in an ongoing review of our Welsh Transport Appraisal Guidance to ensure it aligns with the Wellbeing and Future Generations Act. In light of the requirements of the Act, the M4 project has published a Sustainable Development Report assessing against the seven goals and produced a five case model Business Case.

The ongoing Public Inquiry process is allowing all views to be heard. The Project is being openly and robustly scrutinised by Independent Inspectors to determine whether it is the sustainable, long-term solution to the serious problems associated with this gateway to Wales. The outcome of the Inquiry will inform a final decision next year on whether to proceed with construction. The Wellbeing and Future Generations Act considerations will be central to the decision making.

Overall I am satisfied that my Department is not only fully engaged in discharging the requirements but will also deliver the spirit of the Act. The 2018-19 Draft Budget is a step in that process. It is clear that better integration across public bodies will be central to more effective service provision as will collaboration with public service users.

#### **4. Local Authorities – Transport Obligations**

Local government funding is awarded based on specific criteria for transport and economic priorities to ensure that allocations to the local authority transport schemes help to meet our aspirations. The Draft Budget includes capital budget allocations in 2018-19 for two specific funds:

- **Local Transport Fund - c£6m** for existing schemes – capital to support transport projects that enable improvement in economic activity, access to employment, healthier travel, connecting communities and tackling poverty and to develop active travel schemes identified in the Integrated Network Maps.
- **Local Transport Network Fund £4m** – capital to support work on bus congestion and bus priority measures on strategic public transport corridors.

Whilst we were able to maintain Local Transport Fund grant levels for 2017-18, long term budget constraints mean the budget allocation for the Local Transport Priorities has reduced to £10m for 2018-19.

However we spend money on national initiatives which have local benefits such as the pinch point schemes. A good example of this is the M4 Junction 48 at Hendy where a reconfiguration of the interchange will mean that traffic will flow more smoothly, reducing queuing lengths both on and off the motorway and improving safety.

A number of local bus networks have been affected by the failure of local bus companies in recent years. In response, we invited relevant local authorities to identify the actions and funding necessary to maintain those networks for the benefit of bus passengers. We allocated £300,000 to enable Wrexham, Flintshire and Denbighshire Councils to support the bus network in their areas. This is a good example of our ability to remain responsive to the challenges faced by local government.

We would consider any future request for additional funding from local authorities on its merits, and in the light of budget pressures and competing demands for funding at the time.

### **Bus Services Support Grant (BSSG) - £25m**

Local authorities receive un-hypothecated funding through the Revenue Support Grant mechanism to enable them to support socially necessary but uneconomic bus services. Despite budget pressures, resulting from challenging settlements from the UK Government, we have maintained BSSG at £25m since 2013-14.

These BSSG allocations to local authorities supplement their expenditure from their own budgets for subsidising bus and community transport services in their areas. Although it is disappointing that some authorities have cut their own budgets for this purpose in recent years; some now even allocate no funding whatsoever from their own budgets for supporting bus and community transport networks in their areas.

### **Active Travel**

The funding situation is complex for active travel due to the diverse range of funding sources, mechanisms, and bodies involved in directly funding or supporting active travel projects. Capital infrastructure for walking and cycling is funded for example by central and local government, developers, other public bodies and other third parties such as charitable bodies. The revenue budget primarily supports walking and cycling, training and promotion.

However promotion of walking and cycling is embedded within many other programmes, in particular in the health, education and environment sector. As this is something that we want to strengthen further in the future, I have asked officials to review the funding that is within the control of the Welsh Government, but set this in the wider context. The methodology will consist of:

- Examination of funding streams within Welsh Government and, as far as information is obtainable, outside it;
- A broad appraisal of short, medium and long term active travel projects identified as part the Integrated Network Maps and estimated associated costs;
- Evidence including exploration other of funding models used elsewhere in the UK and exemplar countries;
- Option development, including funding levels, mechanism and delivery models; and
- Emerging findings from working with key partners represented on the Active Travel Board.

The review is important to ensure we are making the best use of resources in achieving the shared outcomes. I will update the Committee in due course.

## **5. Concessionary travel in Wales**

### **Concessionary bus travel for older or disabled persons**

In the context of challenging budget settlements affordability is always a key consideration. It remains the policy of the Government to maintain free bus travel for older people, disabled people and some injured service veterans that is universally available on scheduled local bus services in Wales. Our mandatory free concessionary bus travel scheme provides local authorities with sufficient funding to enable them to reimburse bus operators for the revenue foregone in having carried pass holders for free. In line with the relevant legislation, local authorities' objective is to ensure that their reimbursement leaves bus operators 'no better or no worse' off and our funding has enabled them to meet this objective. We also continue to provide authorities with £3 per live pass to meet their costs in administering the scheme.

The Welsh Government launched a public consultation on the Mandatory Concessionary Fares Scheme in Wales on 10 October which will end on 12 January 2018. Based on the outcome of the consultation, it is anticipated that we will bring forward proposals in the spring about any changes that may be proposed for further public consultation.

Examining the long term demographic changes, it has been estimated that about 1 million people living in Wales will be entitled to free bus travel by 2030. It is therefore important that we ensure that our free bus travel scheme is sustainable in the longer term and is organised so that it continues to meet the needs of the people who benefit from the scheme.

### **Community Transport**

Community transport is reimbursed as part of the concessionary fares scheme as funded by Welsh Government and local authorities. Therefore it is accommodated in the overall funding allocation for concessionary fares in the Draft Budget.

In response to representations from the community transport sector, local authorities determined that they had under-reimbursed community transport operators for certain local bus ("Section 22") services they provided. We noted the local authorities' calculation of the uplift required to compensate the community transport operators for their under-reimbursement in accordance with the "no better or no worse" obligation on authorities.

Each local authority is responsible for determining the reimbursement it should pay to operators of local bus services to fulfil their obligation and we continue to provide local authorities with sufficient funding to enable them to meet their obligations under the relevant legislation. Any operator that considers it has been under-reimbursed as a result of a decision by a local authority may appeal to Welsh Ministers.

### **MyTravelPass**

Our discounted bus travel scheme for 16 to 18 year olds, MyTravelPass has a positive impact on young people, enabling them to access opportunities for work, education, training and apprenticeships and will be of particular benefit to people from low income households and help to tackle poverty. Traveline Cymru records the number of enquiries about the scheme on a weekly basis. Welsh Government evaluates this data against the number of travel passes in circulation to determine trends in take-up and the impact of marketing and promotion.

MyTravelPass facilitated a series of focus groups with young people to ascertain the impact of its promotion of the scheme and has reflected its findings in the current marketing campaign, which it is undertaken on behalf of the Confederation of Passenger Transport. Through social media and other engagement, MyTravelPass notes and acts upon comments by applicants and others who have visited its site to improve its availability and information. I am pleased that this action is improving the take-up of the scheme.

The current consultation considers a range of options to build on the existing scheme and includes:

- Higher discounts
- Higher upper age limit
- Specific eligibility for defined groups that require additional support such as carers, volunteers or those re-joining the job market.

These changes are being considered to provide a more attractive offer, to encourage more young people to use the bus and achieve modal shift. This, in turn, will assist the bus mode to contribute towards wider policies, including decarbonisation, social inclusivity and the well being of future generations.

Initial funding of £14.750m was allocated for the Young Persons' Discounted Bus Travel Scheme in the Budget Agreement with the Welsh Liberal Democrats. We allocated £5m in support of the MyTravelPass scheme during 2015-16 and a further £9.750m in 2016-17. Although the scheme was live from 1 September 2015, much preparatory work was undertaken in advance. This included pump-priming funding for marketing, design and security testing of the web portal, setting up card production and administrative functions and an allowance for auditing and configuring on-bus electronic ticket machines.

Reflecting the fact that initial start-up costs and ICT were already in place following Welsh Government's investment during previous years, along with initial promotion of the scheme, an analysis of trend data indicated that £1m should be set aside to compensate bus operators for carrying younger persons aged 16 to 18 at one-third discounts during 2017-18. This sum was agreed with representatives of local authorities and the Confederation of Passenger Transport.

The actual outturn will depend on a range of factors, including the number of recorded journeys by 31 March 2018. This year's budget provision was determined to reflect experience gained from the first phase of the pilot, launched in September 2015, including the impacts to date of marketing, the fact that there had been no previous equivalent scheme against which to estimate take-up, use and cost and the initial feedback we received from younger people about the offer.

The scheme operates at no cost to local authorities, in contrast to the mandatory scheme for older or disabled persons, where the local authorities contribute around £10m per annum, reflecting the fact that they had offered similar schemes before the mandatory scheme was introduced. Detailed pass application data is held by MyTravelPass.

This combination of inputs was also intended to reflect differences between urban and rural operations. As a result, it is not possible to provide a breakdown of expenditure per pass since 2015. However, the compensation per journey should be available for 2017-18 once that data is analysed. In the 2018-19 and 2019-20 the budget is maintained at £1m to support the scheme.

## 6. Economic Action Plan – Budget Implications

The Economic Action Plan will take forward the ambitions in *Prosperity for All*. The Plan will set out how we will deliver our commitments, including how other services and programmes across Welsh Government will also contribute. The Draft Budget plans have been developed alongside the Plan to ensure that it aligns to our future priorities. We will deliver some key changes through the Plan including:

- **Economic Contract** – to drive added value through business support.
- **A focus on a number of thematic National Sectors and Foundation Sectors** – to support prosperity and maximise the opportunities in growth sectors whilst playing an active role in foundation sectors.
- **Regionally Focused Economic Development** – to help tailor our delivery to specific challenges and opportunities in different parts of Wales.

The Plan will be wide-ranging and draw on our levers across Government to grow our economy, spread opportunity, and promote well-being. It recognises the pressure on resources and therefore the importance of working much more coherently, effectively and strategically across Government on our core priorities.

I will be considering presentational changes to the published budget to clearly align the Economic Action Plan with financial resources. It is important to recognise that a key element of the Economic Action Plan will be the Economic Contract, which is about the relationship between business and government to stimulate growth, increase productivity, and make Wales fairer and more competitive. It will provide the framework for understanding respective roles and the means by which government and business support each other in delivering shared objectives to underpin inclusive growth. All the appropriate changes are likely to be reflected in the 2018-19 supplementary budgets as the Economic Plan is established.

### **Strategic Equality Plan**

Tackling barriers to employment, equipping individuals with the skills they need, and fair work are core to the Economic Action Plan. It is difficult to enter into specifics without pre-empting the Plan, but the Economic Contract will shape how we use our business support in future to promote skills development and fair work.

Our prioritisation of the care sector will help to build capacity – removing another potential barrier to employment for those who have caring responsibilities. We are awaiting the recommendations of the Fair Work Board which will have an important role to play in shaping our future approach.

This is not about specific budgets being used to support such outcomes – it is about all our budgets contributing to these outcomes. Entrepreneurship budgets for example support engagement with stakeholders and promotion of responsible business practises on the Business Wales website.

## **7. Support for Foundational Economy**

The Draft Budget includes £1.5m in 2018-19 to support the foundational economy, as part of the Two Year Budget Agreement with Plaid Cymru. There is currently no provision in 2019-20 as the funding will support new initiatives which will be considered in terms of broader economic impact and taken forward with other stakeholders.

I recognise the important contribution the foundational economy makes to the Welsh economy. It is built from the activities which provide the essential goods and services for everyday life, regardless of the social status of consumers. The foundational economy is nationally distributed along with population. It is vital for many people in Wales - not only to provide the goods and services they need but also as an employer.

Without pre-empting the Economic Action Plan, the £1.5m allocation will be used to support delivery of the enabling plans which we will work with the foundation sectors to develop and address some of the challenges and opportunities these sectors face. By supporting innovation, improving management, filling skills gaps, helping develop new business models and, ultimately, encouraging better pay and conditions, we can develop those more resilient local communities.

We will have more to say on our broader ambitions for the foundational economy as our Economic Action Plan is presented. We want to harness the power and opportunities presented by the foundational economy.

## **8. The Development Bank of Wales**

The Development Bank of Wales will be a core component part of the Welsh Government's economic policy and delivery. It will be a cornerstone organisation for investment and business support, given its increased scale and breadth of expertise, it is well placed to meet the challenges and opportunities we will inevitably face and make Wales more prosperous and secure.

The Development Bank of Wales will be self financing from 2018-19. In recent years, the operating subsidy paid to the former Finance Wales has decreased significantly from over £5m to £1.74m in the current financial year, as the company increased the levels of fee income from invested funds. The fee income that continues to be generated from existing funds, combined with the fee income that will arise from investment of new funding over this budget period will enable the Development Bank of Wales to be self sustaining. The efficiency saving of £1.74m in core operating funding which previously supported Finance Wales is reflected in the Draft Budget plan.

The business case is predicated on new funds of £139.75m which is supported through a combination of Financial Transaction Reserve (FTR) capital totalling £99.75m and £40m legacy funds which will be generated from the former Finance Wales funds. In the 2017-18 Final Budget the four year capital plan included an allocation of £45.75m in the MEG, of which £28m FTR is profiled over financial years 2018-19 to 2020-21. A further £30m for the Property Fund was included in the Housing MEG. In summary of the £99.75m FTR capital, a total of £75.75m has been approved within the portfolio budgets and the additional funding requirement of £24m will be bid for under future budget rounds.

The availability of funding for investment is a key risk for any banking institution. However with the funds already under management from the former Finance Wales and the new funding the Development Bank of Wales is in a strong position. In the event that Welsh

Government approval is not secured for the £24m funding requirement identified in the business case then the mitigation against potential reduced fund fees for the Development Bank of Wales would be to manage and reduce operational costs accordingly.

The decision to locate the headquarters of our new Development Bank in North Wales is part of a wider commitment we have as a Welsh Government to spread prosperity and jobs across to every region of Wales. The location strategy is available on the Development Bank of Wales's website and provision is included in the six year plan. This may be accessed using the following link:

<https://developmentbank.wales/sites/default/files/2017-11/Pan%20Wales%20Strategy.pdf>

Given that we are in commercial negotiations to secure the lease for a property it would be inappropriate to comment on the costs of establishing the new headquarters. We anticipate the opening of the new headquarters in Wrexham in the New Year with around 20 staff, with the aim to build up to a team of 50 by 2021.

I trust that the responses will address the Committee's areas of interest and look forward to updating the Committee further on the priorities within my portfolio. Thank you for your continued support.

Yours sincerely

*Thanks so much for your kind understanding.  
Yours ever,  
Ken*

**Ken Skates AC/AM**

Ysgrifennydd y Cabinet dros yr Economi a Thrafnidiaeth  
Cabinet Secretary for Economy and Transport