

Ken Skates AM  
Cabinet Secretary for Economy and Transport

10 December 2018

Dear Cabinet Secretary,

Following the Economy, Infrastructure and Skills Committee's scrutiny session, which you attended on 21 November 2018, the Committee would like to draw the following points to your attention.

### **Brexit preparedness**

The Committee heard that no contingency plans were in place for transition to a post-Brexit environment, and that the Cabinet Secretary is counting on the UK Government to "make funding available to assist in the transition to a post-EU exit environment."<sup>1</sup>

Given the uncertainty surrounding Brexit at time of writing, the Committee can only keep this situation under review in its in-year financial scrutiny.

### **Active Travel**

The Cabinet Secretary agreed to send a note on the guidance and criteria – based on the Integrated Network Maps produced by local authorities – used to allocate funding from the Active Travel Fund. The Committee would welcome further clarification of how this funding links to other active travel funding streams (including those outside the Transport MEG).

The Cabinet Secretary offered to provide a note "on the guidance that informs the actual investment and then how they'll be monitored."<sup>2</sup> This will give the Committee more information to assess whether this approach provides value for money.

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<sup>1</sup> Letter to the EIS Committee

<sup>2</sup> Para 144, EIS Committee, 21 November 2018



## **State of Roads**

The Committee heard that the view set out in its “The State of Roads” report, which said maintenance of the network should be prioritised over new road building, has been considered and rejected by the Cabinet Secretary. There will be further opportunities to discuss this when the Committee’s report is debated on the floor of the Senedd in the new year.

During the session, the Cabinet Secretary said that the £60m allocated to local authorities for highway maintenance was allocated via the local government budget into the Revenue Support Grant (RSG)<sup>3</sup>. The RSG is unhypothecated so local authorities can spend that money on whatever they choose, regardless of the purpose for which it is allocated. Given the scale of the backlog of local highway maintenance the Committee found in its inquiry, and the need for preventative spending to avoid excessive future costs and deterioration in the network. There appears to be no mechanism for the Welsh Government to ensure this money is additional to existing local authority spend. Given the pressure on local authority budgets we consider there is a risk that this funding may displace existing local authority funding commitments for maintenance rather than be used to provide the much needed additional spending required. We ask the Welsh Government to provide clarity on how it intends to ensure this funding is additional.

## **Rail disruption**

TfWRail passengers have experienced significant disruption during the first Autumn of TfW running Wales’ rail franchise. It is not clear how this budget addresses this. The Committee has taken further evidence from TfW and the Cabinet Secretary in recent weeks.

## **The Future of Transport for Wales**

The Committee launched a consultation on 26 November to begin a detailed inquiry looking at the development of, and governance arrangements for, TfW. The Committee expects to report in April 2019.

## **Business support and the Economic Futures Fund**

The Cabinet Secretary has set a clear direction of travel, moving towards consolidating business support in the Economic Future Fund. While the Committee agrees that this will

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<sup>3</sup> Para 160, EIS Committee, 21 November 2018



make seeking support simpler for business, there is a corresponding loss of transparency for those seeking to scrutinise the Welsh Government.

While the consolidation of funding streams is a work in progress, there is no firm date for consolidation to be achieved. The Cabinet Secretary and his officials talked a great deal about the importance of “agility” and “flexibility”. For Members seeking to scrutinise the Government’s activity, these qualities are difficult to scrutinise and run the risk of losing transparency.

The Committee notes that at present just 8% of business support funding is being allocated through the EFF. That means more than 90% is not necessarily applying the “something for something” philosophy that the Cabinet Secretary has, rightly, championed in his economic contract and the EFF. When pressed on timing, the Cabinet Secretary said getting it right was more important than getting it done tomorrow. The Welsh Government has put great store in the “new operating model” where companies have to sign up to the Economic Contract as a condition of receiving Government support. If the overwhelming majority of Welsh Government funding is available outside the EFF, then there will be little incentive for firms to sign up to the Economic Contract.

The Committee would like to see greater urgency in moving towards a greater proportion of funding going through the EFF, and would urge Welsh Government to consider how best to ensure the allocations to, and the outputs achieved by the consolidated fund are open and transparent.

During the discussion the Cabinet Secretary recalled that he had agreed to provide a “briefing note of assessing and then signing up to the contract”<sup>4</sup>. He has also committed to sharing an anonymised example of the Economic Contract. These documents have yet been received by the Committee.

### **Foundational economy**

The Committee was concerned to hear that no progress had been made in spending money committed to support enabling the foundational economy in Wales, and that plans for spending it in the coming year were vague.

The Committee has taken a great interest in this area, and looks forward to hearing what pilot schemes will be taken forward. The Committee has agreed to conduct further scrutiny in the new year once the enabling plan for the Foundational Economy is published. The

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<sup>4</sup> Para 316, EIS Committee, 21 November 2018



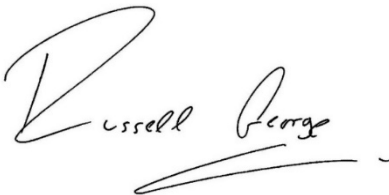
Cabinet Secretary has previously informed the Committee<sup>5</sup> that he expected the draft enabling plan would be published for consultation in December. The Committee would be grateful for confirmation that this is still the Cabinet Secretary's intended timeline.

**Matters not reached**

Due to the shorter than initially agreed session, there were a number of matters not reached during our budget scrutiny session. The Committee has written to the Cabinet Secretary on a number of issues and will publish the responses in due course.

I look forward to hearing from you.

Yours sincerely,

A handwritten signature in black ink that reads "Russell George". The signature is written in a cursive style with a long horizontal flourish underneath the name.

Russell George  
Chair, Economy, Infrastructure and Skills Committee

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<sup>5</sup> Paper for EIS on 19 Spetember.





Russell George AM  
Chair Economy, Infrastructure &  
Skills Committee

[SeneddEIS@assembly.wales](mailto:SeneddEIS@assembly.wales)

11 January 2019

Dear Russell

Thank you for your letter of 10<sup>th</sup> December regarding the 2019-20 Draft Budget scrutiny session and your comments and further requests for information. I will address each area in turn.

### **Brexit preparedness**

Whatever the form of Brexit, the UK leaving the EU will cause disruption. That is why, as a responsible government, we will continue to plan for all possible outcomes.

It is imperative that all the administrations across the UK work collaboratively to plan how to mitigate the most serious effects of a breakdown in the negotiations between the UK and the EU27 - the Welsh Government is strongly committed in doing this.

We have repeatedly and strenuously raised the need for the UK Government to properly share information on the steps they have taken to prepare. We are glad that this is beginning to happen but there is a need to increase the flow of information further. The reality is our ability to plan is limited by what the UK Government shares with us. The UK crashing out of the EU would be disastrous and that is why we have worked tirelessly against that possibility.

Despite the backdrop of uncertainty, we took action immediately after the referendum to mobilise resources and to build capability across government to respond to Brexit. This has ensured that we have engaged extensively with stakeholders right from the start to understand their concerns and priorities and to be active in setting out coherent policy positions to influence the UK Government's approach to exit negotiations and prepare for the multiple possible outcomes.

We have produced detailed, evidence-based policy proposals on how the right kind of Brexit can protect jobs and put forward proposals on trade, immigration, the future of the UK and a range of other issues once we are out of the EU. We are also providing help to organisations across Wales to get ready for Brexit with a dedicated £50m EU Transition fund. From this fund a £7.5m Business Resilience project has been approved. This funding is actively extending our capacity to help businesses prepare and respond to Brexit

challenges, and includes funding a new Business Resilience grant. We have also provided funding for a Brexit Transition Support Programme for Welsh local authorities.

## **Active Travel**

When applying for Welsh Government funding, local authorities must demonstrate, in accordance with the Application Guidance, that they have followed the Welsh Government Transport Appraisal Guidance (WelTAG) and that they have developed their proposal using the five ways of working under the Well-being of Future Generations (Wales) Act 2015.

The Active Travel Fund frequently complements funding from other sources, such as developer contributions and other capital investments, such as relating to tourism, regeneration and enterprise zones. The grant application process encourages match funding, by applying a progressive score depending on the level of match funding, but it is not a condition of funding. The scoring criteria contain an element for monitoring and evaluation of schemes which receive funding and whether the scheme offers value for money.

The Local Transport Grant application Guidance and scoring criteria for Active Travel Fund can be found at the following links:

<https://beta.gov.wales/transport-grants-guidance-2019-20>

<https://beta.gov.wales/sites/default/files/publications/2018-12/capital-grant-application-assessment-criteria-and-weighting-19-20.pdf>

## **State of Roads**

I think it might be helpful to clarify the £60m funding announcement further. The Welsh Government's draft budget announced on 2nd October provided for £60m capital for local authorities over 3 years (2018-19 to 2020-21) for highway refurbishment. Although the majority of the capital funding provided for local government is unhypothecated, this funding is being provided through a specific grant so that it will be used for this particular purpose.

You have asked about additionality. Highways refurbishment is capital spend and differs from revenue funded maintenance as it is for improving the fabric of the local roads infrastructure with the objective of extending the life of the asset. This should reduce the call on local authority revenue maintenance budgets in future but additionality against the revenue budgets may not be straightforwardly demonstrated. However, the normal terms and conditions of such grants would require Authorities to report the use of this funding to Welsh Government and to update their asset management plans as well as to continue to work with us to monitor and evaluate the road condition across Wales.

## **Rail disruption**

I discussed with you the recent disruption to our rail services. Transport for Wales (TfW) experienced a combination of difficulties relating to autumn weather conditions along with damage caused to the rolling stock during Storm Callum. Engineers worked as fast as possible to rectify the issues faced by the rolling stock and normal timetable services resumed on all TfW routes from Monday 17 December.

I will continue to hold TfW to account for these matters and seek regular updates that the rail services are being delivered as we expect. TfW is committed to ensuring that routine issues such as autumn weather have less impact in the future. They have assured me that

customers across the Wales and Borders network will see a step change in availability within the year.

TfW will be replacing the entire fleet in future as part of an £800m investment in rolling stock, and £40 million is being invested in the current fleet. This investment will fund additional services in addition to customer experience and accessibility improvements. The first trains are due to arrive during 2019.

This investment in rolling stock is made possible through the structure of the contract we procured, which is funded through our ODP Agreement Grant.

### **The Future of Transport for Wales**

Thank you for advising me of your inquiry into the development of, and governance arrangements for, TfW. I look forward to receiving your report in due course.

### **Business support and the Economy Futures Fund**

I appreciate the Committee's interest in the Economy Futures Fund and the wider aspects of the new operating model introduced by the Economic Action Plan, including the Calls to Action and Economic Contract. These are important issues and I want to ensure that the Committee has a full understanding of the process and the opportunity to discuss any concerns it has. To this end, I would like to offer the Committee the opportunity of a technical briefing session with my officials, at which they can share with you an anonymised sample of Economic Contracts and talk you through the process.

### **Foundational economy**

The Economic Action Plan identifies four foundation sectors (food; retail; care and tourism) where we recognise the scope to work more effectively across Government and with the sectors to maximise benefits. To guide cross-government activity, and help the sectors adopt common approaches to tackling common issues, we are committed to producing a single and integrated enabling plan. This will identify the strategic challenges and opportunities common to all four sectors and policy responses to these.

To help inform the development of the enabling plan, we have established a sub-group of the Ministerial Advisory Board on the Foundational Economy, and will be holding a workshop in February 2019 with key stakeholders and leading domestic and international practitioners. I am keen that we allow time for these experts to help shape the enabling plan and so I anticipate the enabling plan will be published in the first quarter of 2019. The £1.5m budget allocation remains available, as part of the 2017 budget agreement with Plaid Cymru, and the work with the Ministerial Advisory Board sub-group and others will help inform how that budget will be deployed to best effect.

Yours sincerely



### **Ken Skates AC/AM**

Gweinidog yr Economi a Thrafnidiaeth  
Minister for Economy and Transport