

**Written Response by the Welsh Government to the Economy, Infrastructure & Skills Committee's report; Scrutiny of the Welsh Government's Draft Budget 2020-21**

**Recommendation 1: The Welsh Government should set out a clear section in this and future budgets outlining more clearly how the economy and transport budget supports decarbonisation, including by detailing the specific budget allocations involved.**

**Response: Accept in principle**

Alongside the draft Budget, the Minister for Finance and Trefnydd published the Budget Improvement Plan, which sets out further steps to explore how the assessment of the carbon impact of our spending programmes can be embedded more firmly in the budget process. The carbon impact assessment of spending programmes is a cross cutting responsibility of all Ministers and should inform the funding decisions Ministers take in setting detailed MEG spending plans.

However, the assessment of the specific carbon impact of individual investments is not always a straightforward process. For example, the carbon reduction impact of the Welsh Government's investment in electric charging infrastructure is likely to be highly dependent on the regulatory decisions that the UK Government makes regarding fossil fuel vehicles. Where it is appropriate and meaningful, we will consider the incremental impact of Welsh Government spending, as well as the wider impact that policy implementation has on carbon emissions. In doing so, we will continue to draw of the evidence of our statutory climate change advisers, the UK Committee on Climate Change (UKCCC) as to which Welsh Government investments will deliver the greatest impact. In addition, the development of the next Low Carbon Delivery plan will set out the detail of how key policies will allow us to meet our carbon budget, providing clarity and certainty to businesses and individuals.

**Recommendation 2. The Welsh Government should set out the budget allocations for each proposal and policy in Prosperity for All: A Low Carbon Wales related to the Minister for Economy and Transport's portfolio.**

**Response: Reject**

The Welsh Government 2020-21 draft Budget support our ambitions for decarbonisation and protecting our environment. This included £74m for decarbonisation transport investment which demonstrates our commitment to addressing the climate emergency. As outlined during the budget scrutiny there are significant ongoing initiatives within the Economy and Transport portfolio, such as investment in integrated public transport and active travel, which also support the delivery of *A Low Carbon Wales*.

Overall it would be difficult to assess and align the direct contribution of individual budgets to each low carbon action for the portfolio. The aim of low carbon plan is to set out how we will meet our carbon budget, whilst also providing wider stakeholders

with information on how we are taking action. The plan is a collation of cross-government action to address each proposal and of course initiatives may have an impact on a number of actions within the plan.

The new Transport Strategy will set out the vision to empower people in Wales to move around affordably and conveniently and in ways that impacts positively on their health and their environment, by providing a transport network fit for the future. The cost and impact of all interventions will be assessed as part of the policy development process. By improving our green infrastructure we can make it easier for people to travel in more environmentally friendly ways. This goes hand in hand with service improvements which will provide better connections for people, communities and businesses across government priorities.

However, we will endeavour to provide the Committee with clear evidence and examples of how the portfolio expenditure contributes the achievement of the aims in the low carbon plan.

**Recommendation 3. The Government should provide greater and clearer detail on Transport for Wales' corporate budget now, and ensure that this information is provided in future budgets.**

**Response: Reject**

This is an operational matter for TfW to decide how it can deliver against the remit letter Welsh Ministers issue, including how it defines its operational/corporate costs. This forms parts of its operation and business plan and will be published and available to the general public. In addition TfW publishes its annual report as set out in the Companies Act 2006 where it prepares, approves, signs and publishes its financial statements each financial year in accordance with the requirements of the Companies Act 2006.

**Recommendation 4. In publishing the business case for Transport for Wales' future role the Welsh Government should publish details of the transfer process for new responsibilities, including: predicted dates by which it expects individual responsibilities to be transferred during 2020-21; how the specific responsibilities have been chosen and how the transfer will benefit Wales; the additional funding which TfW will receive to manage these responsibilities; and the basis on which that additional funding is calculated.**

**Response: Accept**

The Welsh Government will publish details on any future role for TfW with a clear rationale for doing so along with any additional associated costs.

**Recommendation 5. The Welsh Government should publish details of the subsidies TfW Rail Services has received and is expected to receive, during the lifetime of the contract. This information should be made transparent to the public on the TfW website, not just to this Committee.**

**Response: Accept**

The Welsh Government will instruct TfW to make available on the TfW website the payments and predicted franchise subsidy for TfW Rail Services. This will need to have caveats around indexation and any changes to scope in life of the franchise as well as track access charges. Some of this information is already available on the TfW website.

**Recommendation 6. The Welsh Government should publish further information on the performance management regime for Transport for Wales Rail Services including the level of payments and penalties and more details on how penalty payments will be reinvested. As with subsidy information, this should be made transparent to the public on the TfW website, not just to this Committee.**

**Response: Accept**

The Welsh Government will instruct TfW to make this information available on its website on a quarterly basis.

**Recommendation 7. In order to provide clarity on the relative contribution of local government and the Welsh Government to supporting bus services, the Welsh Government should update and publish the table provided in its draft Regulatory Impact Assessment for proposed legislative change, including data for 2018-19 – 2019-20 as soon as possible. Data for 2020-21 should be added as soon as local authority data are available. The Welsh Government should publish these figures every year going forwards. In responding to this report the Welsh Government should provide details of how and when this information will be published annually.**

**Response: Accept**

The Welsh Government remains committed to supporting the provision of a sustainable bus network and infrastructure throughout Wales. The annual publication of this data will help to demonstrate the commitments made by the Welsh Government and, significantly, local authorities, as they are responsible for contracting with bus operators for bus services that would not otherwise be provided commercially.

**Recommendation 8. The Committee recommends that the Welsh Government provide further details on cross-government discussions on behaviour change investment for active travel, and details of the level of investment in behaviour change programmes from other departments for 2020-21.**

**Response: Accept**

There is close collaboration across Government departments to join up policies, programmes and initiatives relating to changing travel behaviours in recognition of the far reaching potential benefits that will be felt across different sectors. As part of the implementation of Healthy Weight: Healthy Wales, we are working together with colleagues in the Health and Social Services Department and Public Health Wales to see how programme budgets can be aligned to achieve behaviour change. We are in discussions with colleagues working on air quality, decarbonisation, health about developing joint communication and awareness raising activities. We will update the Committee on the outcomes of this work.

**Recommendation 9. Welsh Government should clarify whether capital budgets from other departments support active travel infrastructure investment when investing in projects such as schools and hospitals.**

**Response: Accept**

We explore opportunities to embed active travel in our infrastructure investments. For example, the 21<sup>st</sup> century schools guidance has been updated to reflect consideration of active travel access to schools that are part of the programme and an additional checklist for local authorities to support this process is being developed. Active travel facilities provided within the school site are funded through education budgets. When a new hospital is planned one of the main considerations for the Health Board would be the access and travel requirements.

**Recommendation 10. Welsh Government should publish the advice received prior to issuing the latest loan to Cardiff Airport, and if this is not possible it should provide a summary of its conclusions, and details of the company or person who provided the advice.**

**Response: Accept**

Oxera Consulting LLP was commissioned to provide advice and economic analysis to the Welsh Government on Cardiff International Airport's ability to repay its debt to the Welsh Government and to ensure that the latest loan is in line with EU State Aid rules.

The full report is commercially sensitive, though in summary, Oxera:

- Checked whether Cardiff Airport's projected cash flows, according to the central case of its business plan, were sufficient to cover CIAL's debt obligations;

- Investigated the appropriateness of the key assumptions underpinning Cardiff Airport's business plan. In particular, it compared the traffic growth estimates, the level of aeronautical and non-aeronautical revenues per passenger and cost increases assumed in the business plan with the airport's most recent performance and the available evidence from other comparable airports;
- Undertook high-level checks on the appropriateness of the key assumptions underpinning Cardiff Airport's business plan. These cross-checks illustrated that the key assumptions underpinning the airport's business plan were reasonable;
- Undertook a check on the sensitivity of the results i.e. Cardiff Airport's ability to repay the debt over a range of reasonable downside scenarios including a one-off catastrophic event taking place in 2021/22 leading to a temporary reduction in traffic for six years, bankruptcy of one of its major airline customers, a higher base rate relative to the base rate as at May 2019, and a reduction in the growth rate of non-aeronautical revenues per passenger; and
- Ensured that, based on the airport's business plan, the analysis showed that the terms of the credit facility was in line with State Aid rules and in particular, as the free cash flows projected in Cardiff Airport's business plan become positive, that Cardiff Airport will be increasingly able to pay down its debt and improve its cash position; concluding that the airport is expected to be in a position to pay back the principal on the loans, including the outstanding balance from the previous loans and the amount of rolled-up interest.

**Recommendation 11. Welsh Government should provide up to date details of its research and evidence base for the wider economic impact of the airport.**

**Response: Accept**

In 2019 Oxera Consulting LLP was commissioned by the Welsh Government to undertake detailed analysis on the economic impact of Cardiff Airport. A copy of the report will be published on the Welsh Government website.

**Recommendation 12. Welsh Government should publicly state whether the airport is being run on a commercial basis, in the expectation that it would ultimately generate a profit, or if it is being supported as an infrastructure asset to benefit the Welsh economy.**

**Response: Accept**

A Plenary debate on the Welsh Government's continued ownership of Cardiff International Airport Ltd is scheduled to take place in March 2020.

**Recommendation 13. Welsh Government should provide further evidence to support its view that public ownership of airports is the standard international practice, including the basis for the statement that ‘only 14 per cent of airports have private sector interest in them’.**

**Response: Accept**

In 2017, the Airports Council International (ACI) published a policy brief on airport ownership, economic regulation and financial performance. Key findings of the report include:

- 614 commercial service airports have private sector participation.
- An estimated majority (86%) of the 4,300 airports with scheduled traffic are public, in that they are owned by a government or governmental entity.
- Although airports with private sector participation account for an estimated 14% of airports worldwide, these airports handle over 40% of global traffic

A full copy of ACI’s report can be found here: <https://store.aci.aero/product/aci-policy-brief-airport-ownership-economic-regulation-and-financial-performance/>

**Recommendation 14. Welsh Government should set out its approach to distributing funding for apprenticeships in the academic year 2020/21 including an explanation of the overall approach, all demand management mechanisms and exceptions, and how the model will meet pinch-points of high demand.**

**Response: Accept**

We will need to approve the approach to determining the 2020-21 Apprenticeship allocations. Once this approach is agreed it will be detailed in the allocation offer letter to be issued to each contracted provider and a copy of this letter will be made available to the Committee.

**Recommendation 15. Welsh Government should provide the Regional Skills Partnerships with an interim, modest, sum of funding in the 2020-21 final budget to enable them to commission a small amount of rigorous research to improve their analytical capability.**

**Response: Reject**

The Welsh Government is already working with Regional Skills Partnerships (RSPs) to improve their analytical capability. Any commitment to increase funding to improve RSP research capability would be captured within the wider review of RSP funding. A commitment was made by Welsh Government to review RSP funding during 2020-21 in response to the EIS Committee report on RSPs following its Inquiry, which was conducted in 2019.

**Recommendation 16. The Welsh Government should set out the details of how the funding it has provided Airbus and the automotive sector in the previous 2019-20 budget was used. This should include any performance targets agreed. Welsh Government should also set out, in detail, the terms on which the new 2020-21 additional funding is to be distributed, the mechanisms in place to monitor its use, and the return on investment expected.**

**Response: Accept**

In terms of Airbus, the aim of the funding is to improve research and development capability as well as manufacturing productivity. This is done by supporting Airbus to deliver a number of specific projects. These include areas such as robotics, automation, digitisation, virtual reality and artificial intelligence; and the Undergraduate/Post Graduate programmes are critical development areas in order to effectively progress the Airbus “Wing of Tomorrow” programme and support research and development activities linked to the AMRC Cymru. During the year ended August 2019, the funding helped deliver:

- Over 2,000 training courses;
- Over 9,000 qualifications/completions;
- 10 apprentices who undertook specialist CIPS training;
- 14 apprentices who progressed onto HNCs & Diplomas;
- 33 employees who were supported on the Foundation degree Aero Engineering programme; and
- 11 employees who were supported on the B.Eng. Aero degree programme.

For the year ending August 2020, we expect levels of training to be broadly similar to that for 2018-19.

In terms of the automotive sector, Ford will not now be drawing down the majority of the grant funding made available. However, to support and improve the future employment prospects of the workforce, we will make available funding to support the delivery of skills that are very transferable in nature, in demand across industry and widely recognised as a priority to support economic development. Employers who recruit Ford individuals who have undertaken this training will benefit from the enhanced skill levels delivered and improved business resilience in readiness for whatever the Brexit negotiations deliver. The other automotive project has as yet not progressed and therefore no budget has been awarded at this stage.

There has been no other funding to Airbus in this period except for a final claim for £8,500 currently being processed for Industrial Cadets programme via Equality & Diversity budget. There will be no further funding for this activity going forward as the budget no longer exists.

**Recommendation 17. The Welsh Government should provide a copy of the analysis on the contribution EU funding makes to skills and employability programmes Welsh Government explained it has conducted. Welsh Government should also provide the Committee with copies of the plans and planning assumptions it says it has drafted to address skills funding post Brexit.**

**Response: Accept**

The Higher and Further Education Brexit Working Group (HEBWG), referred to by Mr Morris in the Committee, was established in September 2016 for Higher Education, and expanded to include representatives from Further Education and Work-based Learning providers in May 2018. The group brings together leaders from across the sector, including Vice-Chancellors and college Principals, to discuss high-level priorities and concerns relating to the withdrawal from the European Union, as well as to provide a network for information sharing and collaboration. Although the focus of the meeting has been on the exit from the European Union, including no-deal preparedness, structural funds – including ESF and ERDF – have been regularly discussed at the meeting, including at the meeting on 12 February 2020. The Group's work was informed by the following papers produced by the Government Office for Science Wales in 2019 '[Wales: Protecting research and innovation after EU exit](#)' and '[Involvement of Welsh Further Education colleges and institutions in EU funding](#)', produced by ColegauCymru in 2017.

In addition, work was undertaken in 2018 and 2019, to look at the impact of a no deal Brexit and ensure the Welsh Government was able to respond to likely rising unemployment, redundancy and NEET levels across Wales. This work focussed on strengthening the capacity and reach of the Welsh Government's employability programmes and contributed to the overall Welsh Government no deal strategic action plan. Specific analysis was undertaken for key programmes including REACT, which supports individuals affected by redundancy, on the volume of learners expected to require support post Brexit. It also considered where additional funding was required to meet demand, or expand provision to reduce the impact of Brexit.

SHELL currently has £340m of ESF approved through to December 2023 under the Apprenticeships, Traineeships, REACT and Jobs Growth Wales operations which directly support delivery of the Prosperity for All commitments to 'Reshape employability support and deliver 100,000 Apprenticeships'.

Following the referendum result in 2016, the Skills, Higher Education and Lifelong Learning Directorate worked closely with the Welsh European Funding Office (WEFO) to look at future options, including ESF funding coming to an end in 2018, 2020 and 2023 and the impact that would have on the ability to meet these Ministerial commitments. This work defined the level of ESF required to enable continuation of these operations, and therefore the underpinning programmes until December 2023 and led to revised ESF business plans which extended existing projects and increased the level of ESF available to SHELL. Whilst there are a number of variables which may impact on this, including fluctuations in exchange rates, SHELL are confident, based on continued assurances from WEFO, that funding will continue to be available for Employability and Skills support and Apprenticeships provision for the foreseeable future.



SHELL have also been engaged with WEFO and external stakeholders, through the WEFO led future regional investment working groups, on the development of the consultation on future regional investment within Wales. As it stands, Employability and Skills programmes are likely to have a key role to play in any new national framework, and national programmes are likely to continue to play a part in the delivery of these funds.

**Recommendation 18. The Welsh Government should set out, using specific examples, how it has placed gender equality at the heart of next year's employment and skills investment and policy; and how it is using the skills budget to close the gender pay gap and support the progression of women in the workplace.**

**Response: Accept**

The Welsh Government core fund Chwarae Teg.

Chwarae Teg provide policy advice and guidance to support the Welsh Government to become world leaders in Gender Equality. This includes, but not limited to, economic policy, employability, childcare, infrastructure, education and skills and strategic equality plans – this drives all our programme activities and the broader cultural shift required in relation to gender segmentation.

Chwarae Teg have initiated a number of programmes to enable women to gain experience and confidence to consider employment routes not first thought of or in a non-traditional route, also with progression within current roles:

- Leadership Programme – facilitates the shadowing of women in leadership positions across different sectors to challenge perceptions and to inspire women to consider leadership roles.
- Step to Non-Exec – young women can undertake an 18 month programme to learn about governance and the role of non-executive directors.

During the 2019-2020 year Chwarae Teg have commissioned a number of papers relating to Females in Employment, progressing and Gender Pay and will continue to develop these in more detail during 2020-21;

- **Trapped: Poverty amongst women in Wales** – Chwarae Teg recognised the risk, experience and impact of poverty is different for Women than Men. Poverty rates in Wales have largely remained static for the last decade. This report enhances the impact that poverty has on job progression and employment opportunities.
- **Triple Glazed Ceiling: Barriers to BAME women participating in the Economy** – Chwarae Teg noted through the work undertaken on the Rapid Review of Gender Equality, that progress dramatically changed when focused on BAME women. A one-size fits all approach cannot be adopted. This research brings to correct this

gap in knowledge about BAME women's experiences in Welsh Economy and start discussions on their recommendations.

In 2020-21 this will be developed further by Chwarae Teg engaging with Trade Unions, Wales TUC and the WULF programmes to start addressing the issues and look to implement change.

- **Men's Perception of Gender Equality** – Whilst progress is made towards the goal of Gender Equality this report highlights women's barriers and employment conditions are underrepresented. Cultures are required to change and given men make up the majority of the workforce – gendered nature workplace cultures are required to change. Men are less aware of the extent to which gender continues to shape women's careers and that motherhood is seen as a common view to shape a woman's career.

Recommendations given in the report to overcome the challenges and 2020-2021 will see Chwarae Teg work closely with employer networks to start informing and implementing recommendations.

**Recommendation 19. The Welsh Government should provide the Committee with more information on its gender budgeting approach in relation to its Personal Learning Accounts pilot.**

**Response: Accept**

As part of Phase 2 of the Gender Review, and as part of the 2020-21 budget preparations, we have committed to pilot a gender budgeting approach for the Personal Learning Accounts (PLA) pilot.

In summary, gender budgeting means applying a gender lens to how governments raise and spend public money. Examining how budgetary allocations affect the economic and social opportunities of women and men, and restructuring spending decisions to eliminate unequal outcomes and progress equality objectives is at the heart of gender budgeting. Gender budgeting does not mean separate budgets for women and men. It is instead a critical review of resource allocation to identify potential differential impacts (intended or unintended) at a gender-level and understand the contexts in which those differences arise, helping to lay the foundation for evidence-based decisions on how to prioritise and allocate resources.

We are exploring applying gender budgeting tools and considerations to the Personal Learning Accounts Pilot delivery and its outcomes develop. We will continue to refine this throughout the pilot. The intention behind this work is to gather feedback about the extent to which taking a gender budgeting approach could help to improve the budget process in the future.

The evaluation of the PLA pilot will seek to incorporate gender mainstreaming and emergent gender budgeting techniques. It will apply a gender lens to the development of the research specification which will ensure evaluation objectives, and the resultant research questions and analysis, provide evidence to support the gender budgeting agenda. It is planned to have a regular feedback loop from the evaluation to the

operational Steering Group in order that early findings can support delivery improvement. The evaluation specification will be issued shortly

**Recommendation 20. Now that the Reid review recommendations will not be fully implemented before the UK leaves the EU, the Welsh Government should set out its alternative plans for replacing EU research and innovation funding post Brexit.**

**Response: Accept**

The Welsh Government is developing a consultation document for a regional investment framework for Wales. This is taking place with a wide range of stakeholders, including the Regional Investment for Wales Steering Group. Currently, EU funding is enhancing research and innovation capacity to increase the success of research institutions to attract funding to Wales and is supporting business to translate innovation into new and improved commercial products. This is in line with the Reid Review recommendations and will feature in the consultation document. Furthermore, an International and Cross-Border sub-group has been developing principles and delivery mechanisms in order to take advantage of opportunities beyond Wales' borders.

Replacement of the EU funding is the responsibility of the UK Government; the Welsh Government's demands not to lose a penny of funding are clear in this respect. They were the subject of the papers Regional Investment in Wales after Brexit <https://gov.wales/regional-investment-wales-after-brexit> and Protecting Research and Innovation after EU Exit <https://gov.wales/wales-protecting-research-and-innovation-after-eu-exit>, and are stated in our negotiating priorities for the future relationship <https://gov.wales/the-future-uk-eu-relationship-negotiating-priorities-for-wales-html>

**Recommendation 21. The Welsh Government should provide the committee with the total quantum of research and development funding it provides and spends, broken down by areas of spend and the bodies to which is it disbursed or spent by.**

**Response: Accept**

The Welsh Government invests in a range of direct and indirect projects, such as investing more than £42 million in health and social services research annually and £20m in the new Advanced Manufacturing Research Institute (AMRI), Broughton.

An exercise to collate the full breakdown of funding will be actioned.

**Recommendation 22. The Welsh Government should commission a review of the whole research and innovation landscape in Wales including both public and privately funded activity. This review should allow the government to gain a full understanding of its research and innovation spend, including improving the effectiveness of that spend. Such a review would also provide an evidence base for a cross-government research and innovation strategy to cohere Welsh Government research and innovation policy and funding around its prosperity goals.**

**Response: Accept in principle**

In the first instance the Welsh Government will form an internal officials led group to advise Ministers on the scope of any such review.

**Recommendation 23. The Welsh Government should provide the Committee with details of any specific allocations in the budget which will be used to support the steel industry.**

**Response: Accept**

There is no budget allocation specifically for steel. The Welsh Government has moved away from a sectoral approach to supporting businesses to a regional approach. Any applications for support from steel companies are considered on a case by case basis and the information can be provided to the Committee

**Recommendation 24. The Welsh Government should provide the committee with as much detail as possible on the external consultants it has commissioned to work on the methodology for the indicative regional budgets (including who they are, what outputs are expected, what they are focusing on and what approach they are taking to their analysis).**

**Response: Accept**

Through open competition, the Welsh Government has procured Hatch Regeneris, a private limited consultancy company with offices in Manchester and London. Hatch Regeneris is a leading, independent economics consultancy. They provide robust, high quality social and economic research, analysis and advice to the public, private and not for profit sectors.

More information about the company can be found here: [www.regeneris.co.uk](http://www.regeneris.co.uk)

Hatch Regeneris are engaged to “develop and recommend a robust and equitable methodological approach, including a funding formula that Welsh Ministers could apply to generate regional indicative budget allocations for economic development activity’. As part of their work Hatch Regeneris are consulting a panel of external experts and their feedback will be embodied in a report that will be provided to Welsh Government. The report will set out their approach, which is based on the “developed base” method (a needs based analysis) that considers a small number of socio economic domains

which are closely related to economic policy together with appropriate weights which are applied to the indicators in each domain.

Ultimately, the methodology will derive indicative regional funding shares which can inform decisions about regional economic development funding and its monitoring.

**Recommendation 25. The Welsh Government should provide the Committee with as much detail as possible on the work of the OECD experts who are looking at how the Welsh Government can measure the success of the Economic Action Plan.**

**Response: Accept**

The OECD's Multi-Level Governance Review endeavours to support the Welsh Government's regionalisation efforts by enhancing institutional capacity for delivering regional objectives. An overview of the project can be viewed at:

<https://gov.wales/oecd-multi-level-governance-review-enhancing-institutional-capacity-for-regional-governance-and-public-investment-in-wales-html>

As part of this project, the OECD has been asked to advise the Welsh Government on international best practice – including in respect of measuring inclusive growth. It is expected that the OECD's work will conclude with publication of a report by the end of 2020.