

Agenda – Economy, Infrastructure and Skills Committee

Meeting Venue:

Committee Room 1 – Senedd

Meeting date: 17 January 2018

Meeting time: 09.15

For further information contact:

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Committee Clerk

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Private pre-meeting (09.15–09.30)

1 Introductions, apologies, substitutions and declarations of interest

2 Welsh Government Draft Budget 2018–19 and the Economic Action Plan – Cabinet Secretary for Economy and Transport

(09.30–10.30)

(Pages 1 – 73)

Ken Skates AM, Cabinet Secretary for Economy and Transport

Andrew Slade, Director General, Economy, Skills and Natural Resources

Marcella Maxwell, Deputy Director for Organisational Development & Change Programme

Simon Jones, Director, Economic Infrastructure

Dean Medcraft, Director, Finance & Operations

Attached Documents:

Research brief

EIS(5)–02–18(p1) Cabinet Secretary for Economy and Transport

EIS(5)–02–18(p2) Questions for the Cabinet Secretary for Economy and

Transport regarding the Welsh Government's draft budget 2018–19 and his response



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Break (10.30–10.45)

3 Devolution of bus registration powers – New Powers: New Possibilities

(10.45–11.30)

(Pages 74 – 92)

Huw Morgan, Team Leader Integrated Transport Unit, Caerphilly County

Borough Council (representing the WLGA)

Margaret Everson, Director, Bus Users Cymru

Justin Davies, Chair, CPT Cymru

Jo Foxall, Managing Director, Traveline Cymru

Attached Documents:

Legal brief

Research brief

4 Devolution of taxi and private hire vehicle (PHV) licensing – New Powers: New Possibilities

(11.30–12.15)

Paul O'Hara, Taxi Drivers of Cardiff

Claire Hartrey, Team Manager, Licensing (Cardiff), Bridgend, Cardiff and the Vale of Glamorgan (Representing Directors of Public Protection Wales)

Mike Payne, Regional Political Officer, GMB Wales & South West Region

5 Paper(s) to note

5.1 Welsh Government's response to the Committee's report – Welsh Government budget 2018–19

(Pages 93 – 95)

Attached Documents:

EIS(5)–02–18(p3) Welsh Government response

Private de-brief (12.15–12.30)

Agenda Item 2

Document is Restricted

Memorandum on the Economy and Infrastructure Draft Budget Proposals for 2018-19

Economy, Infrastructure and Skills Committee – 9 November 2017

1.0 Introduction

This paper provides information on the Economy & Infrastructure (E&I) budget proposals as outlined in the 2018-19 Draft Budget published in October 2017. The budget was published in two stages: an outline budget (stage 1) on 3 October followed by a detailed budget (stage 2) on 24 October. It also provides an update on specific areas of interest to the Committee.

It does not cover the budget detail relating to Culture which the Cabinet Secretary for Economy and Infrastructure will address at the Culture, Welsh Language and Communications Committee on 8 November 2017. It also excludes the areas of Skills, ICT Infrastructure, Science, Innovation and Life Sciences which are covered in a separate paper being presented by the Minister for Skills and Science.

Taking Wales Forward 2016-21 outlines the priorities in delivering employment opportunities through a stronger, fairer economy, improving public services and building a united, connected and sustainable Wales. Our economy influences everything we do. A strong economy, delivering for people in every part of Wales is essential to the ambitious, healthy, prosperous and united Wales we want to see.

The National Strategy: Prosperity for All directly contributes to the well-being goals within the Well-Being of Future Generations (Wales) Act 2015. It sets out the revised twelve well-being objectives and has provided the framework for developing our plan. The budget plans also considers the five priority areas: early years, housing, social care, mental health and skills and employability and recognises that economic prospects are integral to the strategy. We have adopted a long-term view in developing services and creating the conditions for the economy to thrive. The budget plans have been developed alongside the strategy to ensure it aligns to our future priorities.

2.0 Summary of Budget Changes

The Draft Budget 2018-19 provides a two year plan for revenue investment and a three year plan for capital investment. The tables below provide an overview of the planned revenue and capital expenditure for economy and transport activity in the portfolio.

Over the period 2018-19 to 2019-20, the total revenue budget is £347.406m and £322.612m respectively (excluding Non Cash and Annually Managed Expenditure (AME)). In overall terms, the revenue budget has increased by £6.226m in 2018-19 when compared to the revised baseline and decreased by £24.794m in 2019-20 as shown in Table 1:

TABLE 1: Overview of the Revenue Budget							
	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue							
Economy	49,160	(5,000)	44,160	4,026	48,186	(3,500)	44,686
Transport	299,670	(2,650)	297,020	2,200	299,220	(21,294)	277,926
Sub Total	348,830	(7,650)	341,180	6,226	347,406	(24,794)	322,612
Non Cash							
Transport	188,691	0	188,691	0	188,691	0	188,691
TOTAL	537,521	(7,650)	529,871	6,226	536,097	(24,794)	511,303
AME							
AME	123,226	0	123,226	(99,607)	23,619	128,235	151,854

Over the period 2018-19 to 2020-21, the total capital budget is £1.311bn. The summary budgets are shown in Table 2 below:

TABLE 2: Overview of the Capital Budget					
Economy	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital					
Economy	78,357	48,486	47,847	30,141	126,474
Transport	345,683	313,231	382,611	429,780	1,125,622
Sub Total	424,040	361,717	430,458	459,921	1,252,096
Financial Transactions Funding					
Economy	31,250	15,720	31,500	8,000	55,220
Transport	5,000	2,200	1,200	0	3,400
Sub Total	36,250	17,920	32,700	8,000	58,620
Total Capital					
Economy	109,607	64,206	79,347	38,141	181,694
Transport	350,683	315,431	383,811	429,780	1,129,022
TOTAL	460,290	379,637	463,158	467,921	1,310,716
2017-18 Final Budget					
	458,090	304,636	365,855	431,534	1,102,025
Change in New Plans					
	2,200	75,001	97,303	36,387	208,691

These expenditure plans are aligned to deliver the key priorities set out in Taking Wales Forward 2016-21.

In addition funding is held in central reserves to deliver strategic infrastructure. Subject to the outcome of the independent public inquiry, reserves of £739.761m are earmarked for the M4 over the next three years. Capital funding of £173.180m, previously held in reserves to support delivery of the South Wales Metro, is now included in the core budget allocation for Transport

within the E&I MEG over the budget period. As the options for delivering the metro could include improvements in the rolling stock further funds are held in reserve should that option be taken forward as part of the wider procurement process.

2.1 Revenue

In shaping our spending plans for 2018-19, we have looked to minimise the impact of reductions on public transport services and growth and jobs in the short term. Over the longer term we will need to share resources across public services and collaborate with our partners to achieve long-term efficiencies. We are involving people in the future decision-making to inform our priorities.

The Two Year Budget Agreement with Plaid Cymru will progress initiatives for economic development that are important to Wales. Additional allocations of £16.1m over two years, supporting the economy and transport activities in the portfolio, are detailed in the table below:

TABLE 3: Two Year Budget Agreement with Plaid Cymru – Additional Revenue Allocations			
Priority	2018-19 £'000	2019-20 £'000	Total £'000
New Allocations			
“Arfor” – secretariat & investment for economic development in West Wales	1,000	1,000	2,000
Third Menai Crossing – feasibility study	1,000	3,000	4,000
Electric car charging points	1,000	1,000	2,000
Foundational economy programme	1,500	0	1,500
Cleddau Bridge – remove tolls	0	2,000	2,000
Traws Cymru – upgrade buses to coaches	200	200	400
Start Up grant – journalists to set up business in hyper local news	100	100	200
Recurrent Allocations – 2017-18			
Visit Wales	3,000	1,000	4,000
Total incremental change of £0.5m between 2018-19 to 2019-20	7,800	8,300	16,100

The movements in revenue budget allocations at an Action level from the 2017-18 First Supplementary Budget to the 2019-20 Draft Budget allocations are detailed in **Annex A**.

2.2 Non Cash

There has been no change to the non-cash budget.

2.3 Capital

Four year capital plans were published in the 2017-18 Final Budget, providing greater transparency and certainty to our key stakeholders and delivery partners. In this paper, we therefore discuss changes that have made to the four year capital plans since the publication of the last budget. This includes the changes to budgets between the 2017-18 Final Budget and the 2017-18 First

Supplementary Budget. The details under each Action are considered for the Economy budgets at paragraph 4 and Transport budgets at paragraph 6.

We will continue to adopt a preventative spend approach, evaluating the long-term benefits and outcomes of our strategic investments to maximise economic benefits and improve public services. Affordability of capital programmes continues to be a challenge. However, in addition to traditional capital and financial transaction funding, we support our investments through maximising European funding opportunities, capital borrowing powers for the M4 and innovative finance solutions.

The establishment of a new National Infrastructure Commission for Wales will be important in assessing the priorities for capital investment. The total Economy budget of £181.694m will support a wide range of priorities.

We will continue to provide access to finance for SMEs through our business development funds including those within Finance Wales. The creation of the new Development Bank of Wales will strengthen this policy initiative and is supported by £28m of financial transaction funding over the next three years.

Transport connectivity at a national, regional and local level is vital to social cohesion and access to employment opportunities. Over the next three years £1.129bn is allocated for the prioritisation of schemes set out in the National Transport Finance Plan 2015. In addition, £740m is held within Welsh Government central reserves to develop the M4 relief road, pending the outcome of the public inquiry. Recognising the development of integrated transport systems is also a key driver for economic growth. The Transport spending plans also include circa £300m for roads maintenance and improvement.

Additional capital allocations of £238.180m are summarised in the Table below:

TABLE 4: Additional Allocations				
Project	2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Two Year Budget Agreement with Plaid Cymru – north to south links with particular focus on the A487 and A470	-	15,000	-	15,000
Llanwern station, park and ride and stabling line	30,000	10,000	10,000	50,000
Release of funding earmarked in reserves for South Wales Metro	54,880	82,800	35,500	173,180
Total	84,880	107,800	45,500	238,180

Innovative financing solutions help to deliver additional investment in economic infrastructure. The Mutual Investment Model was launched in February 2017 and will be utilised to deliver the final phases of the A465 dualling scheme.

The Budget Expenditure Line tables attached at **Annex B** provide a full breakdown of the portfolio's revenue and capital budgets.

The E&I MEG also includes a budget allocation for AME, which provides cover for charges that are outside the control of the portfolio, such as impairments on the property portfolio, joint ventures, investments and the roads network. The budget movements over the two years reflect the changes in the provision required for the roads network and property impairments.

3.0 Equality, Sustainability, Welsh Language and Demographic Considerations

In formulating our plans the following key demographics trends and recent statistics published by the Welsh Government have been considered which suggest that:

- Wales' population is projected to increase by around 5% over the next 20 years.
- The percentage of over 65s in Wales is set to increase from around 20% to around 25% of the entire population over the next 20 years. The population aged over 75 in Wales is also projected to increase from 9% of the population in 2014 to around 13% in 2030.
- The number of young people (aged under 16) is projected to increase up to 2023 and then fall slightly up to 2030, although continuing to account for around 18% of the population over this period.
- Overall, relative income poverty rates remain stubborn, particularly for working-age people. However, the rate for pensioners has declined since the mid to late 1990s.

These are available on the Welsh Government's website:

<http://gov.wales/docs/statistics/2017/170505-future-trends-report-2017-en.pdf>

Our budget proposals have continued to look at the Well Being of Future Generations Act (2015) and 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 and support a focus on our shared national goals.

Sustainable development is at the heart of the Act and is the central organising principle of our plan, ensuring that our decisions take account of the economic, social, cultural and environmental objectives and impacts. In so doing, we are adopting an approach to embed involvement, collaboration, integration, long term investment and prevention into our policies and delivery.

Our public transport improvements support our aspirations to reduce emissions by reducing car use and provide cleaner and more efficient vehicles, which is good for our health and our environment. For example, the South Wales Metro will transform the way we travel around the Cardiff Capital Region, providing faster, more frequent and joined-up services using trains, buses and light rail. The demographic changes are particularly important in planning for concessionary bus travel for both older and younger people. The Plans also include £2m for electric charging points to facilitate use of energy efficient transportation in reducing carbon emissions.

We recognise the important significance of the Welsh language to the economy of Wales and the key role of the Welsh Language Standards and Welsh language impact assessments in framing our approach to promoting the use of the Welsh language. Good quality jobs and sustainable growth will provide people with a reason to remain or return to work and live in local communities where the language thrives. A thriving economy will support our target of one million Welsh speakers by 2050.

Our plans give due regard to the requirements of the United Nations Convention on the Rights of the Child and the requirement in Wales to assess the impact of Ministers' actions on the rights of children and young people. For example, Children's Rights were considered for the National Transport Finance Plan 2015.

Our programmes and projects reflect the Welsh Government's long-term commitment to reduce the impact of deprivation and support prosperity for all. Our focus is on supporting the creation and retention of jobs that allow people to engage in a positive way with the labour market and earn a decent income, recognising that decent work strongly protects people from poverty, particularly persistent poverty.

We take a balanced approach, focusing on a range of industries and sectors to stimulate demand for all types of jobs. Our aim is to support opportunities for highly skilled individuals, as well as entry level and progression opportunities for those further from the labour market.

Our programmes and projects are also helping to address some of the challenges faced by people when accessing employment and training, to ensure those in, or at risk of poverty, are able to benefit from opportunities realised from economic growth. This includes support for skills development to equip people to take advantage of employment opportunities, delivery of an effective and affordable transport network that enables people to access jobs and training, and efforts to encourage responsible employment practices, such as flexible working arrangements, that allow people to work around caring responsibilities, or take on more hours and increase the wages they are able to earn.

Transport plays a vital role in driving Wales' economic competitiveness, connecting people, communities and business to jobs, facilities and markets. Our focus is to provide a sustainable, multimodal and integrated transport system which enables our communities to be united and to prosper, providing access for all our people to the opportunities they need to live healthy, sustainable and fulfilling lives.

That integrated system is a key lever for the delivery of the Welsh Government's wider agenda on supporting prosperity for all and addressing social cohesion.

4.0 ECONOMY – FUNDING OF ACTIONS

Compared to the 2018-19 revised baseline budget, there is a net increase in the revenue allocation of £4.026m and a reduction of £3.5m in 2019-20 within the overall Economy programme area. The total capital allocation over the period 2018-19 to 2020-21 is £181.694m.

Economy	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	49,160	(5,000)	44,160	4,026	48,186	(3,500)	44,686
Total Resource	49,160	(5,000)	44,160	4,026	48,186	(3,500)	44,686

Economy	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	78,357	48,486	47,847	30,141	126,474
FT Funding	31,250	15,720	31,500	8,000	55,220
TOTAL	109,607	64,206	79,347	38,141	181,694
2017-18 Final Budget	109,607	68,559	84,288	41,606	194,453
Change in New Plans	0	(4,353)	(4,941)	(3,465)	(12,759)

Our budget allocations will drive investment in the economy as we start to deliver the key priorities in *Taking Wales Forward*. Although future revenue financial settlements are not yet determined, resources are focused on activities to deliver the best opportunities for all individuals in the immediate term.

The detailed breakdown of the activities by Budget Expenditure Line is shown at **Annex B**.

4.1 Sectors

Sectors Action ¹	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	31,262	(5,000)	26,262	697	26,959	(3,500)	23,459
Total Resource	31,262	(5,000)	26,262	697	26,959	(3,500)	23,459

¹ Excludes Life Sciences – scrutinised as part of Minister for Skills & Science portfolio

Sectors Action ¹	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	59,857	45,081	45,270	26,755	117,106
FTR	25,750	8,500	25,400	3,000	36,900
TOTAL	85,607	53,581	70,670	29,755	154,006
2017-18 Final Budget	85,607	57,814	75,473	33,061	166,348
Change in New Plans	0	(4,233)	(4,803)	(3,306)	(12,342)

¹ Excludes Life Sciences – scrutinised as part of Minister for Skills & Science portfolio

The Sectors budgets are key to delivering growth and sustainable jobs, and also contribute towards the tackling poverty, education and equality of opportunity agendas.

The 2016 Budget Agreement with Plaid Cymru provided £5m revenue funding for Visit Wales and explains the movement in the revised revenue baseline from 2017-18. As part of the new Two Year Budget Agreement with Plaid Cymru, recurrent funding of £3m in 2018-19 and £1m in 2019-20 will enable us to build on the successful Wales brand to reinforce a contemporary, compelling and engaging identity for Wales, that drives the nation forward as a place to do business and study and that inspires the people of Wales to create their future with confidence; and to modernise our global digital presence.

In delivering our Economic Action Plan (see paragraph 5.1 below) the allocations for “Arfor” £2m over two years and the foundational economy programme funding of £1.5m in 2018-19 will be important initiatives to create employment opportunities and generate wealth. The movement in 2019-20 of £3.5m is as a result of non recurrent funding in the agreement (£2m Visit Wales and £1.5m “Arfor”).

The increase in the Sectors revenue budget of £0.697m against the revised baseline results from the total additional funding of £5.5m (from the Two Year Budget Agreement) offset by the realignment across sector budgets of £4.803m, based on delivery requirements and the reclassification of a number of ICT projects as capital expenditure. The difference £0.697m represents Life Sciences budget which is included in the Minister for Skills and Science paper. This is also re-allocated to Entrepreneurship.

The Sectors capital budget of £154.006m over the three years supports investments for growth and jobs. Capital projects have also been reprioritised in line with delivery, and the resulting available budget of £12.342m has been reallocated to fund Innovation and Science Research & Development activity, following a reclassification of this expenditure from revenue to capital to comply with statutory accounting standards.

Financial transaction funding includes £28m for the Development Bank of Wales (DBW) investment funds. DBW is discussed further at paragraph 5.5 below.

4.2 Entrepreneurship

Entrepreneurship & Business Information Action	2017-18 First Supp budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	4,231	0	4,231	6,710	10,941	0	10,941
Total Resource	4,231	0	4,231	6,710	10,941	0	10,941

The Entrepreneurship and Business Information budget of £10.941m supports youth entrepreneurship, start-ups, micro-businesses, SMEs, social enterprise and responsible business practices. Responsible business practices will facilitate corporate social responsibility commitments by requiring businesses to behave ethically and contribute positively to the economy. The budget also levers in a total of £49m of EU funding through the £85m Business Wales 2014-2020 programme.

The additional core budget requirement includes £6.6m to support the programme profile, as the drawdown of EU monies was prioritised at the start of the programme. Consequently, the core budget requirement was lower in the early years of the programme and has increased in line with planned delivery. The additional £6.6m has been drawn from Sectors (£4.8m), Life Sciences (£0.7m) and Innovation (£1.1m) budgets.

There is also an additional recurrent allocation of £0.1m in 2018-19 as part of the Two Year Budget Agreement with Plaid Cymru for start up grants for journalists seeking to set up their own business in hyper local news.

4.3 Major Events

Major Events Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	3,918	0	3,918	0	3,918	0	3,918
Total Resource	3,918	0	3,918	0	3,918	0	3,918

In recognition of the importance of hosting Major Events such as the UEFA Euro 2016 in building a prosperous Wales and enhancing Wales's international reputation, the budget has been maintained at £3.918m. In 2016-17, 35 events were supported - 20 cultural and 15 sporting - with a geographical spread across Wales. We estimate that around 348,360 visitors travelled to Wales to enjoy the events hosted here; spending an additional £52.7m and supporting over 1,215 jobs in the tourism sector.

4.4 Property Related Infrastructure

Deliver Property Related Infrastructure Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	4,026	0	4,026	0	4,026	0	4,026
Total Resource	4,026	0	4,026	0	4,026	0	4,026

Property Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	18,396	3,405	2,577	3,386	9,368
FTR	5,500	7,220	6,100	5,000	18,320
TOTAL	23,896	10,625	8,677	8,386	27,688
2017-18 Final Budget	23,896	10,625	8,677	8,386	27,688
Change in New Plans	0	0	0	0	0

The revenue budget of £4.026m covers the management and development of the property portfolio, land reclamation activity and property offers to business.

There are no changes to the total capital allocations in this Draft Budget. The capital budget of £27.688m is net of £7.5m capital receipts over the three years will provide for the development of strategic sites to support sector and spatial priorities across Wales. This includes funding for the design and construction of a 50,000 sq ft industrial building in Ebbw Vale for the Technology Park which is aligned with the action plan for *Our Valleys, Our Future*.

4.5 Corporate Programmes

Corporate Programmes Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	3,983	0	3,983	(1,641)	2,342	0	2,342
Total Resource	3,983	0	3,983	(1,641)	2,342	0	2,342

Corporate Programmes Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	104	0	0	0	0
TOTAL	104	0	0	0	0
2017-18 Final Budget	104	120	138	159	417
Change in New Plans	0	(120)	(138)	(159)	(417)

The revenue budget includes an annual budget of £0.8m for Healthy Working Wales which delivers workplace initiatives supporting our healthy and active ambitions. The remaining revenue budget supports economic analysis, reviews and strategic engagement. The decrease of £1.641m revenue and capital of £0.417m over the three years is in relation to a budget transfer for the National Loan Fund from the E&I MEG to the Central Services and Administration MEG.

4.6 Development Bank of Wales

Development Bank of Wales Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	1,740	0	1,740	(1,740)	0	0	0
Total Resource	1,740	0	1,740	(1,740)	0	0	0

The operating grant to Finance Wales is no longer required resulting in an efficiency saving of £1.740m. The new Development Bank of Wales will be self sustaining with no requirement for funding.

5.0 ECONOMY – KEY POLICIES

Additional information has been provided in response to the specific areas highlighted by the Committee as follows:

5.1 Prosperous and Secure Strategy

To provide more detail on how we will implement the commitments set out in *Prosperity for All* strategy, we will publish, later this autumn, an Economic Action Plan. The Plan will focus on seven of the twelve Well-Being for All objectives:

- Support people and businesses to drive prosperity.
- Tackle regional inequality and promote fair work.
- Drive sustainable growth and combat climate change.
- Build ambition and encourage learning for life.

- Equip everyone with the right skills for a changing World.
- Deliver modern and connected infrastructure.
- Promote and protect Wales' place in the World.

The Plan will be wide-ranging and will draw on our levers across Welsh Government to grow our economy, spread opportunity and promote well-being. The Plan will drive a number of changes including:

5.2 A New Economic Contract

An Economic Contract will shape our relationship with business, based on a mutual understanding of our respective roles and the contribution we can all make to achieving shared objectives for a more prosperous and secure Wales.

5.3 National Sectors and the Foundation Economy

To better support prosperity across all parts of Wales, we will be focusing on fewer national sectors and a number of foundation sectors. Further detail will be included in the Economic Action Plan.

As part of the Two Year Budget Agreement, an additional allocation of £1.5m in 2018-19 (within the Sectors Action, as described above) will support a programme focussed on the care sector and procurement in urban and rural Wales. The development of the foundational economy is important as it makes a significant contribution in Wales.

5.4 Regionally Focussed Economic Development

We recognise that Wales has regions that have distinct opportunities and challenges. Using the Local Government Reform footprint – we will establish regional leads charged with engaging with the regions and helping to shape Welsh Government delivery so that we better respond to the specific challenges and opportunities in each region. Recognising the importance of the Welsh language in supporting local economic opportunities, the Two Year Budget Agreement provides an additional £2m of funding for “Arfor” (within the Sectors Action, as described above) to support secretariat and investment for development of the economy in West Wales.

5.5 The Development Bank of Wales

The Development Bank of Wales (DBW) will be a core component part of the Welsh Government's economic policy and delivery. It is supported with £28m FT funding over the three years. The DBW remit will be to improve SMEs ability to access finance and support creation and safeguarding jobs. It will, at the same time, improve the integration of the provision of investment related advice and support to businesses by working more closely with Business Wales.

Some of the key impacts and outputs will be to:-

- Drive up investment levels to £80m per annum within five years. Finance Wales invested £56m in Welsh SMEs in 2016-17.

- Achieve a minimum target of 1:1.15 Private Sector Leverage (PSL).
- Increase jobs created and safeguarded to over 5,500 per annum by 2021-22.
- Improve the integration of the provision of advice and support through Business Wales.

Going forward, one of the step changes which the DBW will provide is the creation of a new Intelligence Unit. This will enable the DBW to better understand the market and undertake in-depth analysis of SME behaviours with their changing needs. Future funds will be informed by analysing these evolving market needs and conditions. The DBW will also have an enhanced strategy team, which will work more formally with the Office of National Statistics and Welsh Universities to better review economic trends including the SME market.

The strategic overview of the Development Bank of Wales is available at:

<http://www.financewales.co.uk/PDF/DBW%20Strategic%20Outline%20Brochure%20digital1.pdf>

5.6 City Regions

The development of city regions in the Swansea Bay and Cardiff Capital City will lead to sustainable economic growth and provide a framework, beyond the investment, that allows regions to work together to set economic priorities and deliver key functions as a region, including land use planning, skills, transport and economic development.

The Cardiff Capital Region City Deal was established with an Investment Fund for the Region of £1.2bn over a 20-year period. Over its lifetime, the Cardiff Capital Region City Deal aims to deliver up to 25,000 new jobs and lever an additional £4 billion of private sector investment.

With £734m of planned investment, the Deal places the South Wales Metro at the centre of a significant infrastructure programme; made up of circa £503m from the Welsh Government, £125m from the UK Government and circa £106m from ERDF. The Deal also sees a further £495m (£375m from the UK Government and £120m from local authorities) available to prioritise in line with the objectives of the Deal. The full allocation of the funding is subject to the Cardiff Capital Region City Deal's successful completion of the Five Year Gateway Reviews, which will evaluate the impact of the Deal's investment of the funding in the five year period up to the Review. The assessments will be underpinned by an independent review of the economic benefits and economic impact of the investments and whether projects developed by local authorities, have been delivered on time and to budget.

The Swansea Bay City Deal will be underpinned by a total investment package of £1.274bn made up of £125.4m Welsh Government funding, £115.6m of UK Government funding, £396m of other public sector money and £637m from the private sector. Over the next 15 years, this Deal aims to boost the local economy by £1.8 bn and generate almost 10,000 new jobs. The next milestone will be the establishment of the Joint Cabinet and the formal submission of full

business cases in relation to the eleven identified projects including Health, Energy, Economic Acceleration and Smart Manufacturing.

Detailed business cases are being developed by the local partners for the eleven major project proposals which underpin this deal for approval by the Welsh and UK Governments. Swansea Bay City Region is also working with the Welsh and UK Government to develop and agree formal governance arrangements to provide strong leadership and accountability for the Deal's successful delivery.

Swansea Bay City Region are working with the Welsh and UK Governments to develop an agreed implementation, monitoring and evaluation plan, which sets out the proposed approach to evaluating the impact of delivery.

5.7 Enterprise Zones

The Enterprise Zones programme aims to provide the infrastructure to create excellent locations for business investment and offer specific incentives to attract new businesses to these prime locations in Wales. The revenue allocation is £0.831m in 2018-19 and £1m in 2019-20 (within the Sectors action) to support feasibility studies and business cases. Enterprise Zones research has shown that area based initiatives can have positive impacts on employment and regional GDP¹. Capital budgets for economic development and investment in infrastructure are available to support prioritised projects. With the exception of a £2.5m allocation in 2018-19 for Llangefni Link Road, strategic Enterprise Zone projects are embedded in the sector business development activity and therefore there is no designated capital allocation to the programme itself.

Enterprise Zones objectives are to:

- Grow the local economy and provision of new jobs
- Act as a catalyst for growth elsewhere in Wales
- Improve the attractiveness of the Enterprise Zone for investors
- Strengthen the competitiveness of the Welsh economy.

The Enterprise Zones Key Performance Indicators are published twice yearly to enable monitoring of progress in key areas such as jobs, investment, land development, business support and enquiries and are available at the following link: <http://gov.wales/docs/det/publications/170719-kpi-16-17-en.pdf>

5.8 Local Growth Zones

In 2018-19, the regional development and delivery budget of £0.263m (within the Sectors Action) supports a number of regional priorities including the local growth zone strategy and other regional and cross border initiatives, including the Mersey Dee Alliance and North Wales Economic Ambition Board.

Reports from the Task and Finish Groups in both Powys and the Teifi Valley have provided wide ranging recommendations which cut across a number of Ministerial portfolios. A number of actions are being taken forward in collaboration with local authorities and the private sector including public

¹ <http://www.whatworksgrowth.org/policy-reviews/area-based-initiatives/>

transport improvements such as additional train services on the Cambrian Main Line.

Information in relation to Local Growth Zones is available on the Welsh Government's web site: <http://gov.wales/topics/businessandconomy/growing-the-economy/local-growth-zones/?lang=en>

5.9 Business Improvement Districts (BID)

Business Improvement Districts are now part of the Communities & Children Portfolio.

5.10 Brexit Considerations

In terms of financial implications for the portfolio of the UK leaving the European Union, extensive work is underway across the Welsh Government to ensure we maximise our influence in discussions within the UK and in turn in formal EU negotiations and thereby secure the best possible outcome for Wales. A UK Treasury guarantee on funding for current European Structural and Investment (EIS) Funds and other EU programmes provides some degree of certainty for investments made before our exit from the EU. Beyond the date of exit, however, there remains uncertainty about how that guarantee will work in practice, including the implications of any transition deal, exit agreement, or "no deal".

We are also pressing the UK Government to confirm successor funding to replace our EU ESI funds, which are multi-annual allocations provided to the Welsh Government based on need rather than population. We have been clear since the referendum result that Wales should not lose a penny of current EU funding, honouring promises made during the campaign. We are committed to working with UK Government to secure appropriate funding for Wales, as a responsibility of Welsh Ministers accountable to the National Assembly for Wales.

We also expect the UK Government to honour its commitments to the transfer of powers and responsibilities from the EU to Wales. For this to be meaningful it must be accompanied by an appropriate level of funding to enable us to deliver those new responsibilities.

The UK is scheduled to leave the European Union in March 2019. Our new relationships with EU and with the rest of the world is one of the defining questions of our times. Since the referendum we have been engaging widely with businesses right across Wales to understand the risks and opportunities of Brexit.

We recognise of course that businesses have concerns around the uncertainty ahead and about specific issues around access to the Single Market and tariff and non-tariff barriers. But there may also be potential opportunities presented by Brexit and it is important that we work together to explore those opportunities.

We are focussing our efforts on protecting jobs and the economy for the longer term, through the allocation of funding to specific activities such as the Development Bank of Wales, communicating our pro-business message and by

engaging directly with business on their priorities.

We are working hard to protect our share of European trade during the Brexit negotiations and beyond, with an emphasis on full and unfettered access to the single market and a smooth transition. In addition we need to focus on supporting businesses to prepare to deal with the regulatory changes caused by Brexit. Beyond that we will also want to focus on supporting businesses looking to maximise the opportunity of any new and expanding markets around the world, in line with whatever trading arrangements are in place.

Proactive campaigns are also supporting businesses and tourism. The Two Year Budget Agreement with Plaid Cymru provides recurrent funding of £3m in 2018-19 and £1m in 2019-20 which will enable us to build on the successful Wales brand.

We are hearing evidence that some firms are delaying investment decisions, or that they are planning based on a worst case scenario. This is why it is so important that we are clear that Wales remains open for business and that we stand ready to continue to support business in making the case for future investment in Wales. One of our biggest efforts to the potential negative impact of Brexit is making our businesses ready and able to export and trade and we are increasing our efforts to grow the number and scale of Welsh based businesses that are exporting through bringing forward a pro-active plan for export support.

We remain committed to the priorities set out in our white paper, *Securing Wales' Future*, and we have been undertaking widespread engagement since the EU referendum with businesses of all sizes and sectors across Wales. In terms of the key messages, businesses are still telling us that access to the single market is the over-riding factor.

This year, we commissioned a research report on the impact of Brexit on key businesses and sectors in Wales from Cardiff Business School. This work used information gathered directly from a number of anchor and regionally important companies, as well as a number of other businesses through a series of roundtable events. In its report Cardiff Business School has examined the impact of Brexit on different sectors in Wales and we are currently considering the findings of this work and whether it is possible to make the report publicly available.

A series of workshops on EU Transition have also been held with our revised Anchor Company and Regionally Important Company Group. These focus on four key themes, which are: Innovation and R&D; Selling Wales to the world and to itself; Export, trade, regulations and exiting the EU; and Entrepreneurship and SMEs.

We are continuing to build on the evidence base in relation to Brexit through our regular discussions with businesses in Wales, and are currently pulling together a broader proposal for future engagement with SMEs. Work on Brexit scenario planning is also commencing through our priority sector teams. The establishment of the working group with representatives from the Council for Economic Renewal, business community, Wales TUC and the Wales Coop will

develop increased understanding of the challenges and opportunities of the exit from the EU.

The timescales and scope of UK Government legislation in relation to Customs and Trade is unclear at this stage, however, amending these systems will have an economic impact, and will particularly impact on the ports and harbours of Wales. We are working with counterparts in the UK Government to understand what is proposed in this legislation, in order that we can mitigate the risks for Wales and maximise the benefits.

5.11 Export & Inward Investment Support

Inward investment remains a driver of economic development in Wales and we work with overseas companies and those based in the UK to bring further investment and jobs into Wales.

In 2018-19, £1.707m has been allocated for export support activity (within the Sectors Action). Stimulating exports to new and existing markets is a key priority over the next five years. We are assisting companies to grow their business through exporting and have a comprehensive range of services to support them to achieve that ambition. We can help them to become export and market ready and then connect them with opportunities and customers in their chosen markets by supporting companies to travel to overseas markets, exhibit at trade fairs, or meet with potential customers.

For trade performance an evaluation of value for money is measured by the value of new export business secured by the companies supported. In 2016-17, new orders worth £70m in new business were reported. This was a return on investment of over 40:1 on net programme expenditure.

Inward investment activity is delivered through events, sponsorships, seminars and research subscriptions. It also includes support for inward visits. The outcomes are monitored closely in terms of delivering value for money. Each spend is justified against a detailed business case.

The Department for International Trade's annual report for 2016-17 reported that 85 inward investments projects were secured in Wales, with the potential to create or safeguard over 11,500 jobs (almost 11% of the UK total number of jobs); this was slightly below the record levels reported in previous years but still the third highest number of projects ever secured. This equated to 3.8% of the overall number of inward investment projects secured by the UK for 2016-17.

Our performance with regards to securing investment from companies headquartered elsewhere in the UK has improved in recent years, with 2016-17 seeing the highest level of UK investment recorded since our records began five years ago. Last year saw 82 investments by companies headquartered in other UK regions, creating or safeguarding more than 5,500 jobs. The previous highest level of investment was in 2014-15 when 58 projects were recorded.

Our export support programmes comply with the Welsh Government's standards for equality, sustainability and Welsh Language. Trade and Inward investment activity that is taking place outside of Wales has been granted an exemption

under the Welsh Language Standards. Therefore, the Standards do not apply when producing literature/hosting events in overseas markets.

5.12 Support for the steel industry

The Welsh Government is committed to safeguarding a sustainable steel industry in Wales which includes the retention of a relevant skills base for the sector. Innovation is also vital to ensure the steel industry in Wales remains globally competitive for the long term.

A recent Written Statement on 20 September provides update on the developments at Tata Steel available at:

<http://gov.wales/about/cabinet/cabinetstatements/2017/tataupdate/?lang=en>

The Two Year Budget Agreement includes the commitment that £30m of funding for the Tata power plant is available within the current package of support available to the company as part of Tata's commitment to steel production in South Wales.

Wider support to the steel industry is delivered within Sectors budgets. Sustainable investment in the steel industry continues to be a priority for economic development.

5.13 Partnership for Growth 2013-2020 – Tourism Strategy

We will continue to deliver the Tourism strategy by increasing visitor spend, building on the success of our themed year marketing campaigns and capital investment for new and existing business to help drive up quality and develop new and exciting tourism products throughout Wales.

The Tourism revenue budget of £13.762m in 2018-19 and £11.762m in 2019-20 (within the Sectors Action) supports promotional activity and capital investment. The sector budgets have been reprioritised to provide an additional marketing budget of £0.5m per annum to market Wales as a business destination. This Draft Budget includes a £5m capital investment over three years to support the Tourism Investment Support Scheme and strategic projects in *Taking Wales Forward*.

A review of the Partnership for Growth 2013-2020 Strategy was undertaken in November 2016 and is available here:

<http://gov.wales/docs/drah/publications/161116-strategy-review-en.pdf>

We are on track to exceed the strategic target of 10% growth in real terms from staying visitor earnings by 2020:

- There has been strong growth in trips and expenditure by staying visitors to Wales. In the period January to June 2017, the volume of overnight trips rose by 6.3% to 4.24m compared with the same period in 2016 with expenditure increasing by 9.5% to £724m.
- The volume of international visitors continued to grow in 2016 exceeding one million trips, spending a record £444m.

- In the year to June 2017, there was a strong performance of day visits with almost 101m trips and £4.7bn spend.

A refreshed brand was introduced in 2016, this was reinforced with the introduction of a series of tourism themed years including Adventure (2016), Legends (2017), The Sea (2018) and Discovery (2019) providing a focal point for Visit Wales' marketing and campaigns activity. We support innovative new projects from the private and public sectors aligned with these themes through the Tourism Product Innovation and Regional Tourism Engagement Funding schemes.

The additional funding of £4m in the Two Year Budget Agreement for Visit Wales will help us to build on the Wales brand. This new approach is working with Year of Adventure seeing an additional £370m generated for the Welsh economy in 2016 from Visit Wales marketing – an 18% increase on 2015 figures. Visit Wales' proactive travel trade programme targeting domestic, international and inbound tour operators is also achieving results. In 2016, £9m of visitor spend to Wales was influenced by this programme, approximately equivalent to 206 jobs.

Visit Wales' consumer facing international marketing programmes continue to gain traction in key markets such as Germany and North America, and reach is being expanded beyond these key markets through focused airline route marketing partnerships.

Looking forward, we will be launching an ambitious new tourism route at the end of 2017 'The Wales Way' which will include a new world class family of tourism routes. Visit Wales has also embarked on a new approach to attracting leading business events to Wales with a Business Events programme that will capitalise on the significant potential identified to draw large international association events and conferences to Wales.

Meanwhile, the refreshed Wales brand and our flagship tourism campaigns represent a major step forward in the way we promote Wales internationally. The next step is investment in a Wales Digital Gateway project which will deliver improved integration between our existing external Wales facing sites (wales.com, visitwales.com, tradeandinvest.wales, studyinwales.ac.uk) which will provide easier access to information on Wales.

5.14 City and Growth Deals

We remain committed to delivering successful Deals for all regions of Wales with the Welsh Government continuing to be a full partner in their development and delivery. Deals offer Wales and our regions an opportunity to unlock additional Treasury funding to support interventions that can deliver sustainable economic growth.

However, Deals are not simply project delivery and funding vehicles, they are critical tools in providing a framework that allows regions to drive a new way of collaborative working, setting priorities as a single voice which supports local economic ambitions and objectives and delivering key functions at a strategic level. City regions detail is included at paragraph 5.6.

Powys and Ceredigion are developing 'Growing Mid Wales', which draws together local business, academic leaders and national and local government to create a vision for the future growth of Mid Wales. Our expectation is also that Powys and Ceredigion should not be excluded from the benefits of the City Deals that already exist.

We are working closely with the North Wales Region and the North Wales Ambition Board to consider how a North Wales Growth Deal can best support their ambitions to bring further economic growth. As discussions commence, it is too early to say at this stage what form the Welsh Government's support will take.

5.15 Establishment of the National Infrastructure Commission

The National Infrastructure Commission will play a key role in planning for Wales' long term infrastructure needs and helping prioritise strategic investment decisions. The Commission will be a publicly appointed, non-statutory advisory body whose remit will cover to economic and environment infrastructure.

It will also need to take into account the relationships between economic and environment with social infrastructure, such as housing, in providing advice. Membership will be a maximum of 12, including the chair.

Following public consultation, an Assembly inquiry and debate, the next step is to commence the public appointments exercise this autumn. Draft person specifications for the chair and members have been shared with the EIS Committee which will pre-scrutinise the appointment of the chair.

5.16 Business Support/Finance

The Wales Audit Office will be carrying out a study on the Welsh Government's provision of business finance. The overall focus will be on whether the Welsh Government is managing its business finance activity effectively and achieving the expected outcomes.

The study will be conducted in two phases:

- Phase one will look at the landscape of business finance and review the Welsh Government's strategic approach and analyse both expenditure and outputs/outcomes data.
- Phase two will review the operational delivery of business finance in more detail.

Further updates will be provided to the Committee when the recommendations are published.

We will be taking action to implement the commitment in *Prosperity for All* to "simplify and rationalise the range of financial support we offer companies, ensuring it is clear, easily understood and responsive." The Economic Action Plan will provide more detail on this.

5.17 Preventative Spending

The importance of taking a preventative approach across our policy areas is recognised and is embedded into economic development activity. All Economic development programmes are subject to value for money criteria. There is evidence that well paid work is the best route out of poverty and the greatest protection against poverty for those at risk. We continue to create opportunities for individuals and families with business support initiatives and targeted investment across Wales.

Persistent poverty is damaging to individuals and communities and can lead to material and psychological harm, as well as wider social consequences. Addressing and responding to the issues caused by poverty is expensive. By supporting jobs and sustainable growth, and taking action to try to alleviate some of the challenges faced by people when accessing jobs, we aim to reduce the likelihood of families experiencing poverty, particularly deep and persistent poverty, and avoid the long term costs that poverty bring to society. Supporting families and communities by creating employment opportunities helps support children to give them the best chance and supports early years as a priority area in *Prosperity for All*.

Transitioning to a low carbon society is also vital for social, economic, environmental and well being in the long term. It supports the Well-Being for All objective, to drive sustainable growth and combat climate change. Decarbonisation requires a fundamental change to three major national infrastructure networks: power, transport and heat. Energy and Environment programmes particularly are intended to be preventative with sustainability at the heart of future energy developments. Our support to business focuses on different technologies from community scale to major infrastructure projects such as Wylfa Newydd. The Environmental Protection Scheme is important to develop renewable energy sources. These developments will assist in mitigating the impacts of climate change and contribute to reducing carbon emissions by 2050.

6.0 TRANSPORT FUNDING OF ACTIONS

There is an increase of £2.2m to the Transport revenue budget from the 2018-19 revised baseline and a further £21.294m reduction in 2019-20. This is the net result of a number of actions such as additional allocations as a result of the Two Year Budget Agreement with Plaid Cymru, adjustments to reflect capital/revenue swaps in Motorway and Trunk Roads to rebalance the baseline and anticipated savings in relation to the Rail Franchise.

The capital allocation for the period 2018-19 to 2020-21 is £1.129bn which supports the National Transport Finance Plan. When this figure is considered alongside funding identified for the M4 and South Wales Metro held in central reserves, this reflects a significant level of capital funding for Transport Infrastructure over the coming capital budget period. It is still necessary however, to prioritise activity and manage budgets to ensure that the delivery of schemes within the National Transport Finance Plan are both affordable and deliverable.

Transport	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	299,670	(2,650)	297,020	2,200	299,220	(21,294)	277,926
Non Cash	188,691	0	188,691	0	188,691	0	188,691
Total Resource	488,361	(2,650)	485,711	2,200	487,911	(21,294)	466,617

Transport	2017-18 Supp budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	345,683	313,231	382,611	429,780	1,125,622
FT Funding	5,000	2,200	1,200	0	3,400
TOTAL	350,683	315,431	383,811	429,780	1,129,022
2017-18 Final Budget	348,483	236,077	281,567	389,928	907,572
Change in New Plans	2,200	79,354	102,244	39,852	221,450

6.1 Motorway & Trunk Road Network Operations

Motorway & Trunk Road Network Operations Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	51,789	0	51,789	32,161	83,950	0	83,950
Non Cash	188,691	0	188,691	0	188,691	0	188,691
Total Resource	240,480	0	240,480	32,161	272,641	0	272,641

Motorway & Trunk Road Network Operations Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	81,990	40,763	40,997	51,613	133,373
TOTAL	81,990	40,763	40,997	51,613	133,373
2017-18 Final Budget	81,990	71,166	71,500	81,613	224,279
Change in New Plans	0	(30,403)	(30,503)	(30,000)	(90,906)

Welsh Ministers have a statutory duty to provide a safe and reliable Motorway and Trunk Road Network. It is therefore important to ensure that appropriate funding is available to fulfil this objective in respect of both ongoing management & maintenance and improvement. The movement of c£30m between revenue and capital (whilst effectively retaining the overall budget envelope) reflects the nature of work that is required to comply with the requirements of the latest Trunk Road & Maintenance Manual (TRMM 2016) giving due regard to the type of spend being incurred. The revenue element is effectively managed in line with the anticipated efficiencies for the rail franchise. The revenue allocations for 2018-19 and 2019-20 also include an additional £1m each year for delivery of electric charging points which is provided as part of the Two Year Budget Agreement with Plaid Cymru.

In addition to the capital funding provided under this action, funding for significant improvements on the existing network and major road schemes adding to the network are provided for in the capital funding under the Road, Rail, Air and Sea Services Investment Action. In addition there are repayments of £0.503m in 2018-19 and 2019-20 for the Invest to Save funding for the LED lighting project.

Over the budget period, maintenance budgets will be continually monitored to ensure that we are responsive to reactive works and prioritise capital investment where it is most needed.

6.2 Road, Rail, Air and Sea Services & Investment

Road, Rail, Air and Sea Services & Investment Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	188,581	(1,050)	187,531	(29,645)	157,886	(23,607)	134,279
Total Resource	188,581	(1,050)	187,531	(29,645)	157,886	(23,607)	134,279

Road, Rail, Air and Sea Services & Investment Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	183,346	208,804	280,263	331,467	820,534
FT Funding	5,000	2,200	1,200	0	3,400
TOTAL	188,346	211,004	281,463	331,467	823,934
2017-18 Final Budget	186,746	113,211	158,367	261,615	533,193
Change in New Plans	1,600	97,793	123,096	69,852	290,741

The revised revenue baseline for 2018-19 excludes non recurrent funding of £0.750m for free Wi-Fi on trains and the 50 busiest stations and £0.3m for a feasibility study to re-open the railway between Carmarthen and Aberystwyth.

The revenue budget primarily supports the Wales and Borders Rail Franchise and Intra Wales Air Service. The revenue budget in 2018-19 includes £31.702m and a further £27.607m in 2019-20 relating to anticipated savings that may be deliverable in the early years of the new contract for Wales & borders rail services. This will be heavily predicated on the selection of the preferred bidder and solution, as well as ongoing negotiations with the Department for Transport and UK Government.

The revenue budget also reflects additional allocations as a result of the Two Year Budget Agreement with Plaid Cymru for design and development of the third Menai crossing (£1m in 2018-19 and £3m in 2019-20) and for removing tolls from Cleddau Bridge (£2m in 2019-20).

In 2018-19 the movement of £29.645m results from savings of £31.702m which are offset with reprioritised funding of £1.057m for the aviation framework and £1m for the Third Menai Crossing. In 2019-20 the saving of £27.607m is offset with funding of £4m from the Budget Agreement.

The capital budget funds road, rail and aviation capital improvements. There is an increase of £97.793m in 2018-19, £123.096m in 2019-20 and £69.852m in 2020-21 to progress priorities within the National Transport Finance Plan. This includes the release of funds from reserves for the South Wales Metro of £173.180m and an additional allocation of £50m to deliver a new railway station at Llanwern (Newport) along with stabilising lines and a major park and ride facility. Additional capital funding of c£30m is available for roads infrastructure which is being managed in line with the motorway and trunk road reduced capital and revenue requirements to comply with the TRMM 2016. Further funding for the M4 relief road is also held in reserves ready for allocation when delivery programmes are confirmed and pending the outcome of the public inquiry for the M4.

The additional funding for 2019-20 includes £15m for north to south over-taking improvements to the A487 and A470 which was part of the Two Year Budget Agreement with Plaid Cymru. This will complement other activity already in train to improve connectivity across North Wales and between North & South Wales.

For rail, the budget will also fund delivery of South Wales Metro Phase 2, development of North Wales Metro, completion of the Ebbw Vale frequency enhancement scheme and other rail related projects.

The draft budget also continues to include Financial Transaction funding made available to support investment within the aviation industry. Other opportunities to utilise Financial Transactions funding will continue to be explored along with other innovative financing solutions.

6.3 Sustainable Travel

Sustainable Travel Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	54,536	(1,600)	52,936	(1,316)	51,620	2,313	53,933
Total Resource	54,536	(1,600)	52,936	(1,316)	51,620	2,313	53,933

Sustainable Travel Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	73,447	56,764	54,451	39,800	151,015
TOTAL	73,447	56,764	54,451	39,800	151,015
2017-18 Final Budget	72,847	44,800	44,800	39,800	129,400
Change in New Plans	600	11,964	9,651	0	21,615

This budget supports investment in integrated transport, active travel, Concessionary Bus Travel, smartcards and local transport schemes proposed by local authorities.

The revised baseline for 2018-19 excludes non recurrent funding of £0.2m for a feasibility study into a national cycleway; and a Ports Infrastructure Fund of £1.4m (originally a £2m revenue fund subsequently offset by £0.6m transferred for capital expenditure for this initiative).

The new Two Year Budget Agreement includes an additional recurrent allocation of £0.2m in 2018-19 for the upgrade of some Traws Cymru services from buses to coaches.

The revenue budget movements of £1.516m in 2018-19 and £2.313m in 2019-20 reflect reprioritisation to align (primarily) current delivery requirements with rail services.

The main movement in capital funding is in relation to the Concessionary Fares scheme. When taken with the Local Authorities' own contributions the overall funding envelope provided for concessionary fares (across both revenue and capital) is considered sufficient to meet Local Authorities' obligations based on the 'no better, no worse' principle and anticipated demand.

6.4 Youth Concessionary Fares Action

Youth Concessionary Fares Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	0	0	0	1,000	1,000	0	1,000
Total Resource	0	0	0	1,000	1,000	0	1,000

Funding to support the Young Persons Discounted Bus Travel was introduced on an 18-month pilot basis in September 2015. Evaluation of the current scheme is ongoing to determine its impact, with a view to informing future provision. A further year of the trial is on-going and we have recently issued a consultation document on proposals for 2018-19. We will also work with the bus industry to determine the potential to continue this initiative on a commercial basis and potentially with a much reduced amount from Welsh Government, following the initial funding awarded to pump prime the scheme.

6.5 Improve Road Safety

Improve Road Safety Action	2017-18 First Supp Budget £'000	Change £'000	2018-19 Revised Baseline £'000	Change £'000	2018-19 New Plans Draft Budget £'000	Change £'000	2019-20 New Plans Draft Budget £'000
Revenue	4,764	0	4,764	0	4,764	0	4,764
Total Resource	4,764	0	4,764	0	4,764	0	4,764

Improve Road Safety Action	2017-18 First Supp Budget £'000	2018-19 Draft Budget Allocations			
		2018-19 £'000	2019-20 £'000	2020-21 £'000	Total £'000
Traditional Capital	6,900	6,900	6,900	6,900	20,700
TOTAL	6,900	6,900	6,900	6,900	20,700
2017-18 Final Budget	6,900	6,900	6,900	6,900	20,700
Change in New Plans	0	0	0	0	0

The road safety budgets have been maintained at planned levels. The Road Safety Framework for Wales sets out our safety targets and is available at: <http://gov.wales/topics/transport/road-users/road-safety-framework/?lang=en>

Revenue funding supports the engagement and funding of external partners in the public, private and third sectors achieve casualty reduction, using the road safety governance structures The capital budget supports road safety engineering improvements on the trunk and local road networks.

7.0 TRANSPORT - KEY POLICIES

Additional information is provided in response to the specific requests made by the Committee as follows:

7.1 National Transport Finance Plan

For 2018-19, the Transport priorities will be set in the context of budget availability and the National Transport Finance Plan (NTFP) which was published on 16 July 2015. This sets out the investment priorities in services and infrastructure and focuses on the projects which could be delivered during the five years from publication.

Transport has a vital role to play in improving Wales' economic competitiveness and access to jobs and services. The NTFP sets out how and when improvements to the road and public transport networks could be delivered to help businesses prosper and ensure people can access the opportunities they need to live healthy, sustainable and fulfilling lives. The role that Transport plays in delivering Welsh Government objectives are clearly set out within the key themes of 'Programme for Government; Taking Wales Forward' and as an enabler to the priority areas in *Prosperity for All*.

There is a strong evidence based approach for understanding the performance of the transport system, assessing the need for intervention and considering the social, cultural environmental and economic impacts of our plans for the transport system. The schemes in the NTFP target five key priority areas: economic growth, tackling poverty, sustainable travel and safety, and improving access to employment and to services helping us meet our wider wellbeing objectives. The investments identified will deliver a more integrated and sustainable transport system for all.

Actions in the NTFP will:

- Improve public transport and active travel availability, quality, safety and access.
- Assist in reducing any disadvantage to protected groups and those on low incomes through the provision of a quality, integrated public transport and network (including the provision of accessible, bilingual information) and through maintain funding for socially necessary bus services.

A set of national datasets provide consistent and comparable information across the whole of Wales and highlight areas where the transport system is under-performing. The datasets are updated regularly and are used to monitor the performance of the system, providing early alerts to emerging issues and information on longer term trends. The transport data is combined with other data sources, such as the census and land use data, to provide information on the social and environmental impacts of the transport system. The transport

data falls into five categories - journey times, the number of trips made, safety related, supplementary information and contextual information.

The NTFP is a live document and is currently being refreshed. The updated document will reflect progress to date on those interventions already identified, newly emerging priorities and budget availability. The refreshed NTFP is expected to be published in the autumn and will set out our priorities over the remaining Plan period 2018-19 to 2020-21.

7.2 Rail Franchise

Discussions with the UK Government are ongoing. The cost of the delay in issuing the tender specification should not have an impact in 2018-19 (or beyond). We have, however, tried to mitigate additional costs brought about by the delay 'in-year' through utilising available resources on other activities. In principle, the procurement exercise should be completed within the current financial year, therefore there is no explicit provision for procurement activity in the 2018-19 budget. Delivery costs are expected to be accommodated within the overall budget envelope for the provision of rail services and Metro infrastructure. This is subject to the UK Government transferring powers to time and with an appropriate funding settlement as we take full responsibility for franchise costs from the Department for Transport. Any delay to the transfer of powers could push some procurement activity into 2018-19. This is being closely monitored.

7.3 Delivery of the M4 Relief Road

Funding for the M4 relief road continues to be held in reserves which are managed by the Cabinet Secretary for Finance and Local Government.

The Public Inquiry is ongoing and is expected to report in the spring. In the interim we are continuing to progress discussions with affected parties to try and ensure that we are in the best possible position to start works should the decision be taken to proceed following publication of the Inspector's report. Delivery of the new route around Newport is now considered even more critical given the recent announcement by UK Government to abolish tolls on the Severn crossings. The additional traffic that this decision will generate will exacerbate the issues already experienced within the area.

7.4 Trunk Road and Motorway Network

Delivery continues on a number of other strategically important schemes including:

- A465 Heads of the Valleys road between Gilwern and Brynmawr: Whilst complementing other schemes along the Heads of the Valleys route this scheme will improve accessibility to and from an area recognised as one of the most economically deprived in Wales.
- Newtown bypass: Providing improved North/South journey times and removing congestion from the town centre.

- Developing/progressing work on numerous other routes around Wales including A55 Corridor across North Wales, A40 West Wales and pinch point schemes to ease traffic congestion and improve journey times across Wales. This is in addition to the significant day to day management of the Motorway and Trunk Road Network which comprises the largest single asset on the Welsh Government balance sheet.

All of these activities are programmed in the context of available and anticipated budgets. However, it must be recognised that all expenditure is subject to inflationary pressures and risk. We aim to manage this by including risk and optimism bias in our projects as well as having clear points at which assumptions and estimates are reviewed and updated which includes forecasts of inflation. In the case of construction projects this is often at key stages of development and delivery. The contracts also include construction inflation indices (includes the cost of materials and labour). We also try manage the impact of inflation within budget baselines, usually through finding efficiencies and managing delivery requirements across the portfolio.

7.5 Delivery of Active Travel Policy

Active Travel is funded primarily through the Local Transport Fund, the Safe Routes in Communities Grant and the Road Safety Grant. The specific number and size of active travel schemes varies each year according to the type, strength and size of bids submitted by local authorities. The 2017-18 published budget reflected that, due to budget pressures and the discretionary nature of some grants, the Sustainable Transport Action would reduce from 2018-19. Given our commitment to Active Travel, remaining funding within the Local Transport Fund, along with funding provided in the Safe Routes in Communities Grant will focus on Local Authority bids that deliver active travel schemes. Local Authorities are due to submit their integrated travel maps in November of this year. At this stage it is not sensible to allocate substantial capital amounts for expenditure next year as there is likely to be a considerable amount of detailed design and contract preparation work for those schemes which are to be taken forward. Once I have reviewed the plans I will be in a position to re-prioritise my budget and allocate accordingly. As a first step I have already identified an additional £5m for next year for taking this design work forward. This is through the re-programming of other activities.

This will be in addition to the active travel schemes being delivered within our own road and rail budgets e.g. provisions for cyclists in the new Wales and Borders Rail Services contract and provisions for walkers and cyclists considered within new road schemes. However, we will also continue to work in partnership with local authorities and other stakeholders to ensure that key priorities are met and to identify other suitable sources of finance that will aid in delivery.

My road safety capital budget also has an important role to play in encouraging active travel, and I will be amending the criteria to ensure that schemes which protect the interests of active travel users achieve greater focus when spending decisions are made.

Funding for Active Travel is complex and I have therefore asked my officials to undertake a detailed review of the entire funding approach for active travel and will provide a statement on this in due course. I want to increase the aggregate

spend on Active Travel in the coming years and my statement will set out how this will be achieved.

7.6 Investment in Rail Infrastructure

Next year is a transitional year for the provision of rail services. Until October 2018 the current arrangements will apply for the Arriva Trains Wales franchise. From October new arrangements will come into effect as a result of the ongoing procurement exercise. Funding rail services will remain a major area of Welsh Government funding and activity and we anticipate a period of transformation as a result of the procurement. The details of the transformation, including a growth in services across Wales, will be known once we have received bids at the end of December 2017.

The budget provides for delivery of the anticipated infrastructure required for facilitating the South Wales Metro on the basis of an indicative profile. 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 bids.

Investment in the North Wales Metro will create a reliable, efficient and quality integrated transport network connecting people, communities and businesses to jobs, facilities, and services, maximising the economic opportunities of connectivity across Wales and our borders. The project will deliver transport modernisation across North Wales with a focus on development of a metro solution in the more urbanised parts of North East Wales.

7.7 Support for Bus Services

Bus and community transport continues to be an important consideration for the budget as these sectors provide connectivity for the public, who greatly rely on public transport. The recent oral statement on 10 October provides a current update on developments. Available at:

<http://gov.wales/about/cabinet/cabinetstatements/2017/concessionaryfares/?lang=en>

A consultation on bus services in Wales was launched on 8 March 2017 following the successful Bus Summit on 23 January 2017. The responses are being assessed in the context of future budget requirements.

Amongst other things, the consultation recognises the overlap of funding to the bus industry from various sectors such as Local Government, Health & Education. It is anticipated that by pooling budgets, benefits, efficiencies and synergies will result to deliver significant improvements to bus services in Wales.

In 2018-19 and 2019-20 annual bus support funding of c£90m supports service delivery and includes maintaining the bus service support grant at £25m. Whilst services are considered affordable for the current year it is clear that with inflationary pressures and an ageing population Welsh Government's ability to continue to fully support all initiatives will become unsustainable unless current baseline funding significantly increases or there is a fundamental change to the way in which services are supported. The consultation on bus services in Wales will be a significant step in this.

We continue to support the work of Bus Users Cymru and the Community Transport Association in Wales to ensure that bus passengers' views are represented effectively in developing our policies for the bus network. Community transport makes an important contribution to an integrated public transport network and social cohesion, particularly in remote and rural communities.

The Welsh Government funded TrawsCymru long distance bus network has been substantially improved over the last four years with new and more frequent services introduced on key strategic transport corridors not served by rail. As a result of this investment the TrawsCymru bus network carried a record 1.6 million passengers in 2016-17. The Welsh Government in July initiated a major 12 month trial of weekend free travel across the TrawsCymru network which has generated significant passenger growth in the off peak period. As part of the TrawsCymru network we have also re-introduced a daily coach service linking Aberystwyth and key centres in west Wales to Swansea and Cardiff. As part of the Two Year Budget Agreement with Plaid Cymru additional funding of £0.2m in 2018-19 and 2019-20 has also been made available to upgrade some TrawsCymru buses to coaches.

Agreement has been made to fund two full-time posts within the METRO local authorities in north and south Wales to lead, co-ordinate and deliver the bus elements within the next five years, within the envelope of a statutory bus QPS. In addition, it would be used to help shape future investment in the bus network outside the METRO areas. One appointment has been made in south and shortly we will make an appointment in north Wales.

Local authorities are responsible in law for reimbursing bus operators for carrying older or disabled pass holders under the free concessionary bus travel scheme. Authorities are also obliged to ensure that those bus operators are "no better and no worse off" as a result. The Welsh Government's budget in support of the local authorities' expenditure on reimbursement will continue to meet their responsibilities, supplementing the contributions that local authorities continue to make from their own budgets, reflecting the historical funding that they provided before the scheme was introduced in 2002. Collectively, these local authority contributions amount to some £10.3m annually. In addition, we meet the cost of local authorities' administration via a £3 per live card in circulation, each year.

In terms of discounted travel for young people £1m has been re-prioritised to continue the Young Persons Discounted Bus Travel which was introduced on an 18-month pilot basis in September 2015. Evaluation of the current scheme is ongoing to determine its impact, with a view to determining future provision. A further year of the trial is on-going and a consultation on the package for 2018-19 has recently been launched. It will close on 4 January 2018. We will also work with the bus industry to determine the potential to continue this initiative on a commercial basis and potentially with a much reduced amount from Welsh Government, following the initial funding award to pump prime the scheme.

To date, some 16,000 applications for MyTravelPasses have been received against an age cohort of some 110,000. The Confederation of Passenger Transport (the bus industry trade association) has been tasked with developing

and implementing a marketing and publicity campaign for MyTravelPass during 2017-18.

7.8 Support for Local Transport Priorities

The local transport priorities budget line (Sustainable Travel Action) makes available funding to local authorities for local transport schemes that support the economy, improve road safety and enable active travel. We continue to work in partnership with local authorities and other key organisations to ensure the key priorities are met and to identify other suitable sources of finance that will aid in delivery.

The budget includes explicit provision to support a new fund known as the Local Transport Network Fund. This fund, which provides £12m for schemes over the next three years, will allow Local Authorities to bid for funding for schemes that focus on easing congestion, particularly on public transport routes. This will complement some of the schemes being delivered under the 'pinch point' programme on our own trunk roads. An allocation of £2.8m has been provided for 2017-18, primarily focused on improving bus reliability and reducing journey times.

7.9 Preventative Spending

The majority of Transport expenditure for programmes and policies may be attributed to preventative spend such as: active travel in terms of promoting sustainable modes of transport and thus reducing environmental impacts and increasing activity levels which support health outcomes. Concessionary bus travel is particularly important in rural areas and vital for social cohesion and well being. Our investment in road safety, road maintenance and improvements in network management helps to prevent more significant issues and accidents over the longer term. An important example of how our transport services will be transformed is the South Wales Metro with potential opportunities to deliver much more for regions than an improved public transport network. As an integral part of the Cardiff Capital Region City Deal this will be the catalyst for the broader regeneration, helping to shape the regional economic and social infrastructure, social mobility and equality of opportunity for some of our most deprived areas. In delivering better outcomes preventative spending measures are therefore important for the long-term.

8.0 EVIDENCE BASE FOR BUDGET DECISIONS

Evidence from a wide range of sources underpins our financial decisions to deliver the Programme for Government such as: published research, stakeholder consultations, previous policy evaluations and statistics.

Independent analysis and evidence from a number of organisations is also considered. For example, the Public Policy Institute for Wales has published several reports relating to the Economic and Infrastructure portfolio. These reports have highlighted the importance of connective infrastructure in supporting economic growth and this is reflected in our spending on Transport and ICT infrastructure.

Appraisals are undertaken on projects/programmes and are either conducted internally or by external contractors. These are used to inform future funding decisions.

The evidence and scope of the appraisal undertaken during policy and programme development is assessed on the basis of risk, size and scale, existing evidence base and other factors. On large projects such as the M4 relief road it is appropriate to collect evidence from a range of sources. In contrast, for smaller inventions with individual companies it is appropriate to rely on a narrower range of sources or the existing evidence base, subject to our normal due diligence processes. Feasibility studies are undertaken prior to the commencement of key projects to assess suitability in delivering against our goals, whilst gateway reviews for large projects are completed to challenge all aspects of a business case including the essential value for money assessment. Whilst the reviews are project specific, they can help to build up a useful source of information for considering other projects. Internal and external audit reports can be helpful in a similar way.

The national strategy is a key part of how we respond to the Well-Being of Future Generations Act. Taken together with more detailed action plans, such as the Economic Action Plan, it will help us to articulate what we understand about where the Government can make the most contribution to the National Goals and Indicators.

9.0 MONITORING BUDGETS

In developing the plans detailed in-depth review for the draft budget have been undertaken and aligned to the national strategy. During in-year delivery of programmes, all business areas are challenged on a monthly basis, and quarterly in-depth reviews are undertaken by officials to enable appropriate advice to the Cabinet Secretary for Economy and Infrastructure on the latest forecasts, and to agree budget movements as necessary. Further detailed work will support the delivery of the Economic Action Plan.

10.0 EVALUATIONS/REVIEWS

Outcomes are monitored for each of the projects and contracts that are managed within the portfolio. Feasibility studies are undertaken prior to the commencement of key projects to assess suitability for going forward in delivering against our wellbeing goals.

Evaluation of projects and programmes are undertaken during and at the end of projects and can be undertaken internally or by external contractors.

Commissioning evaluations and research is one way of gathering evidence on policies and programmes, but is not the only way and is not always the most appropriate.

The portfolio uses a variety of approaches in gathering evidence and for evaluation of policy and programmes. Some of these inform the process through expert advice and learning.

Gateway reviews for large projects are undertaken to assess value for money and both internal and external audits have and will be undertaken, which provide further evidence to support policy outcomes.

For example, the Public Policy Institute for Wales (PPIW) is co-funded by the Economic and Social Research Council and the Welsh Government and aims to provide the Welsh Government with authoritative independent analysis and advice.

In addition, the existing evidence base is sometimes used to shape programmes and policy and there is not always a need, or a good value for money argument to produce new evidence. For example, the What Works Centre for Local Growth has produced a reports analysing which policies are most effective in supporting and increasing local economic growth.

<http://www.whatworksgrowth.org/>

Similarly, the OECD has conducted a review of local economic and employment development policy approaches in OECD Countries and considered how these might be applied in Wales.

http://www.oecd-ilibrary.org/industry-and-services/a-review-of-local-economic-and-employment-development-policy-approaches-in-oecd-countries-policy-transferability-to-wales_5km7rq3vv2hg-en

The need for and scope of evaluation can be taken on a case by case basis during policy and programme development having regard to the risk, size and scale, existing evidence base and other factors.

11.0 LEGISLATION

11.1 The Wales Act 2017

The Wales Act will expand the National Assembly's legislative competence in several transport areas. It will also expand the executive functions of the Welsh Ministers in transport, particularly in the areas of ports and road traffic. The Wales Act is anticipated to come into force in April 2018. The Wales Act will place new duties on the Welsh Ministers in regards to ports and harbours. To meet these duties, staff resource has been reprioritised. The other new powers granted by the Act are discretionary functions, and the financial implications of policy development will be factored into the policy development. Consultations have been published on potential changes to the taxi and private hire vehicle licensing regime, and the organisation of bus services in anticipation of the expanded powers coming into force. Both consultations note that these potential changes could be cost neutral, making better use of the existing resources spent in this area.

11.2 Bus Services Act 2017

The Bus Services Act 2017 mainly applies to England only and legislation currently in force in relation to bus services in Wales will remain in place. The Act amends the Equality Act 2010, introducing a requirement on bus operators to provide accessible information to disabled passenger during the journey,

including next stop audio visual announcement systems. The provision amends the Equality Act 2010, and provides that the Regulations and supporting guidance shall be made by the Secretary of State for Transport in consultation with the devolved governments in Wales and Scotland. The relevant provisions in the Bus Services Bill being passed through UK Legislation that will apply in Wales will be cost neutral to the public sector in Wales, although the Regulations that follow may add about 0.4% to the cost of operating bus services in Wales (if audio visual next stop announcements are included in the Regulations).

12.0 WELL BEING OF FUTURE GENERATIONS (WALES) ACT 2015

The Well-being of Future Generations Act has provided the framework for developing our plans. We have adopted a long-term perspective and are taking an integrated approach in our decision-making to support the seven goals contained in the Act. We have also 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, better consider impacts on protected groups and support a focus on our shared national goals.

For this Draft Budget three priority areas were discussed with the Future Generations Commissioner: procurement, decarbonisation and participatory budgeting. These priorities have informed our approach. Transport for Wales, for example, has a sustainable and ethical procurement panel, which includes representatives from the Welsh Government, Network Rail, Construction Industry Training Board, Constructing Excellence in Wales and Wales Council for Voluntary procurement of the Metro, including supply chain and skills requirements, environmental considerations and cultural issues in line with the aims of the Act.

In addition, we have been liaising with the Future Generations Commissioner for Wales to ensure that we properly adopt the approach to long term planning and help deliver the fundamental changes required as part of the Act.

13.0 REDUCING THE IMPACT OF DEPRIVATION AND POVERTY

A Joseph Rowntree Foundation report², published in 2016, counted the public service cost of poverty in the UK at around £69 billion. This evidence is clear that deprivation and poverty has a significant negative impact. It damages childhoods, affects educational attainment, causes material and physical harm including health issues, and leads to wider social consequences for our communities and society. This has significant implications for the public purse.

The focus of our budget is on actions that have the potential to support the creation and retention of jobs in the economy, recognising that decent employment can strongly protect people from poverty. We are also funding activities that aim to try to address some of the barriers people face when accessing work and training opportunities, so they are more likely to benefit from economic growth. By supporting job creation and retention, and taking actions that can help people access work, we aim to reduce the likelihood of individuals and families experiencing poverty, particularly deep and persistent poverty, and reduce its negative impacts.

² JRF Counting the Cost of UK Poverty <https://www.jrf.org.uk/report/counting-cost-uk-poverty>

ANNEX A

Overview of Revenue Budget Changes - 2017-18 First Supplementary Budget to 2019-20 Draft Budget

REVENUE		Economy £'000	Transport £'000	Total Resource £'000
2017-18 First Supplementary Budget		49,160	488,361	537,521
Baseline Adjustments				
Sectors	Visit Wales	(5,000)		(5,000)
Road, Rail, Air, Sea Services and Investment	Feasibility study for re-opening the railway line from Carmarthen to Aberystwyth		(300)	(300)
	Free Wi-Fi on trains and the 50 busiest stations.		(750)	(750)
Sustainable Travel	Feasibility study for national cycleway		(200)	(200)
	Budget Agreement £2m for ports development - £0.6m was reallocated for capital infrastructure such as promoting streamlined and sustainable intermodal freight systems.		(1,400)	(1,400)
Total		(5,000)	(2,650)	(7,650)
2018-19 Revised Baseline		44,160	485,711	529,871
Budget Realignment in 2018-19				
Corporate programmes	Transfer National Loans Fund to Central Administration MEG	(1,641)	-	(1,641)
Finance Wales	Operating grant no longer required	(1,740)		(1,740)
Road, Rail, Air, Sea Services and Investment	Rail franchise efficiencies		(31,702)	(31,702)
	Aviation - funding for development framework with Cardiff International Airport Ltd		1,057	1,057
Motorway & Trunk Road Operations	Capital to revenue adjustment to reflect compliance with TRMM and re-prioritisation of projects in line with delivery		31,161	31,161
Sectors	Realignment of projects in line with delivery requirements	(4,803)		(4,803)
Entrepreneurship	Additional core budget requirement to deliver EU programmes (Sectors £4.8m; Innovation £1.1m & Life Sciences Sector £0.7m)	6,610		6,610
Sustainable Travel	Adjustments between capital and revenue in line with latest forecasts		(1,516)	(1,516)
Youth Concessionary Fares	Funding re-prioritised to support young persons discounted travel		1,000	1,000
Total		(1,574)	-	(1,574)
Two Year Budget Agreement – Plaid Cymru				
Sectors	“Arfor” – secretariat & investment for economic development in West Wales	1,000	-	1,000
	Foundational economy programme	1,500	-	1,500
	Visit Wales	3,000	-	3,000
Entrepreneurship	Start Up grant – journalists to set up business in hyper local news	100		100
Road, Rail, Air & Sea	Third Menai Crossing – feasibility study	-	1,000	1,000

Services Investment				
Motorway & Trunk Road Operations	Electric car charging points	-	1,000	1,000
Sustainable Travel	Traws Cymru - upgrade buses to coaches	-	200	200
Total		5,600	2,200	7,800
2018-19 Draft Plans		48,186	487,911	536,097
Budget Realignment in 2019-20				
Road, Rail, Air, Sea Services and Investment	Rail franchise efficiencies	-	(27,607)	(27,607)
Sustainable Travel	Adjustments between capital and revenue in line with latest forecasts	-	2,313	2,313
Total		-	(25,294)	(25,294)
Two Year Budget Agreement – Plaid Cymru				
Sectors	Foundational economy programme (2018-19 only)	(1,500)	-	(1,500)
	Visit Wales (recurrent funding at a reduced level)	(2,000)	-	(2,000)
Road, Rail, Air & Sea Services Investment	Third Menai Crossing – feasibility study	-	2,000	2,000
	Cleddau Bridge - remove tolls	-	2,000	2,000
Total		(3,500)	4,000	500
2019-20 Draft Plans		44,686	466,617	511,303

ECONOMY & INFRASTRUCTURE MEG

Draft Budget Allocations 2018-19

RESOURCE						
Budget Expenditure Line	2017-18 First Supp Budget £000s	2018-19 Revised Baseline £000s	Change £000s	2018-19 New Plans Draft Budget £000s	Change £000s	2019-20 New Plans Draft Budget £000s
Construction	514	514	(250)	264	185	449
Business Development	0	0	2,500	2,500	(1,500)	1,000
Business Solutions	1,226	1,226	(792)	434	0	434
Trade and Inward Investment	1,892	1,892	0	1,892	0	1,892
Enterprise Zones	927	927	(96)	831	199	1,030
Energy & Environment	1,106	1,106	352	1,458	295	1,753
Advanced Materials & Manufacture	1,070	1,070	(544)	526	624	1,150
Creative Industries	851	851	785	1,636	72	1,708
Financial & Professional Services	145	145	5	150	0	150
ICT	5,946	5,946	(3,394)	2,552	(724)	1,828
Single Investment Fund	1,560	1,560	(869)	691	(651)	40
Regional Development and Delivery	263	263	0	263	0	263
Tourism	15,762	10,762	3,000	13,762	(2,000)	11,762
Action: Sectors	31,262	26,262	697	26,959	(3,500)	23,459
Youth Entrepreneurship	1,319	1,319	449	1,768	0	1,768
Social Enterprise and Economy	814	814	(84)	730	0	730
Entrepreneurship Delivery Start Up & Business Wales	2,098	2,098	6,345	8,443	0	8,443
Action: Entrepreneurship & Business Information	4,231	4,231	6,710	10,941	0	10,941
Major Events Unit	3,918	3,918	0	3,918	0	3,918
Action: Major Events	3,918	3,918	0	3,918	0	3,918
Property Infrastructure	24,090	4,026	0	4,026	0	4,026
Action: Deliver Property Related Infrastructure (Expenditure)	24,090	4,026	0	4,026	0	4,026
Property Infrastructure	(20,064)	0	0	0	0	0
Action: Deliver Property Related Infrastructure	(20,064)	0	0	0	0	0

(Income)						
Economic Analysis	157	157	0	157	0	157
Strategic Engagement	293	293	0	293	0	293
Healthy Working Wales	800	800	0	800	0	800
Corporate Programmes & Services	992	992	0	992	0	992
National Loans Fund	1,641	1,641	(1,641)	0	0	0
Strategic Business Events and Communications	100	100	0	100	0	100
Action: Corporate Programmes	3,983	3,983	(1,641)	2,342	0	2,342
Development Bank of Wales	1,740	1,740	(1,740)	0	0	0
Action: Development Bank of Wales	1,740	1,740	(1,740)	0	0	0
Network Asset Management & Support	4,525	4,525	2,161	6,686	0	6,686
Network Operations	47,264	47,264	30,000	77,264	0	77,264
Action: Motorway & Trunk Road Operations	51,789	51,789	32,161	83,950	0	83,950
Network Operations Non Cash	188,691	188,691	0	188,691	0	188,691
Action: Improve and Maintain Trunk Road Network (Domestic Routes) - Non Cash	188,691	188,691	0	188,691	0	188,691
Aviation	4,548	4,548	1,057	5,605	0	5,605
New Road Construction and Improvement	0	0	1,000	1,000	4,000	5,000
Rail Franchise & Service Improvements	184,033	182,983	(31,702)	151,281	(27,607)	123,674
Action: Road, Rail, Air and Sea Services and Investment	188,581	187,531	(29,645)	157,886	(23,607)	134,279
Bus Support	28,427	28,427	778	29,205	0	29,205
Smartcards	2,000	2,000	(1,034)	966	0	966
Concessionary Fares	22,359	22,359	(1,190)	21,169	2,313	23,482
Infrastructure Developments	1,400	0	0	0	0	0
Sustainable Travel & Walking & Cycling	350	150	130	280	0	280
Action: Sustainable Travel	54,536	52,936	(1,316)	51,620	2,313	53,933
Youth Concessionary Fares	0	0	1,000	1,000	0	1,000
Action: Youth Concessionary Fares	0	0	1,000	1,000	0	1,000
Road Safety	4,764	4,764	0	4,764	0	4,764
Action: Improve Road Safety	4,764	4,764	0	4,764	0	4,764
TOTAL	537,521	529,871	6,226	536,097	(24,794)	511,303

CAPITAL										
Budget Expenditure Line	2017-18 First Supp Budget £000s	2018-19			2019-20			2020-21		
		2018-19 Capital Plans as per 2017-18 Final Budget £000s	2018-19 Changes £000s	2018-19 New Plans Draft Budget £000s	2019-20 Capital Plans as per 2017-18 Final Budget £000s	2019-20 Changes £000s	2019-20 New Plans Draft Budget £000s	2020-21 Capital Plans as per 2017-18 Final Budget £000s	2020-21 Changes £000s	2020-21 New Plans Draft Budget £000s
		Business Development	0	5,000	(5,000)	0	6,000	(6,000)	0	5,000
Construction	195	151	(200)	(49)	278	(300)	(22)	150	(172)	(22)
Business Solutions	31,387	25,790	(6,156)	19,634	21,993	0	21,993	14,911	0	14,911
Enterprise Zones	0	0	2,500	2,500	0	0	0	0	0	0
Business Finance Funds	17,750	7,000	0	7,000	18,000	0	18,000	3,000	0	3,000
Energy & Environment	11,000	6,295	(320)	5,975	5,345	8,302	13,647	1,500	3,927	5,427
Advanced Materials & Manufacturing	10,409	4,496	(612)	3,884	10,683	737	11,420	3,000	(535)	2,465
Creative Industries	2,949	1,070	6,592	7,662	5,000	(4,485)	515	2,500	(1,511)	989
Financial & Professional Services	7,752	3,012	(221)	2,791	2,174	536	2,710	1,000	870	1,870
ICT	165	1,000	1,184	2,184	2,000	(1,593)	407	1,000	(885)	115
Tourism	4,000	4,000	(2,000)	2,000	4,000	(2,000)	2,000	1,000	0	1,000
Action: Sectors	85,607	57,814	(4,233)	53,581	75,473	(4,803)	70,670	33,061	(3,306)	29,755
Property Infrastructure	33,896	18,125	(7,500)	10,625	16,177	(7,500)	8,677	15,886	(7,500)	8,386
Action: Deliver Property Related Infrastructure (Expenditure)	33,896	18,125	(7,500)	10,625	16,177	(7,500)	8,677	15,886	(7,500)	8,386
Property Infrastructure	(10,000)	(7,500)	(7,500)	0	(7,500)	7,500	0	(7,500)	7,500	0
Action: Deliver Property Related Infrastructure (Income)	(10,000)	(7,500)	7,500	0	(7,500)	7,500	0	(7,500)	7,500	0
National Loans Fund	104	120	(120)	0	138	(138)	0	159	(159)	0
Action: Corporate Programmes	104	120	(120)	0	138	(138)	0	159	(159)	0
Network Asset Management & Support	0	0	100	100	0	0	0	0	0	0
Network Operations	81,990	71,166	(30,503)	40,663	71,500	(30,503)	40,997	81,613	(30,000)	51,613
Action: Motorway & Trunk Road Operations	81,990	71,166	(30,403)	40,763	71,500	(30,503)	40,997	81,613	(30,000)	51,613
Aviation	9,721	6,777	0	6,777	6,073	0	6,073	0	0	0

New Road Construction and Improvement	156,562	51,354	26,900	78,254	63,794	42,600	106,394	144,115	29,725	173,840
Rail Franchise	0	0	0	0	0	0	0	0	0	0
Rail Investment	22,063	55,080	70,893	125,973	88,500	80,496	168,996	117,500	40,127	157,627
Action: Road, Rail, Air and Sea Services and Investment	188,346	113,211	97,793	211,004	158,367	123,096	281,463	261,615	69,852	331,467
Smartcards	1,000	1,000	0	1,000	1,000	0	1,000	1,000	0	1,000
Local Transport Priorities	25,400	10,150	0	10,150	10,150	0	10,150	5,150	0	5,150
Concessionary Fares	39,297	27,000	11,964	38,964	27,000	9,651	36,651	27,000	0	27,000
Infrastructure Developments	600	0	0	0	0	0	0	0	0	0
Sustainable Travel & Walking & Cycling	7,150	6,650	0	6,650	6,650	0	6,650	6,650	0	6,650
Action: Sustainable Travel	73,447	44,800	11,964	56,764	44,800	9,651	54,451	39,800	0	39,800
Road Safety	6,900	6,900	0	6,900	6,900	0	6,900	6,900	0	6,900
Action: Improve Road Safety	6,900	6,900	0	6,900	6,900	0	6,900	6,900	0	6,900
TOTAL	460,290	304,636	75,001	379,637	365,855	97,303	463,158	431,534	36,387	467,921

Questions for the Cabinet Secretary for Economy and Transport

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?



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 7th 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

Agenda Item 3

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

Julie James AC/AM
Arweinydd y Tŷ a'r Prif Chwip
Leader of the House and Chief Whip

Agenda Item 5.1

Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MA-P-KS-4576-17

Russell George AM
Chair, Economy, Infrastructure & Skills Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

10 January 2018

Dear Russell

We would like to thank the Committee for its report on the Draft Budget Scrutiny 2018-19 and welcome the opportunity to respond to the recommendations that relate to our portfolio responsibilities. The full response is attached to this letter.

It is appreciated that due to exceptional circumstances, the Committee agreed to scrutinise the Economy and Transport budget areas in writing and we welcome the Committee's invitation to attend future financial scrutiny sessions.

Again, we thank the Committee for this helpful report and for their continued scrutiny of the budgets.

Yours sincerely,



Ken Skates AC/AM
Ysgrifennydd y Cabinet dros yr Economi a
Thrafnidiaeth
Cabinet Secretary for Economy and Transport

Julie James AC/AM
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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

18 December 2017

Detailed responses to the report's conclusions and recommendations are set out below:

Recommendation 1: Science, Innovation & Life Sciences

The Committee feels strongly that if – as the Minister indicated – capital funding is available to invest in innovation centres it should be retained and visible in the budget – allowing the government to be proactive in seeking investment partners, rather than reacting to bids which may come in.

Response: Reject

The Welsh Government is keen to attract new, industry led innovation centres to Wales in order to create high value employment and to ensure Wales plays a leading role in delivering the new UK Industrial Strategy and the Welsh Government's Economic Action Plan. Opportunities to develop innovation centres arise with varying timescales and circumstances. The most effective way for the Government to respond is to have a Ministerial commitment to identify financial support for high quality bids, closely linked to economic development priorities.

All applications for business support are assessed against the priorities with a focus on value for money and prioritisation of budgets to align delivery. Budgets are monitored closely to continually assess investment and economic impact and reprioritised as necessary to ensure that capital expenditure is maximised. In this way budgets are managed to remain responsive to opportunities for investment in innovation which often have longer timescales for development.

Financial Implications:

There are no new financial implications for responding to this recommendation.

Recommendation 2: Putting Digital Infrastructure to Use

The Committee would be grateful for further details on the Welsh Government's strategy to use the new digital infrastructure it is helping to establish, especially in relation to how it views it will be used to transform public services and the economy.

Response: Accept

The digital infrastructure being deployed under the Superfast Cymru programme and the Welsh Government has the potential to be truly transformative for both the economy and the public sector. It will help create an environment that supports our existing businesses and attracts new high growth, high value companies to Wales. The project will transform the broadband landscape across Wales and enable local businesses to compete on a global level.

High-speed broadband makes it possible for businesses to be located anywhere. It can improve opportunities for business creativity and entrepreneurship particularly for small and micro businesses. It allows businesses to innovate, open up new markets and

increase their sales volume. It has the capacity to improve the supply-chain, through effective data sharing, etc. It will also enable businesses to access new technologies such as cloud computing and to make use of enhanced collaboration tools and hosted applications.

Providing people with the ability to use high speed broadband allows them to access the government services they need more effectively and efficiently. Being online provides increased lifelong learning opportunities, improved digital literacy levels and allows people to search and apply for job opportunities.

Digital infrastructure also enables wider social benefits. Being online and able to use technology allows people to keep in touch and can decrease feelings of isolation and loneliness, for example by using online community social networks, or communicating with loved ones overseas.

Through our five year, £12.5m programme to ensure businesses across Wales maximise the benefits of superfast broadband we are supporting primarily small and medium sized businesses to understand, adopt and exploit the superfast infrastructure being deployed across Wales both as part of the Superfast Cymru project and the commercially driven roll-outs by telecommunications companies. The programme runs from December 2015 to December 2020 and includes EU funding).

The PSBA network connects nearly all areas of the public service in Wales to a secure digital network. PSBA supports a partnership of public services organisations across Wales by providing a mechanism to aggregate demand for, and collaborative purchasing of, wide area networking services. The partnership lays the foundations for much closer public service integration and achieves scale benefits which each partner could not achieve alone. The project connects over 100 organisations across 4,500 sites. PSBA creates a solid platform for front line public services such as schools and GPs to test, roll out and normalise new digital service.

Financial Implications:

There are no new financial implications for responding to this recommendation. Any additional costs will be drawn from existing programme budgets.