Public Document Pack

Finance Committee

Meeting Venue:
Committee Room 4 - Ty Hywel

Meeting date:
16 May 2012

Meeting time:
09:15

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

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Agenda

Private briefing (9:15 - 9:30)

1. Introductions, apologies and substitutions (9:30 - 9:35)

2. Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding (9:35 - 10:35) (Pages 1 - 29)

FIN(4) 07-12 - Paper 1 - Welsh Government

Jane Hutt AM, Minister for Finance
Gerry Holtham, Infrastructure Investment Adviser
Andrew Jeffreys, Deputy Director, Strategic Capital Investment, Welsh Government
Jeff Andrews, Specialist Policy Adviser

3. Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding (10:35 - 11:20) (Pages 30 - 37)

FIN(4) 07-12 - Paper 2 - Local Government Association

Stephen Jones, Director of Finance and Resources, Local Government Association

Break (11:20 - 11:30)

4. Effectiveness of European Structural Funding in Wales (11:30 - 12:15) (Pages 38 - 44)

Tidal Energy Ltd
FIN(4) 07-12 - Paper 3

Chris Williams, Development Director, Tidal Energy Ltd

Furnace Farm Ltd (Via Video Conference)
FIN(4) 07-12 - Paper 4

Katherine Himsworth, Furnace Farm Ltd

5. Papers to note (Pages 45 - 47)

FIN(4) 07-12 - Paper 5 - Correspondence from the Minister for Agriculture, Food, Fisheries and European Programmes re: JESSICA

FIN(4) 06-12 - Minutes of previous meeting

6. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Items 7 and 8.

7. Discussion of evidence - Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding (12:15 - 12:25)

8. Discussion of evidence - Effectiveness of European Structural Funding in Wales (12:25 - 12:35)

Finance Committee

FIN(4) 07-12 – Paper 1

Devolved Funding: Borrowing Powers and Capital

This paper is broken into three parts. Part 1 deals with local authority funding arrangements (p.1-8). Part 2 deals with the devolution of borrowing powers (p.8-10) and part 3 deals with innovative finance (p.10-13)

Part 1

Local Government in Wales: Funding Arrangements

Introduction

There are three separate systems to fund the three main blocks of local authority spending. These are:

- current spending on council housing;
- spending on capital projects such as roads, school and library buildings or computers; and
- general revenue expenditure, mainly on pay and other costs of running services apart from council housing.

Revenue

Revenue funding can be broken down into core un-hypothecated funding to support the ongoing delivery of a range of services and hypothecated funding through specific grants to support particular, sometimes time limited revenue costs.

Un-hypothecated funding

The core funding is provided through the revenue settlement and amounts to just over £4 billion in 2012-13.

In mid October each year, the Minister for Local Government and Communities announces a provisional Local Government Finance Settlement to the Assembly and to local authorities.

There is then a period of consultation, leading to the Welsh Assembly approving a final Local Government Finance Settlement in early January and early February in the case of police authorities, in time for authorities to set their budgets for the next financial year.

The Welsh Government then considers whether to use its powers to limit council budget increases. If the Government uses these powers, it will tell an authority how much it can increase its budget by. The Government then considers any arguments the authority puts forward to be allowed to spend more.

Welsh Government starts by deciding how much core spending by local government as a whole it is prepared to support. This amount is known as Total Standard Spending (TSS).

Welsh Government supports approximately 80 percent of Total Standard Spending by distributing Revenue Support Grant (RSG) and redistributed national non domestic rate income (NNDR). Together this funding is known as Aggregate External Finance. The difference between Total Standard Spending and Aggregate External Finance is the modelled amount local authorities are assumed to raise through Council Tax if they spent at the level of Total Standard Spending.

Specific and special grants

The Government covers other specific local government expenditure through specific and special grants which fund particular activities.

Sharing out resources between authorities - the Standard Spending Assessment

To work out each council's share of Total Standard Spending, the Government calculates a Standard Spending Assessment (SSA). The total of all councils' Standard Spending Assessments, makes up Total Standard Spending.

When working out Standard Spending Assessments, the Government takes account of the population, social structure and other characteristics of each authority. The Government (in consultation with local government) has developed separate formulas covering the following major service areas.

- Education
- Personal social services
- Police
- Fire
- Highway maintenance
- Environmental, protective and cultural services
- Capital financing

These formulas are based on research and analysis of statistics. They apply to all authorities providing a particular service. There is an ongoing programme of work under the auspices of the Partnership Council to ensure that the formulas remain relevant and up-to-date.

Redistributed National Non Domestic Rate Income

People who occupy non-domestic properties (such as shops, factories, offices and warehouses) do not pay Council Tax on those properties. Instead they pay business rates - otherwise known as National Non-Domestic Rates.

One council in each area collects business rates and pays them into a national ‘pool’ which the Welsh Government then shares out between all authorities.

Before the start of each financial year, an estimate is made of the amount in the pool which will be available to local authorities. This amount, known as the Distributable Amount (DA), is fixed and then distributed among all local authorities according to the number of residents aged 18 or over that each authority has according to the latest available mid year population estimates. For 2012-13 the DA amounts to £911 million.

Once the Distributable Amount has been fixed, the total amount distributed in this way does not vary, even if more or less is actually paid into the pool in the financial year. Any resulting surplus or deficit within the pool as a result, is carried forward into the calculation for the following year’s distributable amount.

Revenue Support Grant

The Revenue Support Grant is simply the part of Aggregate External Finance that is not provided from NNDR.

Broadly speaking, the Government distributes AEF so that if every authority set its budget at the level of its Standard Spending Assessment, the Council Tax would be the same for all properties in the same valuation band throughout Wales.

The amount of Revenue Support Grant a local authority receives is:

- its Standard Spending Assessment; less
- the amount it will receive from the national pool of business rates; less
- its share of council tax at standard spending.

Setting Council Taxes

Local authorities start preparing their budgets for the coming year several months before they know exactly what funding they will receive from the Government. Once an authority knows the level of funding, it can make final decisions on:

- how much it expects to spend in the coming year;
- what income, other than that from Government, it expects to raise next year; and
- how it can use its financial reserves to fund spending or keep down its Council Tax.

A local authority's planned spending, after deducting any funding from reserves and income it expects to raise (other than general funding from the Government and the Council Tax), is known as the budget requirement. The amount of Council Tax an authority needs to raise is the difference between its budget requirement and the funding it will receive from the Government.

Each local authority then sets its Council Tax at the level necessary to raise this amount.

In 2011-12, local authorities were estimated to raise £1.3 billion (including police authorities). This equated to 23% of the local authorities budget requirement.

Capping

Welsh Government retains the power to set a 'cap' or budget requirement limit, for each council if it considers the budget requirement and Council Tax have gone up by too much. The Local Government Act 1999 introduced new reserve powers which are more flexible than the previous capping powers. They allow the Government to reduce the budget requirement in the following year as well as in the current financial year which was previously the only option. If it has to, the Government will use these powers to protect Council Tax payers from large rises in their Council Tax bills.

The Localism Act 2011 introduced changes to the capping arrangements in England to pass responsibility to local communities for decisions on capping via council tax referenda. These changes do not apply in Wales.

Fire authorities

Fire service funding is an integral part of local authorities' budget setting process.

The regulations setting up the combined fire authorities place a duty on constituent local authorities to fund their fire authority sufficiently to enable it to meet its statutory obligations. This includes additional payments in-year if requested by the fire authority.

It is up to each fire authority to set a budget which will enable its fire service to meet its statutory obligations whilst ensuring that services are provided as effectively and efficiently as possible.

Fire authorities submit their budgets to constituent local authorities which contribute in proportion to their population. The fire authority has the option to include a contingency element in its budget to minimise the risk of payments which might cause financial difficulties for any of the constituent authority once its own budget had been set.

Capital Funding

Capital funding for local government is a mixture of revenue support for borrowing and specific capital grants.

In 2012-13, capital funding provided by Welsh Government amounts to £424 million.

Prudential Borrowing

Prior to 2004-05, local government bodies could only borrow when they had a ‘credit approval’. However, the Local Government Act 2003 (LGA 2003) provided local government bodies with the power to borrow for any purpose relevant to their functions or for the prudent management of their financial affairs.

As a consequence of the LGA 2003, the extent of borrowing is controlled by the local government bodies themselves, through the determination of the ‘affordable borrowing limit’, although the Welsh Government does have reserve powers to impose limits on borrowing. The LGA 2003 therefore provided local government bodies with more discretion regarding the amount of resources they commit to capital investment and the amount they commit to current (revenue) expenditure. It also created a distinction between ‘supported borrowing’ (borrowing backed by Welsh Government financial support) and ‘unsupported borrowing’.

Local government bodies are required to have regard to the proper practices specified in the *Prudential Code for Capital Finance in Local Authorities* published by the Chartered Institute of Public Finance and Accountancy (CIPFA) when determining the affordable borrowing limit.

The overarching requirements of the code are that borrowing must be prudent, sustainable and affordable. Supported borrowing will meet the affordability requirement because the repayment of debt will be factored into the revenue settlement.

Prudential indicators

In order that local authorities may satisfy themselves that any prudential borrowing will be affordable, prudent and sustainable, the Prudential Code prepared by CIPFA establishes a number of Prudential Indicators. These establish upper limits on overall and day-to-day external debt, measures of capital expenditure and debt levels and treasury management indicators. These include the “authorised limit” and “operational boundary” indicators.

These indicators are not limits for the amount of prudential borrowing that an authority can undertake but set the ceiling for the amount of external debt that the authority can prudently bear at any given time. An authority is required to set both these indicators for its total external debt, gross of investments and borrowing from other long term liabilities.

The resources of local government bodies are finite. Therefore, to undertake unsupported borrowing a local government body will need to identify:

- revenue savings arising from the capital expenditure
- reductions in service expenditure to finance the expenditure; and / or
- increases in income from other sources, including receipts and council tax.

The reduction in expenditure and / or increased income would need to be sufficient to service the repayment of the borrowing plus related interest costs.

Enquiries made by auditors in 2008 suggested that local government bodies in Wales had been initially cautious in exercising the increased freedom to borrow provided by the LGA 2003. Generally, unsupported borrowing had, at that time, been limited to acquiring short life assets that were previously leased and some invest-to-save projects. Unsupported borrowing was, therefore, largely being financed from the reductions in revenue expenditure realised by the capital expenditure.

The Local Authority Capital Forecast: 2011-12 (SDR 90/2011) issued by the Welsh Government Statistical Directorate indicated that local government bodies are planning to make increased use of unsupported borrowing to finance capital investment in 2011-12.

The actual level of unsupported borrowing used to finance capital investment in 2009-10 was £106 million and increased to £144 million in 2010-11. It is forecast that this will increase further to £256 million in 2011-12. Unsupported borrowing would thus finance 24% of capital investment in 2011-12 compared to 11% in 2009-10. The additional prudential borrowing has enabled county and county borough councils to increase their forecast spend in 2011-12 compared with the previous year.

Based on the forecast figures local authorities will in 2011-12 be raising more funding through prudential borrowing than through any other individual source of funding including capital grants and supported borrowing. The take up of prudential borrowing varies between local authorities.

Capital Grants

As with the revenue funding, capital grant funding comprises non hypothecated and specific grants.

The unhypothecated funding provided through general capital funding is distributed using indicators of need to spend in the various service areas similar to the unhypothecated revenue settlement.

Specific capital grants are designed and managed by the relevant policy area to deliver specific purposes.

Capital Grants account for 75% of the capital funding available in 2012-13, the remainder is supported through the provision of revenue funding for borrowing.

Local authorities have also been able to bid for wider public service funding for capital projects latterly from the Strategic Capital Investment Fund and more recently from the Centrally Retained Capital.

Local Government Resources Review

The UK Government has undertaken a review of local government funding, focussing particularly on the scope for relocalising business rates.

Until now the system of collection and distribution of business rates has been the same in England and Wales. This review focussed on the issues involved on allowing local authorities to retain more of the business rates collected locally.

The system of funding in England is such that it is not possible to completely localise business rates without creating instability.

Implications for Wales

The nature of the distribution of business rate generation in Wales is even more skewed than it is in England. Consequently there would need to be even greater cross subsidisation retained within the system. Any changes to the system in Wales would need to consider the extent to which the additional complexities built into the system outweigh potential benefits.

The Minister for Business, Enterprise, Technology and Science has set up a Task and Finish Group chaired by Professor Brian Morgan to review business rates policy in Wales. Its role is to:

- consider the relative importance of the non-domestic (business) rates regime as a lever for supporting economic growth;
- assess the implications of specific policies in relation to small business rate relief, empty property rate relief, and rate relief as a targeted policy intervention to encourage economic development (to include renewable energy businesses as well as assistance in disadvantaged areas);
- make recommendations on the above, taking into account that non-domestic (business) rates exist to raise funding for local services and recognising that non-domestic rates do not just apply to businesses but to all non-domestic properties.

Any consideration of specific policies would need to take account of the fiscal, financial, legislative, distributional and economic impact.

The Group is due to report its findings in May.

Police authorities

Revenue

The police receive their core funding from government in two streams. The Police Grant that is paid by the Home Office and the Revenue Support Grant and their share of the distributed national non-domestic rate income that is paid to them by the Department for Communities and Local Government in England and the Welsh Government in Wales.

In addition to those two streams, there are specific grants, which largely the Home Office is responsible for allocating but which Welsh forces may bid against.

Capital

Responsibility for approving police authority capital projects rests with the Home Office. However, the Welsh Government is required to provide the revenue support. The assumption for capital projects procured by the conventional route (public sector) is that provided the total Home Office capital allocation for Wales does not exceed the Barnett formula share then the revenue resource is contained within the budget for the local government revenue support grant settlement in Wales.

For police authorities' PFI projects the arrangements are more complex. The Home Office takes the view that provided the notional PFI credits for police projects in Wales do not exceed the Barnett formula share then the Welsh Government should provide the appropriate revenue support. However we have no way of telling from the Spending Review settlement in which years specific resources to support PFI schemes are added to the CLG budget for local government.

PFI

The Welsh Government provides local authorities, including police and fire authorities in Wales, with approximately £35 million per annum to support the revenue consequences of PFI projects.

The projects were agreed in principle by the first Welsh Assembly Government, although some projects took considerable time to get to completion stage.

Subsequent Welsh Governments have not approved funding for any further local authority PFI projects. PFI remains an approach open to authorities but funding is a matter for each individual authority to address. On the 15 November 2011 the UK Government announced a review of PFI. The UK Government intends to bring forward proposals for a new approach to using the private sector in the delivery of public assets and services. The consultation period closed on 10 February.

<u>Part 2</u>

Devolution of Borrowing Powers

Summary of Welsh Government's position

The Welsh Government already has certain borrowing powers for a wide range of activities under the terms of the Welsh Development Agency Act (1975). Those powers are summarised in Annex 1. At present, Treasury rules prevent these powers being exercised in a meaningful way. The Welsh Government strongly believes that it should be allowed to exercise its existing borrowing powers to fund capital investment.

The Welsh budget for capital expenditure has been cut by 41% in real terms over the next four years, putting a major constraint on our ability to invest in the infrastructure of Wales and support the Welsh economy. Early acquisition of borrowing powers would help us to offset the damaging impact of these cuts.

The Northern Ireland Executive already has powers to borrow to fund capital investment, and the Scotland Bill proposes similar powers should be transferred to the Scottish Government. Plus of course, all levels of local government including Community Councils have long been able to borrow. Such powers are part of the normal range of tools available to elected governments across the UK to manage their finances in an effective way. It is simply unsustainable for Wales to be the only part of the UK denied access to this power.

Over the medium term we believe it would make sense for devolved borrowing powers to be put on a new and broader legal footing, operating within a sensible set of rules that should be jointly agreed with the UK Government. We recognise that devolved borrowing powers need to operate within a framework that provides extra flexibility for Wales, while also respecting the role of the UK Government in managing the fiscal position of the UK as a whole.

Intergovernmental talks

The Welsh Government is currently engaged in a series of discussions with HM Treasury on financial reform, including the scope to allow Wales to exercise its existing borrowing powers. In those talks, we are pressing to use our existing powers to finance major infrastructure initiatives that would otherwise be unaffordable. For example, large transport infrastructure projects, with high up-front costs and long lifespans, are ideally suited to being financed via borrowing.

Discussions with the UK Government are ongoing. The issues under consideration include not just the use of our existing borrowing powers, but also the case for a funding floor or similar mechanism to tackle convergence in Welsh relative funding. It is anticipated that the talks will conclude with an inter-government announcement ahead of the publication of the Silk Commission's report on fiscal devolution due in late Autumn.

Silk Commission

The Silk Commission is considering the case for devolving further fiscal powers to Wales, including the scope for additional devolved borrowing powers.

The Welsh Government has submitted written evidence to the Commission (Annex 2), and is keen to assist the Commission's work where appropriate.

We look forward to the publication of the Silk Commission's proposals towards the end of this year. We will give serious consideration to any package of measures that offers a better funding deal for Wales.

Sources of finance

The Holtham Commission made a good case that the best way forward for Wales is likely to be to borrow via the Treasury's Debt Management Office (DMO). The DMO has in the past offered relatively competitive borrowing terms that would be unlikely to be matched by banks or by Welsh Government-issued bonds.

That said, in principle the Welsh Government favours devolution of the broadest possible range of borrowing powers that are consistent with the UK Government's legitimate interest in retaining control of borrowing at the macroeconomic level. This would provide maximum flexibility to Welsh Ministers to respond to Welsh circumstances.

Therefore we would not wish to rule out the option that a Welsh Government might in the future wish to issue its own bonds - provided it could be done in a way that was consistent with the UK Government's legitimate interests.

Constraints on borrowing

The UK Government has a legitimate interest in being able to manage the fiscal position of the UK as a whole. For that reason, it makes sense for there to be a set of jointly-agreed constraints on the ability of the Welsh Government to borrow. For example, the recently-passed Scotland Act enables the Scottish Government to borrow up to 10% of its capital DEL per year, within a total debt ceiling for Scotland of £2.7 billion.

For example, it is right that Wales should only borrow to invest in capital projects. It would not be sustainable over the medium term for Wales to borrow to fund recurrent expenditure such as staff costs.

Also, the Welsh Government and the UK Government might want to agree to a ceiling on the total amount of debt that the Welsh Government could carry at any one time. That would be consistent with prudent financial management - no organisation should be able to run up excessive debts.

Legal powers

The legal position with regards borrowing powers is complex. The Welsh Development Agency Act (1975) gave the former WDA limited powers to borrow. Following the merger of the WDA, those powers transferred to the Welsh Government. However, the Treasury's rules mean that if we were to borrow they would adjust our grant downwards in such a way as to leave us no better off.

All that needs to happen is for the Treasury rules to change and then we would be able to borrow for the purpose of the functions under that Act. That should be a simple process and could happen without the need for a change in the law. That would not be a substitute for the broader borrowing powers which we seek, but it would be a useful start.

Part 3

Innovative Finance

In the Programme for Government, the Welsh Government made a commitment to explore innovative ways of raising capital for investment in public service infrastructure. Ministers consider this imperative given the unprecedented scale of cuts to the Welsh Government capital budget in the current Spending Review period, which will approach 45% in real terms in 2014-15 compared to 2010-11.

Financial innovation should not be seen in isolation. It is linked to the need to improve the efficiency of government spending through better and more consistent application of business assurance disciplines, and to the Programme for Government objective to develop a 10-year, Wales-wide, National Infrastructure Plan. Work on this latter document, which will identify and prioritise capital schemes of national significance, will come to fruition with the publication of the first Wales Infrastructure Investment Plan (WIIP) on 22 May.

As the need to raise innovative finance in support of strategic infrastructure priorities increases, the Welsh Government is responding to the challenge. Indeed, it has already successfully created a number of innovative financial schemes, combining public and private capital to boost the Welsh economy. These include:

The Local Government Borrowing Initiative (LGBI)

The LGBI was launched on 31 January, as a means of securing additional investment in Welsh highways. In the current economic climate, falling capital budgets and mounting revenue pressures affect local authorities as well as national governments. The LGBI was designed as an initiative to provide a new tranche of support to local authorities to address revenue shortfalls, allowing them to eke out additional resources with which to undertake prudential borrowing. The funding arrangements will enable up to £170 million of capital investment to be made in Welsh highways improvements, across all 22 local authorities, over the next 3-years. Without this innovative approach, those improvements would simply have been unaffordable. Announcements regarding the successful projects will be made in the coming weeks.

Welsh Housing Partnership (WHP)

In August 2011, the Welsh Government implemented the WHP. The initiative is a partnership made up of the Welsh Government, the Principality Building Society and 4 Welsh Housing Associations, who are working together to provide quality, affordable rented homes to people living in north and south Wales. The WHP will purchase an expected 150 properties, leasing them back to the Housing Associations for a period of 10-years. The WHP has a capital value of £16 million - a combination of £3 million of Welsh Government grant funding, a £12 million loan from the Principality Building Society's commercial division and a total of £1 million from the 4 Housing Associations in the partnership.

The Welsh Government is also making progress with a number of other innovative approaches in the housing sector that use public sector assets to attract private investment. This model could see the delivery of significantly more social housing and affordable homes than would otherwise have been the case, given the current economic climate and financial constraints. For example, last month the Welsh Government and Principality Building Society announced the creation of the Ely Bridge Development Company (EBDC). A social enterprise, the EBDC will lead a new venture using an innovative investment model to unlock capital funding to build much-needed housing. EBDC will deliver around 700 homes, more than half of which will be affordable properties.

Enterprise

In the area of small business enterprise**,** the Welsh Government has established a number of bespoke investment funds. The largest of these is the JEREMIE fund, the first to be established in the UK, with a capital value of £150 million, which includes £75 million of European Investment Bank (EIB) support. The JEREMIE (Joint European Resources for Micro to Medium Enterprises) fund will support the expansion of more than 800 businesses and create up to 15,000 jobs across Wales. Over £80 million has been invested in more than 390 businesses in just over two years, and it is proving to be the best performing fund of its type in the UK.

The Regeneration Investment Fund for Wales (RIFW), otherwise known as the JESSICA (Joint European Support for Sustainable Investment in City Area) fund, was launched in 2010 with a capital value of £55 million, which includes £25 million of European investment. The fund aims to provide support for urban areas of Wales by providing finance to kick start regeneration projects.

In March, the Welsh Government's SME investment fund, with a capital value of £40 million, opened for business. The fund, which will provide access to finance for business growth and job creation for SMEs not eligible for funding under the JEREMIE initiative, will run for 4-years and is intended to create up to 4000 jobs.

In March, the Welsh Government announced plans to establish a new Micro Business Fund with a capital value of £6 million, and a Life Sciences Investment Fund, providing dedicated equity funding for life sciences businesses located in Wales. The Welsh Government is putting £25 Million into the latter fund to enable its first investments to be made in 2012.

Each of the financial engineering instruments above will create a lasting legacy of funding, to be recycled and reinvested over the long term in support of number of projects for the benefit of regions and people of Wales. The continuing use of these instruments in the next EU programme period (2014-2019) is currently under consideration.

Waste Infrastructure Programme

The Welsh Government has developed an innovative waste infrastructure procurement programme, an investment programme to deliver waste treatment capacity across Wales to meet landfill diversion targets specified by the EU Landfill Directive (1999) and the Landfill Allowance Scheme Regulations (Wales) 2004. The Government is working in partnership with local authorities and other stakeholders to ensure that future waste treatment facilities are sustainable, represent good value for money and meet policy objectives (70% recycling). The Waste Procurement Programme Office (WPPO) provides advice and funding to local authorities, managing two sub-programmes: the food and organic waste treatment programme and the residual waste treatment programme. In each programme, local authorities have joined together as procurement Consortia. The long term provision of gate fees provides the incentive for the private sector to deliver the required infrastructure. The total capital value of the projects is in the region of £780 million.

Together, these innovative financial vehicles will generate more than £1bn of capital investment in Wales.

Private Finance

Securing private finance is central to the Welsh Government’s objective of boosting investment in Wales’s infrastructure. Indeed, a number of the schemes above rely to a lesser or greater extent on the provision of private capital.

However, the Welsh Government has made it clear that it does not favour the use of the Private Finance Initiative (PFI), and welcomed the announcement last year of a fundamental review of PFI following critical reports from both the Treasury Select Committee and the Public Accounts Committee. One consequence of the Welsh Government stance regarding PFI is that Welsh budgets are not burdened with large revenue liabilities. For example, the liability for PFI schemes in Wales is about one tenth of the level in Scotland – £100 million per year in Wales compared to £1 billion per year in Scotland.

This relative lack of indebtedness provides policy space for the Welsh Government to consider an optimal level of revenue support for investment. With that in mind, the Welsh Government is keen to continue to develop new, innovative mechanisms to attract private investment into public infrastructure in the coming years.

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Borrowing powers of the Welsh Ministers under the Welsh Development Agency Act 1975, and the background to them

1. This note summarises the background and legal position with regard to the borrowing powers of the Welsh Ministers under the Welsh Development Agency Act 1975 ("the 1975 Act").

2. The Welsh Development Agency ("the Agency") was established under the 1975 Act. The Secretary of State and the Treasury had various functions under the 1975 Act. These included:
   - a function for the Secretary of State to give consent to borrowing by the Agency from persons other than the Secretary of State and the Agency's wholly owned subsidiaries;
   - a function for the Treasury to approve the same;
   - a function for the Secretary of State to set the limit on the aggregate outstanding amount of:
     - general external borrowing by the Agency and it subsidiaries;
     - sums issued by the Treasury fulfilling guarantees given by it [1] in respect of Agency borrowing;
     - sums paid to the Agency by the Secretary of State; and
     - loan guarantees given by the Agency.

3. The Government of Wales Act 1998 set up the National Assembly for Wales and provided for Orders in Council to transfer functions from Ministers of the Crown to the National Assembly for Wales.

4. In 1999 an Order in Council (the National Assembly for Wales (Transfer of Functions) Order 1999[2] duly transferred most of the *Minister of the Crown* functions under the 1975 Act to the National Assembly for Wales. This transfer included the three functions mentioned in the three bullet points in paragraph 2 above, save that the function of approving borrowing which was not in sterling remained with the Treasury.

5. The Government of Wales Act 1998 also gave power to the National Assembly for Wales to (by order) abolish the Agency, transfer its functions to itself and to make any appropriate consequential, incidental, supplementary etc provisions (including amending or repealing enactments).

6. The Agency was duly abolished and its functions transferred to the National Assembly for Wales in April 2006, by the Welsh Development Agency (Transfer of Functions to the National Assembly for Wales and Abolition) Order 2005.[3]

7. This had the effect of uniting in one body (i.e. the National Assembly for Wales) the functions of the Agency and those Minister of the Crown functions under the 1975 Act which had been transferred to the National Assembly for Wales by the 1999 Order in Council.

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[1] The Treasury has power to give guarantees under paragraph 6 of Schedule 3 to the 1975 Act.
[2] S.I. 1999/672.
[3] S.I. 2005/3226.

8. Accordingly, by way of making consequential etc provision, S.I. 2005/ 3226 also removed from the 1975 Act the former Minister of the Crown functions, including those three mentioned in paragraph 2 above, because they were now otiose.

9. For example, the National Assembly for Wales had acquired in 1999 the Secretary of State's function of consenting to borrowing by the Agency; in 2006 it acquired the Agency's borrowing power. As it made no sense for the Assembly to have to consent to its own borrowing, the consent function was otiose.

10. Similarly, the National Assembly for Wales had acquired in 1999 the Secretary of State's function of setting a limit on the aggregate outstanding amount of general external borrowing by the Agency and other items. It made no sense for the Assembly to set a limit on its own borrowing and therefore that function was otiose.

11. The Government of Wales Act 2006 established the Welsh Government (of which the Welsh Ministers are the main legal part) as an executive, and reconstituted the National Assembly for Wales as a legislature and body to scrutinise the Welsh Government.

12. The Government of Wales Act 2006 also transferred to the Welsh Ministers most of the functions of the "old" National Assembly for Wales, including those functions which the National Assembly for Wales had acquired from the Agency in 2006. This included the borrowing powers.

13. Accordingly, as a result of the sequence of legislation described above, there is no legal limit on the amount the Welsh Ministers may borrow under the 1975 Act.

14. Equally, there is no legal requirement for the Welsh Ministers to obtain Minister of the Crown consent to the exercise of their borrowing powers under the 1975 Act, save that Treasury approval is required if the Welsh Ministers borrow other than in sterling (because that Treasury approval function was not transferred to the "old" Assembly in 1999, and therefore could not be said to be otiose when the ex-Minister of the Crown functions and the ex-Agency functions were united in the body of the National Assembly for Wales in 2006).

Summary of the borrowing powers of the Welsh Ministers under the Welsh Development Agency Act 1975

15. The legal power to borrow for the purposes of the Welsh Ministers' functions under the 1975 Act is in Schedule 3 to that Act, which is operative by virtue of section 18. Paragraph 3 provides that:

    For the purpose of exercising their functions under the 1975 Act, the Welsh Ministers may borrow money from any person (including their wholly owned subsidiaries), but any borrowing in a currency other than sterling requires the approval of the Treasury.

16. The majority of the main functions of the Welsh Ministers under the 1975 Act are set out in section 1(3) and are:

    (a) to promote Wales as a location for businesses[4], or assist or concert its

[4] "business" is defined as including any industrial, commercial or professional activities (whether or not with a view to profit) and the activities of any government department or any local or other public authority.

promotion as such a location;

(b) to provide finance for persons carrying on or intending to carry on businesses;

(c) to carry on businesses and to establish and carry on new businesses;[5]

(d) otherwise to promote or assist the establishment, growth, modernisation or development of businesses, or a particular business or particular businesses;

(da) to make land available for development;

(f) to provide sites, premises, services and facilities for businesses;

(g) to manage sites and premises for businesses;

(h) to bring derelict land into use or improve its appearance;

(i) to undertake the development and redevelopment of the environment;

(j) to promote the private ownership of interests in businesses by the disposal of securities and other property held by the Welsh Ministers or any of their subsidiaries.

17. The Welsh Ministers' functions under the 1975 Act may be exercised for any of the purposes set out in section 1(2), which are:

(a) to further the economic and social development of Wales or any part of Wales, and in that connection to provide, maintain or safeguard employment;

(b) to promote efficiency in business and international competitiveness in Wales;

(d) to further the improvement of the environment in Wales (having regard to existing amenity).

18. Therefore, the purposes for which the Welsh Ministers may exercise their functions under the 1975 Act are wide, encompassing both the economic and social development of Wales, and improving the environment in Wales.

19. Section 1.(6) gives the Welsh Ministers a power to do anything, whether in Wales or elsewhere, which is calculated to facilitate the discharge of their functions set out in section 1(3) above, or is incidental or conducive to their discharge.

20. Section 1(7) provides that the Welsh Ministers have power in connection with their functions under the 1975 Act:

(a) to acquire, hold and dispose of securities;

(b) to form bodies corporate;

(c) to form partnerships with other persons;

(d) to make loans;

(e) to guarantee obligations (arising out of loans or otherwise) incurred by other persons;

(f) to make grants;

(g) to act as agent for other persons;

[5] The Welsh Ministers can only exercise this function through subsidiaries.

(h) to acquire and dispose of land, plant, machinery and equipment and other property (land may be acquired by agreement or compulsorily);

(i) to manage land, and to develop land and carry out works on land, and to maintain works or assist in their maintenance;

(k) to make land, plant, machinery and equipment and other property available for use by other persons;

(l) to provide advisory or other services or facilities in relation to any of their functions, or assist in their provision; and

(m) to promote or assist in the promotion of publicity relating to any of the functions of the Welsh Ministers under the 1975 Act.

21. Section 9 of the 1975 Act clarifies that the powers of the Welsh Ministers under section 1(3) to provide and manage sites and premises for businesses, to provide related facilities, and to make land available for development, includes the power to modernise, adapt or reconstruct buildings. The Welsh Ministers may also acquire and provide temporary sites for the business occupants of buildings which are being modernised etc under this power.

22. Section 9 also allows the Welsh Ministers to provide business premises rent free for such time as they consider appropriate, if they consider that there are circumstances which justify the giving of special assistance.

23. Section 10 gives the Welsh Ministers the power to undertake or assist in the provision of means of access or other services or facilities in or for an area, where this appears expedient to contribute to or support the development of businesses in that area.

24. The Welsh Ministers have a duty under section 1(14) of the Act to publish from time to time programmes for the performance of their functions under the 1975 Act. Such programmes can be implemented by the Welsh Ministers themselves, jointly with others or through others acting on the Welsh Ministers' behalf, for the improvement, development or redevelopment of the environment in Wales.

25. Section 15(2) allows the Welsh Ministers to make payments to any authority or person of such amount and in such manner as it may determine, for carrying out work which the Welsh Ministers consider will contribute to the purposes of such a programme.

26. Section 16 gives the Welsh Ministers powers in relation to derelict, neglected, or unsightly land where they are satisfied steps should be taken for bringing it into use or improving its appearance. They can acquire or carry out works on the land, or give a grant to the local authority for the area to do the same.

27. There is a duty on the Welsh Ministers to secure that none of their wholly owned subsidiaries formed under the 1975 Act borrow money otherwise than from them or another of their wholly owned subsidiaries, except with their (the Welsh Ministers) consent.[6]

[6] Paragraph 5 of Schedule 3 to the 1975 Act.

28. In summary, legally, Welsh Ministers have extensive borrowing powers following the transfer of powers outlined in the Welsh Development Agency Act 1975. The purposes for which the Welsh Ministers may exercise their functions under the 1975 Act are wide, encompassing both the economic and social development of Wales, and improving the environment in Wales.

The Welsh Government's response to the call for evidence by the Commission on Devolution in Wales

Summary

Approach

- Financial reform is an important priority for the Welsh Government. We strongly believe that this issue requires a comprehensive approach that addresses not just tax devolution and borrowing powers, but also includes a new and fairer method for determining the Welsh block grant. We see the work of the Silk Commission, and our ongoing talks with the UK Government about a funding floor and access to existing borrowing powers, as being inextricably linked. If progress can be achieved on these lines, we feel this would add to public confidence in the process and would be a good outcome for devolution.

- The submission is based on the assumption that consideration of tax devolution is part of a wider package of measures that includes, at least initially, a funding floor and also borrowing powers. If that were not to be the case, the Welsh Government's approach to tax devolution would change.

Tax devolution

- In general, the Welsh Government is open-minded on the case for tax devolution. The case for or against devolution of any specific tax is highly dependent on the precise details of any proposal; in particular the interaction of devolved tax revenue with the block grant would be of great importance in determining whether devolution was of benefit to Wales.

- In the Welsh Government's view, the case for tax devolution appears strongest in areas where there is a substantial degree of devolved responsibility and where devolution would provide an additional lever for Welsh Ministers to deliver their policy objectives.

- The Welsh Government has not sought devolution of powers to vary income tax rates. We believe that, given the Scottish precedent in 1997, and the fact that the Welsh referendum in 2011 was expressly stated not to be relevant to taxation issues, there would need to be another referendum before such powers could be transferred to Wales. We are also mindful of the need to ensure that any proposals on income tax must take account of Welsh socio-economic circumstances. That said, we are not ruling out income tax as a potential source of revenue for Wales over the longer term and we will consider proposals from the Commission on this issue as on all others.

Borrowing powers

- We believe that the Welsh Government should be able to borrow to fund capital investment, irrespective of whether or not significant tax devolution takes place. The Welsh Government already has borrowing powers in law, but at present Treasury rules prevent us from exercising these powers in a way that would benefit Welsh citizens.

- At present, the Welsh Government's capital budget is set in a way that is driven by capital spending needs in England and Welsh Ministers lack the ability to smooth the costs of large capital projects over time. Access to borrowing powers would provide an important additional flexibility to the Welsh Government to manage its capital spending and implementing a prudent additional investment programme in a way that better meets the needs of Wales.

- In the event of significant tax devolution, the resulting budgetary volatility might well require further borrowing powers that could be used to finance recurrent spending as well as capital investment.

Introduction

1. The Welsh Government's total Departmental Expenditure Limit in 2011-12 is £14.6 billion, of which a little under 10 per cent or £1.3 billion is for capital expenditure. If the Holtham Commission recommendations for tax devolution were implemented in full, around a sixth of the block grant would be replaced by revenue receipts. This would still leave over £12 billion of spending on public services in Wales funded via the block grant mechanism.

2. Financial reform is an important priority for the Welsh Government. We strongly believe that this issue requires a comprehensive approach that addresses not just tax devolution and borrowing powers, but also includes a new and fairer method for determining the Welsh block grant.

3. We recognise that the current funding arrangements - whereby tax receipts are pooled at the UK level and the Welsh Government is almost wholly reliant on a block grant drawn from that pool - is very unusual in an international context. Furthermore, in principle there is a good case for believing that a more direct link between Welsh tax receipts and the funding of the Welsh Government could strengthen democratic engagement. However, it is also the case that the method used to determine the block grant is seriously flawed, since it has an inbuilt tendency over time to drive Welsh relative spending per head ever-closer to the all-England average, with no account taken of Welsh needs. We believe that the Welsh Government is already significantly under-funded, having regard to those needs; and any move towards significant tax devolution would bring with it additional risks to the Welsh Government's budget.

4. Specifically, tax devolution may impose the following budgetary risks:

   i) **volatility:** tax receipts are likely to be more variable and less predictable than block grant funds, which are drawn from a UK-wide pooling of tax receipts;

   ii) **cyclicality:** many taxes are strongly tied to the economic cycle, resulting in a sharp downturn in receipts at times of economic stress, when the pressure on other aspects of the Welsh budget is likely to be particularly acute;

iii) **policy risk:** if a tax base is shared between the Welsh and UK Governments, policy decisions at the UK level may result in large and sudden changes in Welsh tax receipts;

iv) **differential tax base growth:** if over time a tax grows less rapidly in Wales than in the rest of the UK, then devolution of that tax will tend to impose a financial penalty on the devolved budget.

5. In considering the feasibility of devolving a tax to Wales, the Holtham Commission[1] usefully set out the criteria which they considered should be used:
   - accountability;
   - economic efficiency;
   - administrative efficiency;
   - policy relevance;
   - legal constraints; and
   - the impact on the UK tax base.

   We believe that those criteria would also be very useful for the Commission's deliberations.

6. Those risks do not necessarily make tax devolution unworkable; the Holtham Commission provided useful analysis of how they could be managed. Nonetheless, it is clear that tax devolution would result in additional risks to Wales. We believe it would be wrong to accept those risks without agreement to put the block grant on a fairer and more sustainable basis.

7. Moreover, we believe that failure to ensure the stability of the block grant would undermine a key goal of tax devolution, which is to strengthen the accountability of the devolved institutions to Welsh citizens. A devolved power is only meaningful if it could be exercised in practice, and it would become ever-harder to lower tax rates - if that was what Ministers and citizens wished to do - in a world where the block grant was declining remorselessly in relative terms.

8. The Welsh Government is currently in discussion with the UK Government about the case for introducing a funding floor for Wales and enabling Welsh Ministers to exercise their existing borrowing powers to assist in their infrastructure investment plan. The outcome of those discussions will determine whether or not a comprehensive set of financial reforms can be developed. It is likely that we will have a clearer idea of the outcome of the inter-governmental talks in the spring.

9. This submission is therefore conditional; it assumes that tax devolution is part of a wider package of measures that includes at least a funding floor and also borrowing powers. If that were not to be the case, the Welsh Government's approach to tax devolution would change.

10. The submission focuses on the Commission's three core questions posed in the call for evidence and addresses each in turn. The Welsh Government would be happy to provide further evidence, and to respond in detail to the Commission's supplementary

[1] 'Fairness and accountability: a new funding settlement for Wales' (page 45), Independent Commission on Fairness and Funding for Wales.

questions, once the UK Government's approach to the issues being considered in the intergovernmental talks has become clearer.

Response to the Commission's core questions

I. What, if any, tax powers including new possible new taxes and levies should be transferred to Wales?

11. In certain areas, Wales already has significant powers over tax. The Welsh Government plays an important role in council tax, which is levied by Welsh local authorities. In addition, non-domestic rates are pooled at the all-Wales level and Welsh Ministers have powers to determine levels of business rate relief.I n aggregate, these two taxes raise over £2 billion in Wales.

12. Many taxes that are currently levied at a UK level are not suitable candidates for devolution to Wales for a variety of reasons: administrative complexity, legal barriers, likely economic distortion and/or risks to the integrity of the tax base of the UK. The Holtham Commission conducted a thorough review of existing UK taxes and considered whether or not each was suitable for devolution. In broad terms, the Welsh Government believes that the Holtham Commission did a good job in identifying taxes that could potentially be devolved, but we will of course give serious consideration to any alternative proposals from the Silk Commission.

13. Of the taxes identified by Holtham as potentially suitable for devolution, the case for or against devolution in any particular case is highly dependent on the precise details of any proposal; in particular the interaction of devolved tax revenue with the block grant would be of great importance in determining whether devolution was of benefit to Wales. We would encourage the Commission to build on the work of the Holtham Commission on this matter, so that individual proposals for tax devolution can be assessed with a good understanding of the likely budgetary consequences.

14. In the Welsh Government's view, the case for tax devolution appears strongest in areas where there is a substantial degree of devolved responsibility and where devolution would provide an additional lever for Welsh Ministers to deliver their policy objectives. The Holtham Commission saw no major barriers in principle to the devolution of stamp duty land tax, air passenger duty, aggregates levy and landfill tax and we agree that all of them could be good candidates for devolution.

15. Where taxes could be used as policy levers, there is a case for consistent treatment of the devolved administrations. For instance, we note that the UK Government has announced its intention to devolve air passenger duty to the Northern Ireland Executive and we favour the devolution of that tax to Wales as part of a package of reforms.

16. The Welsh Government would support proposals to allow the introduction of new taxes in Wales that would help deliver the policy aims of Welsh Ministers, but as is the case with existing taxes the details of any proposal would be crucial in determining whether or not this power would be of benefit to the people of Wales. In particular, it would be essential to ensure that any revenue raised through additional tax effort by Welsh citizens or businesses resulted in additional resources being

retained in Wales. It would not be acceptable for the revenue from a new tax levied in Wales to be 'netted off' the overall budget.

17. Devolution of corporation tax could offer the Welsh Government a powerful tool to promote economic development, but this is a volatile tax which is strongly tied to the economic cycle. There would therefore be significant budgetary risks to Wales that would need to be mitigated in any proposal for devolution. If corporation tax were to be devolved to Wales and other devolved administrations there would also be a clear risk of a 'race to the bottom' in tax rates, resulting in reduced revenue but with little net impact on the location of business activity. In addition, there would be significant legal and administrative challenges to be addressed before any proposal could be implemented. We believe that any scheme to devolve corporation tax would have to address each of these issues. We are aware that the UK Government and the Northern Ireland Executive are currently considering devolving corporation tax to Northern Ireland. If that were to happen we would expect Wales to be made an equivalent offer, but the Welsh Government's view on its appropriateness would be dependent on the details of the proposal.

18. Income tax is primarily, though not exclusively, a means of raising revenue as opposed to being a lever to achieve a specific policy goal. The value of income tax receipts in Wales - around £5 billion or so - means that devolution of this tax would have substantial risks and challenges. The Welsh Government has not sought devolution of powers to vary income tax rates. We believe that, given the Scottish precedent in 1997, and the fact that the Welsh referendum in 2011 was expressly stated not to be relevant to taxation issues, there would need to be another referendum before such powers could be transferred to Wales. We are also mindful of the need to ensure that any proposals on income tax must take account of Welsh socio-economic circumstances, particularly the integrated nature of the Welsh and English economies. That said, we are not ruling out income tax as a potential source of revenue for Wales over the longer term and we will consider proposals from the Commission on this issue as on all others. The First Minister's speech to the Institute of Welsh Politics on 14 November 2011 discussed one way in which income tax might over time come to play a part in the financing of devolved government in Wales in a way that leaves the final decision on rate-varying powers with the people of Wales.

19. In general, we do not see a strong case for tax assignment (i.e. allocating revenues from a particular tax to Wales, but without devolving rate-varying powers over that tax). Under the current funding regime, most tax receipts are pooled at the UK level and as a consequence the Welsh budget is insulated from region-specific revenue shocks. Over the longer term, UK-wide pooling of tax receipts also ensures that the benefits of economic growth in the UK's most affluent regions are shared by all. While tax assignment may have merit as a staging post to full devolution in certain circumstances, assignment without rate-varying powers seems unattractive as a goal in itself; it is likely to reduce risk pooling and increase the volatility of the Welsh budget but without the compensating benefits of strengthened devolved policy levers or enhanced accountability. However, if the Commission develops proposals for tax assignment that limit these disadvantages, we would of course be willing to consider them.

II. What, if any, borrowing powers should be transferred to Wales?

20. The Welsh Government already has certain borrowing powers in law that are drawn from the Welsh Development Agency Act (1975) - see the Annex to this submission for a summary of those powers. However, Treasury rules mean that if we were to exercise those powers there would be no net benefit to the Welsh budget. This issue is currently under discussion in the inter-governmental talks on funding reform.

21. The Welsh Government should be able to borrow to fund capital investment, irrespective of whether or not significant tax devolution occurs. At present, the Welsh Government's capital budget is set in a way that is driven by capital spending needs in England and Welsh Ministers lack the ability to smooth the costs of large capital projects over time. Access to borrowing powers would provide an important additional flexibility to the Welsh Government to manage its capital spending and implementing a prudent additional investment programme in a way that better meets the needs of Wales.

22. While we believe that devolution of borrowing powers should not be dependent on tax devolution, we are aware that the UK Government takes the opposite view. If a number of smaller taxes were devolved to Wales, then that would - we presume - overcome the UK Government's objections and enable Welsh Ministers to borrow in order to fund capital investment. For example, if stamp duty land tax, air passenger duty, aggregates levy and landfill tax were devolved to Wales (as the Holtham Commission proposed), they could provide an annual revenue stream of around £200 million. On current interest rates, that would be sufficient to support a borrowing-funded investment programme of over £3 billion.

23. We are in favour of Welsh Ministers having the maximum flexibility to borrow that is consistent with the UK Government's legitimate role in protecting the fiscal position of the UK. That means that borrowing powers would need to operate in a well-defined framework that included limits to ensure the sustainability of any debt repayments.

24. It is likely that the most straightforward method of borrowing would be via the Debt Management Office, but we would welcome the Commission's views on whether borrowing from other sources, including bond issuance, would be advantageous to Wales and whether it could be made to operate effectively within a UK framework.

25. In the event of significant tax devolution, the resulting budgetary volatility might well require further borrowing powers that could be used to finance recurrent spending as well as capital investment. The extent of this volatility - and the resulting need for borrowing powers - would very much depend on which taxes were proposed for devolution and on the offset mechanism used to link tax revenues with the block grant. We encourage the Commission to consider this issue in the course of its work.

III. Do you have any other proposals for improving the financial accountability and empowerment of the Welsh Government?

26. Taken as a whole, the Welsh Government's financial reform objectives - a fairer and more stable block grant, borrowing powers to finance investment and perhaps also strengthened accountability through tax devolution - are substantial and ambitious. If achieved, they would greatly strengthen the devolution settlement, which would be of benefit not just to Wales but to the UK as a whole. Of course, successful reform

cannot be delivered by the Welsh Government acting in isolation, but nor can it be imposed from outside; it requires the active co-operation of both Governments and the support of the people of Wales.

27. The Welsh Government further believes that there are a number of detailed changes to the funding system that would improve its transparency and enable Welsh Ministers to better allocate resources in line with Welsh circumstances. In particular:

    i) Welsh Ministers should have freedom to move funds between capital and resource budgets without the need for Treasury approval;

    ii) the Welsh Government should have unrestricted ability to save unspent resources and to spend those funds in future years without requiring Treasury consent - the current 'Budget Exchange' scheme is inadequate in this regard;

    iii) the Statement of Funding Policy - the rule book that governs the financing of devolved administrations - should as far as possible become a jointly-owned document of the UK Government and the devolved administrations. At present, it is wholly under the control of the UK Government and the Secretary of State for Wales agrees the document on behalf of Wales. In the event that joint agreement is not possible in certain matters, we accept that the UK Government would have the right to impose its decisions, but we would want this to be done in a transparent way;

    iv) technical aspects of the funding regime should be administered by an independent body that operates at arm's length from both the Welsh Government and the UK Government. The UK Government should be able over-rule the decisions of the independent body, but would have to make public its reasons for doing so.

28. In addition, the Welsh Government would welcome the Commission examining the UK's public spending framework and budgetary and accounting regime as they apply to Wales, and considering whether there are any aspects which are inappropriate to a devolved administration.

Annex:

Summary of the borrowing powers of the Welsh Ministers under the Welsh Development Agency Act 1975

1. The legal power to borrow for the purposes of the Welsh Ministers' functions under the 1975 Act is in Schedule 3 to that Act, which is operative by virtue of section 18. Paragraph 3 provides that:

For the purpose of exercising their functions under the 1975 Act, the Welsh Ministers may borrow money from any person (including their wholly owned subsidiaries), but any borrowing in a currency other than sterling requires the approval of the Treasury.

2. The majority of the main functions of the Welsh Ministers under the 1975 Act are set out in section 1(3) and are:

   (a) to promote Wales as a location for businesses[2], or assist or concert its promotion as such a location;

   (b) to provide finance for persons carrying on or intending to carry on businesses;

   (c) to carry on businesses and to establish and carry on new businesses;[3]

   (d) otherwise to promote or assist the establishment, growth, modernisation or development of businesses, or a particular business or particular businesses;

   (da) to make land available for development;

   (f) to provide sites, premises, services and facilities for businesses;

   (g) to manage sites and premises for businesses;

   (h) to bring derelict land into use or improve its appearance;

   (i) to undertake the development and redevelopment of the environment;

   (j) to promote the private ownership of interests in businesses by the disposal of securities and other property held by the Welsh Ministers or any of their subsidiaries.

3. The Welsh Ministers' functions under the 1975 Act may be exercised for any of the purposes set out in section 1(2), which are:

   (a) to further the economic and social development of Wales or any part of Wales, and in that connection to provide, maintain or safeguard employment;

   (b) to promote efficiency in business and international competitiveness in Wales;

   (d) to further the improvement of the environment in Wales (having regard to

[2] "business" is defined as including any industrial, commercial or professional activities (whether or not with a view to profit) and the activities of any government department or any local or other public authority;
[3] The Welsh Ministers can only exercise this function through subsidiaries.

existing amenity).

4. Therefore, the purposes for which the Welsh Ministers may exercise their functions under the 1975 Act are wide, encompassing both the economic and social development of Wales, and improving the environment in Wales.

5. Section 1.(6) gives the Welsh Ministers a power to do anything, whether in Wales or elsewhere, which is calculated to facilitate the discharge of their functions set out in section 1(3) above, or is incidental or conducive to their discharge:

6. Section 1(7) provides that the Welsh Ministers have power in connection with their functions under the 1975 Act—

   (a) to acquire, hold and dispose of securities;

   (b) to form bodies corporate;

   (c) to form partnerships with other persons;

   (d) to make loans;

   (e) to guarantee obligations (arising out of loans or otherwise) incurred by other persons;

   (f) to make grants;

   (g) to act as agent for other persons;

   (h) to acquire and dispose of land, plant, machinery and equipment and other property (land may be acquired by agreement or compulsorily) ;

   (i) to manage land, and to develop land and carry out works on land, and to maintain works or assist in their maintenance;

   (k) to make land, plant, machinery and equipment and other property available for use by other persons;

   (l) to provide advisory or other services or facilities in relation to any of their functions, or assist in their provision; and

   (m) to promote or assist in the promotion of publicity relating to any of the functions of the Welsh Ministers under the 1975 Act.

7. Section 9 of the 1975 Act clarifies that the powers of the Welsh Ministers under section 1(3) to provide and manage sites and premises for businesses, to provide related facilities, and to make land available for development, includes the power to modernise, adapt or reconstruct buildings. The Welsh Ministers may also acquire and provide temporary sites for the business occupants of buildings which are being modernised etc under this power.

8. Section 9 also allows the Welsh Ministers to provide business premises rent free for such time as they consider appropriate, if they consider that there are circumstances

which justify the giving of special assistance.

9. Section 10 gives the Welsh Ministers the power to undertake or assist in the provision of means of access or other services or facilities in or for an area, where this appears expedient to contribute to or support the development of businesses in that area.

10. The Welsh Ministers have a duty under section 1(14) of the Act to publish from time to time programmes for the performance of their functions under the 1975 Act. Such programmes can be implemented by the Welsh Ministers themselves, jointly with others or through others acting on the Welsh Ministers' behalf, for the improvement, development or redevelopment of the environment in Wales.

11. Section 15(2) allows the Welsh Ministers to make payments to any authority or person of such amount and in such manner as it may determine, for carrying out work which the Welsh Ministers consider will contribute to the purposes of such a programme.

12. Section 16 gives the Welsh Ministers powers in relation to derelict, neglected, or unsightly land where they are satisfied steps should be taken for bringing it into use or improving its appearance. They can acquire or carry out works on the land, or give a grant to the local authority for the area to do the same.

13. There is a duty on the Welsh Ministers to secure that none of their wholly owned subsidiaries formed under the 1975 Act borrow money otherwise than from them or another of their wholly owned subsidiaries, except with their (the Welsh Ministers) consent.[4]

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[4] Paragraph 5 of Schedule 3 to the 1975 Act.

Agenda Item 3

Finance Committee

FIN(4) 07-12 - Paper 2

Devolved Funding: Borrowing Powers and Capital

Evidence from the Local Government Association

Introduction

The Local Government Association (LGA) was formed in 1997 to be the voice of local government on the national stage. Over the past 15 years we have lobbied and campaigned on behalf of local authorities in England and Wales, both in Westminster and in Brussels.

The LGA's mission is to support, promote and improve local government. We work with councils to achieve our shared vision for local government by focusing our efforts where we can have real impact, being bold and ambitious, and supporting councils to make a difference, deliver and be trusted.

Almost all English Local Authorities are members of the LGA and all Welsh Local Authorities are in membership through the Welsh Local Government Association, which has corporate membership of the LGA.

1. Local authorities and prudential borrowing

Prudential Borrowing - overview

On 1 April 2004 the provisions of the Local Government Act 2003 came into force, introducing a new regulatory framework (the Prudential Code) which enabled councils to borrow in sterling for capital expenditure from any source so long as the borrowing is prudent, affordable and sustainable. This replaced a more prescriptive system of credit approvals and borrowing limits specified by central government.

Local Authority use of prudential borrowing

Local authorities have managed the prudential borrowing system with care. Table 1 shows how borrowing by UK local authorities has increased over the past six years.

Table 1: Total UK local authority borrowing 2005-06 to 2010-11[1]

						£ million	% Change
As at 31st March:	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2010-11**
Total borrowing	**58,117**	**61,415**	**65,886**	**66,775**	**67,862**	**70,563**	**4%**

[1] Source: Department for Communities & Local Government
http://www.communities.gov.uk/documents/statistics/pdf/2041385.pdf

(£m)							

The level of borrowing can be compared with the value of local authorities' capital assets. As at 31 March 2011, the value of English local authorities' capital assets was £232,776m[2]. Assets held include council houses (£66,928m), schools (£60,240m) and infrastructure assets (£30,779m).

As at 31 March 2011, the overwhelming majority of UK local authorities' borrowing (£69,782m) was long term. £52,701m of outstanding borrowing (76%) was owed to the Public Works Loans Board, with £11,802m owed to banks[3]. The proportion of borrowing owed to the Public Works Loans Board has remained in the 75% - 80% range over the last five years. There has been almost no use of bonds as a source of finance until a recent issue by Transport for London.

The use of prudential borrowing has been both cautious and gradual. While councils have increased the amount of borrowing undertaken since the introduction of the Prudential Code in 2004, this should be seen in the context of a general increase in total levels of capital expenditure and a period of rising budgets. The trend in England is now for reducing capital expenditure. This is partly because funding from central government is set to reduce (both in terms of capital grant and in terms of revenue support for borrowing) and partly because local authorities are themselves reducing funding of capital expenditure. Chart 1 overleaf shows the sources of financing of English local authorities' capital expenditure expressed in real terms at 2010-11 prices.

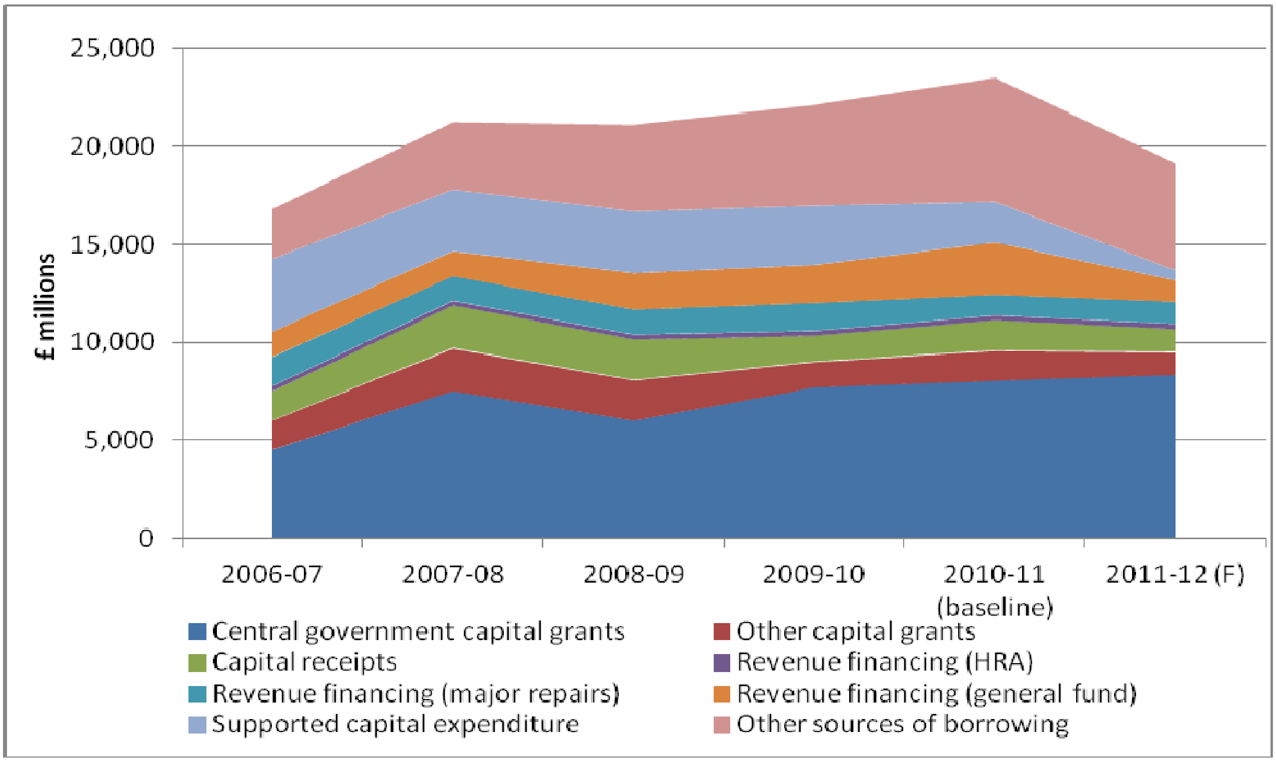
For English local authorities, the use of prudential borrowing increased in real terms between 2006 and 2011. In 2006-07, prudential borrowing was £5,655m, but borrowing rose to £8,399m by 2010-11. However, the proportion of capital expenditure financed by borrowing remained relatively constant at just over one-third[4]. 2011-12 forecasts indicate that borrowing has fallen back sharply in 2011-12.

[2] Source: Department for Communities & Local Government, http://www.communities.gov.uk/documents/statistics/pdf/20132511.pdf Annex E(2)

[3] Source: Department for Communities & Local Government, http://www.communities.gov.uk/documents/statistics/pdf/2041385.pdf, Table 4

[4] Source: Department for Communities & Local Government, http://www.communities.gov.uk/documents/statistics/pdf/20132511.pdf, Table 5

Chart 1: Financing of English local authority capital expenditure, 2006-07 to 2011-12[5]



2. Benefits of the prudential borrowing code

The Code provides a framework enabling authorities to determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Code supports local strategic planning, local asset management planning and proper option appraisal.

The key benefits of the Code are as follows:

Integration into the corporate planning process – The Code integrates revenue and capital budgeting which were previously driven by separate processes, with the capital elements mainly driven by the government constrained limits on borrowing.

More effective asset management – The enhanced links to the corporate planning process are designed to ensure that a local authority's assets are managed in accordance with their strategic objectives. The Code also allows flexibility in capital financing, for example a local authority may initially finance their capital expenditure from internal resources rather than taking out external borrowing, as demonstrated by external

[5] Source: LGA analysis of DCLG, *Local authority capital expenditure and receipts, England: 2011-12 forecast revision* (Oct 2011), Table 5

borrowings being less than the underlying need to borrow. This enables resources to be used effectively in line with local circumstances.

Prudent medium term financial planning – the Code promotes effective financial planning which considers the range of options for revenue funding and capital investment by:

- Establishing whether the local authority considers it affordable and prudent to bear additional future revenue costs associated with additional investment, ie financing and running costs
- Establishing whether the use of existing or new revenue resources to finance capital investment should have precedent over other competing needs for revenue expenditure
- Establishing the scope for capital investment to generate future revenue savings or income, taking into account the risks associated with such proposals.

More rigorous option appraisal – Given the pressures on revenue resources many local authorities appraise schemes on an "invest to save" basis which allows individual schemes to be appraised.

Governance Arrangements

Local authorities in England and Wales are required to have regard to the Code under Section 3(5) of the Local Government Act 2003.

The Local Government Act 2003 also requires local authorities in England and Wales to determine and keep under review the amount of money that they can afford to borrow for capital investment. In addition the Local Government Finance Act 1992 requires local authorities to set council tax at a level sufficient to meet planned revenue expenditure after taking into account other sources of income. This is known as the "balanced budget requirement". These statutory requirements further ensure that local authorities act prudently and can afford to repay any borrowing undertaken.

The governance arrangements within the Code ensure that decision making is open and transparent, decisions are taken at key times and that there are early warning signs to indicate potential problems. The Code includes a range of Prudential Indicators which are designed to ensure that capital investment plans are prudent, affordable and sustainable. These are monitored and reported on a regular basis and procedures should be put in place for instances where there are likely to be potential breaches in the Indicators.

The Code places specific responsibilities on the Chief Finance Officer (CFO) within a local authority who is responsible for ensuring that all matters that must be taken into account are reported to the budget decision making body for consideration and for establishing procedures to monitor performance.

If a CFO forms the view that the authorised limit on borrowing is about to be exceeded a report must be made to the decision making body that originally set the limit. It will then be for the decision making body, taking into account the advice of the CFO, to determine if it would be prudent to raise the current limit or instigate procedures to ensure that the limit is not breached. In order to be able to respond to unforeseen and extraordinary events, local authorities in England and Wales may make use of the provision in Section 5 of the Local Government Act, which permits temporary borrowing, but reliance on this section to borrow above the authorised limit should be reported to the next meeting of the body that set the budget for the local authority.

The government has the power to intervene and set an individual borrowing limit for a local authority if, for example, it was considered that the Code was not being followed and that expenditure was being incurred which was unaffordable, imprudent and unsustainable. It is indicative of the success of the Code that these powers have not been used.

The prudential indicators are approved by the same body that approves the budget, reflecting the inherent link between the two processes.

3. Recent Developments

Spending Review 2010 PWLB Increase

The 2010 Spending Review included a decision to increase the rate of interest charged to local authorities by the Public Works Loans Board (PWLB). Historically, rates had been set at gilts +13-20 basis points (1 basis point = 0.01%). The new arrangements are that rates are set at gilts + 100 basis points. The government's stated rationale for this decision was that it wished to impose both a degree of downward pressure on local authority borrowing and tougher discipline, in the context of the difficult spending decisions being made in other parts of the public sector. The result of this decision, and the spending reductions imposed by the Spending Review, has been to reduce significantly the amount of borrowing local authorities are undertaking from the PWLB. Between January 2009 and September 2010 (the month before the rate increase), local authorities across the UK borrowed on average £554m a month from the PWLB. Since October 2010 local authorities across the UK have borrowed on average £228m a month from the PWLB[6]. However, the PWLB remains the main source of borrowing and has continued to fund some 76-77% of total borrowing.

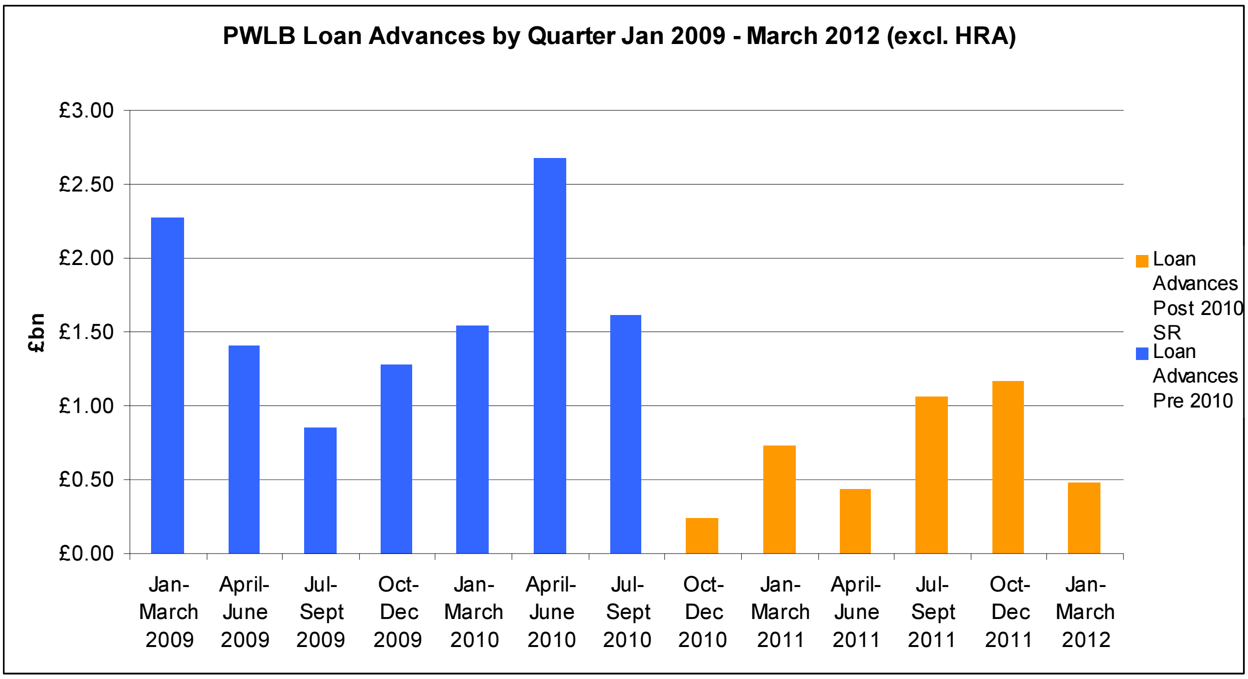
Chart 2 overleaf shows changes in the levels of quarterly loan advances by the PWLB in periods before and after the announcement of the 2010 Spending Review decisions. These figures exclude the exceptional borrowing in March 2012 undertaken to finance the buyout of the Housing Revenue Account.

The Spending Review decision pushed PWLB rates higher than likely market rates for lending to local authorities. In consequence, the LGA has explored the possibility of establishing arrangements that would facilitate its member authorities drawing finance from the bond markets.

[6] Source: PWLB monthly lending data published at http://www.dmo.gov.uk/index.aspx?page=PWLB/PWLB_Monthly_Loans_Report

In its 2012 Budget, the government indicated that it would introduce new arrangements to reduce PWLB rates by 20 basis points in return for increased provision of information by local authorities about their borrowing, and that it would consider possible arrangements for further reductions in rates.

Chart 2 – Quarterly loan advances by the PWLB



The Housing Revenue Account Buy-out

In March 2012 the Housing Revenue Account Subsidy System was reformed, with local authorities taking on the historic debt that was previously financed by central government through national pooling of housing rents. This reform applies in England, but not in Wales. The reform was significant for prudential borrowing for two reasons. Firstly, it involved a series of borrowing transactions of unprecedented scale in local government. In total £13.4bn was borrowed, £12.9bn of it from the PWLB, to finance the transaction. Shortly before the transactions took place, the government announced that rates on borrowing for this purpose only would return to their historic level of gilts +13-20bps. Prior to that announcement a number of councils had been considering accessing Debt Capital Markets to finance the transaction.

The reform of the HRA Subsidy System also has implications for prudential borrowing, as it enables local authorities to borrow against housing rental income for the first time since the creation of the Subsidy System. It is estimated by the Office of Budgetary Responsibility that the reform will create a ‘borrowing headroom’ of £3.5bn over the period 2012-2017. At present it is unclear how much of the borrowing headroom councils will utilise, as some councils may choose to use this to pay down their debt faster.

The Local Government Finance Bill and prudential borrowing

The Local Government Finance Bill 2012 will enable English local authorities to retain a proportion of increases in business rates locally. This reform does not apply to Wales. The current proposals would enable councils to retain this business rates growth up to 10-yearly resets, at which point each authority's baseline would be recalculated. This is significant for prudential borrowing because it opens up the possibility for local authorities to borrow against money to be raised from future business rates income representing the increased business rates income generated by new development.

This kind of borrowing is known as Tax Increment Finance (TIF) and the government envisages that it might happen in one of two ways. The first, TIF1, would be entirely at the discretion of local authorities within the Prudential Code. Councils would be free to borrow against all retained growth for a period of up to 10 years between resets. However, it is understood that many local authorities (and potential lenders) regard a 10 year period as too short to provide the requisite security of revenue. The alternative TIF2 would enable councils to borrow against ring-fenced business rates growth for a period of up to 25 years in a manner regulated by central government. At present the government has allocated £150m to funding TIF2 between 2013 and 2019. The government has also introduced Enterprise Zones, which enable councils to retain all business rates within designated areas for a period of 25 years. This potentially overcomes the barrier to TIF1 schemes for borrowing in these areas. The OBR forecasts that the net impact to the Exchequer of lost business rates income will be £205m between 2012 and 2015.

Local Government Association
May 2012

ANNEX

Case Studies – Councils using prudential borrowing innovatively

Newcastle City Council - Northern Rock Tower

Newcastle City Council used prudential borrowing to purchase the newly built Northern Rock Tower, which was then leased out to a private company on the day of purchase. The aim was to increase jobs by providing a headquarters for a growing local company, providing a boost to the local property market, as well as enhancing the Council's property investment portfolio. The initial rental stream more than covers the financing costs and after future rent reviews the rental income is estimated to be twice that of financing costs, creating a new revenue stream. Without prudential borrowing freedoms, Newcastle would have been unable to provide new office space to a local business and gain a valuable, revenue generating asset.

Northamptonshire County Council Road Maintenance Scheme

In April 2010 Northamptonshire used prudential borrowing to fund a preventative approach roads maintenance. The borrowing has enabled the council to address the short-term pressures of dealing with the increasing numbers of potholes on the network, caused by a deteriorating network and a succession of severe winters. A preventative maintenance strategy can reduce overall costs by up to five times compared with the reconstruction costs required if roads are left to deteriorate. It can also reduce the need for large-scale reconstruction schemes. In order to implement this approach the council required £10m in prudential borrowing to complement £20m of grant funding. As a result of this funding:

- The percentage of permanent & semi-permanent repairs against all repairs has increased by 50 per cent compared to the previous 12 month average
- The initial investment has freed up £1.7m per annum in revenue funding
- The number of customer reports of potholes has fallen by 23 percent - representing 2,579 less reported defects
- Initial figures indicate that the numbers of insurance claims made against the Council originating from poor road surfaces have reduced by 48 per cent on the previous 12 months. This equates to a reduction of 419 claims received

TIDAL ENERGY

Clerk of the Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

4th January 2012

Dear Sir/Madam,

The Effectiveness of European Structural Funding in Wales
Evidence from Tidal Energy Limited

Further to the call for evidence on the above received on 28th October 2011, Tidal Energy Limited (TEL) is pleased to provide this letter outlining the impact ERDF funding has had on our business and the effectiveness of the spend against the objectives of our project and the value for money.

TEL is a privately owned micro-SME established to develop an innovative tidal stream energy converter called "DeltaStream". TEL is based in Cardiff and the technology was founded by a marine engineer in Pembrokeshire.

Our project to demonstrate a full scale device and a test site off the coast of Pembrokeshire is currently being supported by ERDF funding. Stage 1 of the project, consisting of the initial design and planning work, has been completed successfully and Stage 2, which is progressing well, is due to be completed in December 2013. This latter stage consists of the final design, manufacturing and testing of the device for 12 months and includes supplying tidal stream generated electricity into the local electricity distribution network.

The project is a Collaborative Research and Development project with Cranfield University who is a Joint Sponsor. Match funding is provided by the shareholders of Eco2 Limited, a Welsh renewable energy development company who is also a Joint Sponsor in the project.

The benefits of the ERDF project are extremely important to TEL and include the following:

1. It enables TEL to test DeltaStream technology with a view to generating significant investment and business opportunities in the future.

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2. It will provide a source of renewable energy to St Davids in Pembrokeshire and provide an opportunity to generate significant levels of predictable renewable energy in the future.
3. It provides an opportunity for the industry and regulators to understand the environmental impact aspects of tidal steam generation.

From a Welsh Government perspective the project aligns well with the Ministerial Policy Statement on Marine Energy in Wales (July 2009) including the following:

- Prototype demonstration in Pembrokeshire
- Co-operation between private sector enterprise and public sector
- WEFO finance
- Opportunity to examine environmental impact – co-operation with CCW and other stakeholders
- Seeking to establish regional economic benefit and create embryonic marine energy industrial sector
- Expansion of R&D excellence; collaboration with Universities. Test efficacy of the consenting process

This is the only European Structural Funding project that TEL is involved with and we would like to provide comments on our experience to the following specific questions identified in the call for evidence:

1. To what extent do you consider the Convergence and Regional Competitiveness and Employment programmes in Wales for the 2007-13 period, to have achieved –or to be achieving –their intended objective.

Selection of the DeltaStream project to benefit from ERDF funding has made an important contribution to the objectives of the Strategic Framework for Climate Change, Energy. Our project meets the objective of supporting the development of clean and renewable energy or other significant activities to reduce greenhouse gas emissions relating to energy generation and use.

The project also satisfies the aim of Priority 4 – Creating an Attractive Business Environment which is to promote sustainable business growth and new business opportunities in relation to future environmental challenges and opportunities.

More specifically the project also contributes to the Theme 1 – Energy, the aim of which is to support the development of clean and renewable energy which is to be achieved by:

- Supporting clean energy developments and energy infrastructure improvements to increase supply;
- Strengthen the energy R&D base and links between businesses and academia including the demonstration of future technologies.

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The Welsh Government has set targets with regard to the development of marine renewable energy and has a strong aspiration to generate electricity from its marine resources. TEL is very pleased to be able to work towards supporting these targets and aspirations.

The project also provides regeneration and employment benefits, however these are not formally measured and reported as part of the project.

2. *Do you consider the various projects funded by European Structural funds in Wales to be delivering value for money?*

We cannot comment on other projects funded by European Structural Funds in Wales but provide the following comments on whether the DeltaStream project is providing value for money.

As a small, private business we have found the strict WEFO procurement requirements difficult to operate for some of the requirements of our project. It would seem that the procurement rules are aimed at organisations with dedicated procurement and legal resource, operating in the public domain and contracting in the main for large projects. The DeltaStream project is a relatively small, innovative project which involves a number of specialist contractors. In our experience the rules can inhibit innovation and stifle cost-effective delivery.

On planning the project, we underestimated the amount of internal management required to operate in accordance with the procurement guidance. Technical development and project management resource has been tied up in carrying out cumbersome and restrictive procurement activities. As a result, we have suffered delay in the project, with associated impact on cost.

Our early experience in Stage 1 of our project was quite salutary, in that from an original grant offer of c.£750k, we lost £250k in grant as some costs were deemed ineligible for works which had not been procured strictly in accordance with the procurement rules.

In order to reduce the risk of claw back of costs for private companies and to provide small companies with the flexibility to provide value for money for innovative projects we would specifically suggest the following amendments be made to the procurement guidance and rules:

- relax the requirements for lower value contracts,
- provide clear guidance on how single source procurement can be qualified (especially relevant in our case where innovation and invention have in some cases precluded commercial style competitive procurement)
- review whether or to what extent private companies need to comply explicitly with the Public Procurement Regulations
- Enable project sponsors to liaise directly with WEFO procurement department (for efficiency in seeking advice and guidance)

Vat Registration No. 862 8088 93. Company Registration No. 4135447.

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We consider that the DeltaStream project has provided added value to the marine renewable industry in Wales providing wider R&D opportunities. As part of the project we have had the opportunity to support and work with a number of Welsh academic grant initiatives including SEACAMS, LCRI and Marlin project. We promote the opportunity for Welsh academic institutes in Pembrokeshire, Cardiff, Swansea, Bangor to benefit from the learning opportunities provided by Wales's first tidal energy deployment.

5. Do you have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current rounds of Structural Funds?

TEL's objective is to create a sustainable technology business in Wales, for DeltaStream to make a significant contribute to the Welsh Government's renewable energy targets and in doing so provide significant regeneration and investment opportunities. We believe this effort will be sustainable beyond 2013 as we look to build on the outputs of the current project.

The current project is the first stage of technology development and future investment is required to develop the technology and the business to be commercially viable. The next stage of business development will require additional funding which at present is not available to the company. TEL will submit a further application to WEFO for further funding for the next stage of the business development to underpin the commercialisation of the technology.

6. What is your own experience of accessing European Structural Funding?

Tidal stream conversion technology is in a state of infancy and it is difficult to obtain funding for such innovative projects in a very challenging economic environment. Prior to applying for ERDF funding TEL has spent significant effort seeking both private and public funding for the project. It is clear that without ERDF support we would not be in a position to progress this project and development of the technology would be risk.

Although we are very pleased to have the support of this funding we found the application process arduous and protracted. As an SME without the support of internal legal, human resources, procurement and other support services it is difficult to meet the requirements of the WEFO.

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7. ***Is the private sector in Wales sufficiently engaged in accessing European Structural Funding?***

It is disappointing that there is such little take up of European Structural Funding by the private sector in Wales as it can provide a great opportunity to generate technology, employment and investment. For the reasons identified above it is difficult for private companies, particularly small companies, to meet the requirements of the regulations, provide the resources and manage the risks associated with such a project.

Yours faithfully,

Chris Williams
Development Director

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Finance Committee

FIN(4) 07-12 - Paper 4

EVIDENCE ON THE EFFECTIVENESS OF STRUCTURAL FUNDS
FURNACE FARM, BODNANT, CONWY

Background

1 Furnace Farm was the home farm of the Bodnant Estate, Conwy, North Wales. It is adjacent both to the A470 and to the world-famous Bodnant Garden (National Trust).

2 The mainly 18th century buildings have now been turned into a centre for the production, sale and enjoyment of local and Welsh food. We believe it is unique in the UK in combining an extensive farm shop (with butchery and bakery), cookery school, dairy production, tea-room and restaurant on a single site. The new National Beekeeping Centre for Wales will also have a home at Furnace.

3 The main construction contract has been let to a local North Wales company, K&C Construction, and work on site started in October 2010. The centre will open at the beginning of June 2012.

4 Furnace Farm Ltd is a private company set up specifically to manage the development.

Value for Money

5 Without funding support from ERDF and TMF the project could not have gone ahead. The total cost of the ERDF-funded project is £6.44m. Furnace Farm has received £1.97m Convergence ERDF (Theme 4.3) and £1.1m Targeted Match Funding. The match funding is from the Bodnant Estate.

6 The direct outputs are 43 FTE jobs (48 in 2015) and 405,000 visitors in the first three years. The indirect outputs will include:

- an increase in tourist numbers and spend generally in the Conwy Valley;
- a sales outlet and more sustainable future for local growers and producers;
- increased awareness of how food is produced; and
- general promotion of food from North and the whole of Wales.

Monitoring by WEFO

7 FFL has started to make regular reports to WEFO on the direct outputs of the project and is making arrangements to work with an external consultant to undertake an evaluation.

Sustainability

8 The business plan envisages steady growth and expansion of the business which will enable Furnace Farm to make an increasing contribution to the local economy.

Experience of Structural Funds

9 FFL's experience has been mainly positive. We were an early direct applicant to the Convergence Programme; an expression of interest for funding was submitted in January 2008. The appraisal process proceeded fairly smoothly and a conditional offer letter was issued in June 2008. WEFO have been sympathetic to increased costs and the risks that the economic recession has brought and we have been given two increases in grant.

10 Payment of ERDF claims by WEFO has been prompt and efficient, which has been a help to our cashflow.

Furnace Farm Ltd
April 2012

Alun Davies AC / AM
Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd
Deputy Minister for Agriculture, Food, Fisheries and European Programmes

Llywodraeth Cymru
Welsh Government

Jocelyn Davies AM
Chair of the Finance Committee
Cardiff Bay
CF99 1NA

24th April 2012

Dear Jocelyn,

EUROPEAN STRUCTURAL FUNDS PROGRAMMES 2007–2013: JESSICA

I am writing to you as Chair of the Finance Committee regarding a comment I made at a Plenary on 24 January 2012, which you subsequently raised during my attendance at the Finance Committee on 29 February.

During my opening remarks for the Plenary Debate on European Programmes, I noted that 'we understand that the JEREMIE and JESSICA schemes have already been delivering for businesses and investments in Wales.'

For example, JEREMIE has already committed over £80m to 380 SMEs, and has leveraged £122m of private sector investment. The purpose of my remark in Plenary was to inform Members that both schemes have (at that time) the financial instrument structures in place and that the process of evaluating and reviewing Expressions of Interest had began. My intention was to reassure Members that these processes would be pursued as a matter of priority. This is something that I would like to repeat.

In respect of JESSICA, I wish to inform you that investment managers are currently reviewing 11 Expressions of Interest (EOIs), requesting some £78m and worth around £108m. Expressions of interest include schemes in Neath Port Talbot; Tenby; Caernarfon; Mumbles; Swansea; Wrexham; Port Talbot, Porthcawl, Cynmael, Newport and Pontypridd. An announcement of the first JESSICA investment is scheduled for May.

Best wishes

Alun

Alun Davies AC / AM
Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd
Deputy Minister for Agriculture, Food, Fisheries and European Programmes

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Finance Committee

Meeting Venue:	**Committee Room 4 – Ty Hywell**
Meeting date:	**Wednesday, 2 May 2012**
Meeting time:	**09: - 11:00**

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

This meeting can be viewed on Senedd TV at:
http://www.senedd.tv/archiveplayer.jsf?v=en_500000_02_05_2012&t=0&l=en

Concise Minutes:

Assembly Members:	**Jocelyn Davies (Chair)** **Peter Black** **Christine Chapman** **Paul Davies** **Mike Hedges** **Ann Jones** **Julie Morgan** **Ieuan Wyn Jones**
Witnesses:	**Peter Reekie, Director of Finance, Scottish Futures Trust**
Committee Staff:	**Helen Finlayson (Clerk)** **Daniel Collier (Deputy Clerk)** **Martin Jennings (Researcher)** **Eleanor Roy (Researcher)**

1. Introductions, apologies and substitutions
1.1 The Chair welcomed Members and members of the public to the meeting.

2. Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding
2.1 The Chair welcomed Peter Reekie, Director of Finance, Scottish Futures Trust, via video conference.

2.2 The Committee questioned the witness.

3. Papers to note
3.1 The Committee noted the supplementary evidence provided by the WCVA in relation to its inquiry into the Effectiveness of European Structural Funding in Wales.

3.2 The Committee ratified the minutes of the meeting on 14 March 2012.

4. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:
Item 5 and 6

5. Discussion of evidence - Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding
5.1 The Committee discussed evidence taken on its inquiry into Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding.

6. Determination of Future Committee business
6.1 The Committee discussed forthcoming committee business.

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