



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Menter a Busnes **The Enterprise and Business Committee**

Dydd Iau, 11 Hydref 2012
Thursday, 11 October 2012

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Procedural Motion

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Yr Arglwydd/Lord Elis-Thomas	Plaid Cymru The Party of Wales
Alun Ffred Jones	Plaid Cymru The Party of Wales
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Gwyn R. Price	Llafur (yn dirprwyo ar ran Keith Davies) Labour (substituting for Keith Davies)
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Jenny Rathbone	Llafur (yn dirprwyo ar ran Julie James) Labour (substituting for Julie James)
David Rees	Llafur Labour
Kenneth Skates	Llafur Labour
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Claire Bennett	Dirprwy Gyfarwyddwr, Polisi, Cynllunio a Phartneriaethau Trafnidiaeth Deputy Director, Transport Policy, Planning and Partnerships
Frances Duffy	Cyfarwyddwr Trafnidiaeth Director Transport
Edwina Hart	Aelod Cynulliad (Llafur), Y Gweinidog Busnes, Menter, Technoleg a Gwyddoniaeth Assembly Member (Labour), Minister for Business, Enterprise, Technology and Science
Rob Hunter	Director, Finance and Performance Cyfarwyddwr, Cyllid a Pherfformiad
James Price	Cyfarwyddwr Cyffredinol, Busnes, Menter, Technoleg a Gwyddoniaeth Director General, Business, Enterprise, Technology and Science
Carl Sargeant	Aelod Cynulliad (Llafur), Y Gweinidog Llywodraeth Leol a Chymunedau Assembly Member (Labour), Minister for Local Government and Communities

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Ben Stokes	Y Gwasanaeth Ymchwil Research Service
Siân Phipps	Clerc Clerk
Kayleigh Driscoll	Dirprwy Glerc Deputy Clerk

*Dechreuodd y cyfarfod am 10.29 a.m.
The meeting began at 10.29 a.m.*

**Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Nick Ramsay:** I welcome Members, witnesses and members of the public to today's meeting of the Enterprise and Business Committee. The meeting is bilingual, and headphones can be used to hear the simultaneous translation from Welsh to English on channel 1 or for amplification on channel 0. The meeting is being broadcast, and a transcript of the proceedings will be published. I remind Members to turn off their mobile phones. There is no need to touch the microphones, as they will work on their own. In the event of a fire alarm, please follow the directions of the ushers. We have apologies from Keith Davies and Julie James, so I thank their substitutions, Gwyn Price and Jenny Rathbone.

10.30 a.m.

**Cynigion Cyllideb Ddrafft Llywodraeth Cymru ar gyfer 2013-14: Sesiwn i
Graffu ar Waith y Gweinidog
Welsh Government Draft Budget Proposals for 2013-14: Ministerial Scrutiny
Session**

[2] **Nick Ramsay:** We are following through our scrutiny of the Minister for Business, Enterprise, Technology and Science, Edwina Hart, on her draft budget proposals for 2013-14. I remind Members about last week's stakeholder event, which also informed the committee's recommendations to the Welsh Government.

[3] I welcome the Minister and her officials. We are most grateful for your attendance today. Would you like to give your names and positions, for the record?

[4] **The Minister for Business, Enterprise, Technology and Science (Edwina Hart):** I am Edwina Hart, Minister for the economy.

[5] **Mr Price:** I am James Price, director general of the business, enterprise, technology and science department.

[6] **Mr Hunter:** I am Rob Hunter, director of finance for the department.

[7] **Nick Ramsay:** Thank you for being here today and my apologies, Minister, for filling in the gaps between your coughing with my own coughing.

[8] **Edwina Hart:** It might be safer if we ask the clerk to ask all the questions and ask officials to answer them on this occasion. [*Laughter.*]

[9] **Nick Ramsay:** We have a lot of questions, Minister, so if you do not mind, we will get straight into them. Feel free to be succinct with your answers—that will help with the record.

[10] **Byron Davies:** According to the Welsh Government's 2012 budget narrative document, the spending plans for business, enterprise, technology and science have been reviewed to ensure that the budgets in 2013-14 and 2014-15 are aligned to deliver the programme for government. In preparation for this meeting, you said you had undertaken a

detailed review of future spending plans and some adjustments to budgets. Could you tell us what work has been done in the past year to reprioritise funding within the portfolio to better align it to the programme for government?

[11] **Edwina Hart:** We have put in a lot of internal processes, which Rob will be able to go into in detail, to monitor the activity within the department to ensure that it continues to be aligned with all the outcomes contained in the programme for government. In addition, we looked at some of the issues around the sector resources and plans, because some sectors need more money than others, and some do not need as much because they are working well within certain budget confines. For example, whereas we will have to look at a further allocation to advance manufacturing as part of what we are doing on alignment, we have noticed that, for financial and professional services, we are getting huge wins on quite a small budget because a lot of the activity is very much focused with alignment into Cardiff and the use of the London office. Rob, do you want to mention what we are doing on a departmental basis?

[12] **Mr Hunter:** Last year, the committee asked us for a breakdown at budget expenditure line level, particularly across the new sectors as they were formed at that time. In January to February, the department received plans from the sectors and we factored those in. They have been reviewed and we have discussed those plans with the Minister. The teams within the department have gone away and worked up proposals. In the submission that you now have, we have given a BEL breakdown and you will see the figures have changed a lot in terms of the allocation; it is not just a straight allocation. That represents the committed figures, so these are projects that have come through and been approved for each of those sectors. Therefore, we can be much clearer now about where that money sits. In addition to that, the Minister mentioned that, this year, I have introduced and strengthened quite considerably the financial management processes within the department. So, on a monthly basis, we review all of the headings and, on a quarterly basis, I delve down pretty much into every single project within the department. If we see that any project is falling behind, or perhaps the contract has been let and the costs are less than we thought they would be, it gives us the opportunity to free up that money and move it into other headings where there are priorities.

[13] **Eluned Parrott:** Minister, your department's budget represents 1.8% of the total amount allocated. Last year was a budget for growth and jobs, and this year it is growth again. Are you content that 1.8% as an allocation will allow you to deliver on those promises?

[14] **Edwina Hart:** I doubt if any spending Minister in any department would be content with their budget allocations, even if they had vast increases, if I am absolutely honest, but in terms of the overall Government the answer is 'yes'. The core budget allocation for me is only part of the picture, in very real terms. I also have the issue of European funding and its best use, which is supplementary funding. Last year, we leveraged in some private sector investments, in terms of Ely bridge, for example. We also look at what we do with Finance Wales and what it does in terms of cash.

[15] We have identified projects in terms of jobs and growth as ones that we can manage. It is not solely business, enterprise, technology and science. Looking at the current issues around the enterprise zones, I am having discussions, and will be having further discussions on the zones and other major projects with the Finance Minister some time between this and the final budget, because we have been allowed additional time in terms of the enterprise zone plans, so we can perhaps factor those into the discussion. Effectively, I have contributions to my portfolio from transport, and quite considerably in terms of transport infrastructure issues. Also, education is a big contributor to what I can offer in terms of any investors coming in, because the education package we offer in Wales is second to none. That supplements me all the time. Also, I am indirectly helped by health, and there is the National Institute for Social Care and Health Research research project, which links into Sêr Cymru and our work with

higher education. So, I am content, in terms of the cut, that I can manage. I will always be grateful for more; if there are any windfalls coming out of the UK Treasury, I would be delighted to take them, but currently I think that we are managing quite effectively.

[16] As an aside, I have been a Minister for a number of years, and I have had ministerial responsibility for finance, but this is the most difficult budget I have had to manage as a Minister in terms of how you prioritise and how circumstances change quickly, and how you have to be fleet of foot. In terms of health, you always know that the service requires so much. You know what the capital is. However, we have to be very fleet of foot, because if we have an enquiry from someone who says, 'We will come to Wales if you build us a building or factory', it is a question of where you can put your money. That is why we have kept the flexibility in this budget for projects in the pipeline, because they might be in the pipeline, and we could quickly move stuff. That is why some things are not necessarily set in stone in my budget; I might have to move quite quickly. For instance, we could have good news out of Wylfa, but we obviously have issues around training, which the Department for Education and Skills is helping with—training people for purpose there. However, we would then have to move quite quickly in terms of support for the nuclear industry, perhaps, and how we would help the Snowdonia enterprise zone because of all those people there and the jobs we might want to get in as a result. So, we have to manage our budget vigorously, as Rob said, every month and in every detail, and we have tried to get rid of everything that we do not think is a core element, and some people are not very happy as a result.

[17] **Byron Davies:** The Chief Secretary to the Treasury has recently said that the deficit will take longer than expected to deal with, and this may be an indication that the next spending review period could bring further cuts. What is your assessment of the long-term fiscal sustainability of your policies and priorities given potentially reducing budgets and increasing pressures in years to come?

[18] **Edwina Hart:** I have always been perfectly honest that I see the fact that we qualify for structural funds as a failure. However, as we move to deal with the issue of structural funds for 2014-20 and how we spend the money, that is going to help us in terms of developing the priorities. The way that we are now looking at the structural funds issue, particularly in the context of city regions—which the Commission is very comfortable with—involves looking at what economic benefits can come from structural funds that would help to supplement some of the key issues that we need to deal with. I feel that the Irish did quite a lot with their structural funds, actually managing the priorities within their economy, and what they wanted in terms of infrastructure in the wider sense, including training and education. I think that we have to do that, and it is important that we look at that.

[19] We also have to do what we are doing now, which is encouraging resources in research and development and innovation. Research and development is a key area for us because that can bring rewards in itself. It is interesting when you look at some of the work that is going on in terms of the life science sector, for instance, where they are going to have a fund, and that fund will generate research and development, which should then generate businesses to pick up on the product, and that should help to create innovation within the Welsh economy. We are also looking at financing solutions that are innovative, and I think the fact that we took the lead on the housing agenda in terms of the Ely project is quite correct, and we would like to look at further initiatives in that area. We must not be frightened of our involvement with the private sector; we should embrace it, as long as it is in line with the principles that we all agree to. At the end of the day, my job as Minister for economic development is to concentrate on the creation of jobs and wealth, and even though we have difficult times ahead and it is easy always to criticise the cuts that you might have from the centre, I have to work in a very real world and with what I have got there.

[20] **Byron Davies:** You talk about research and development and the product at the end

of it; could you put a timescale on that?

[21] **Edwina Hart:** In terms of research and development, we are doing a lot of stuff currently, and we are seeing what is emerging from it, because we have supported various things. I do not know whether James can help with any timescales.

[22] **Mr Price:** If we pick the life science fund to start with, that will be investing very quickly and there are already companies in the pipeline that are interested in taking funding from it; not just companies currently in Wales, but companies outside of Wales who will come into Wales as a result of receiving investment. I guess the issue with research and development is that it is a slow-burn activity in terms of seeing the jobs at the end of it. In fact, we were talking yesterday about this with a very senior figure from the private sector, looking at what had happened in the States and around Oxford and Cambridge and the view there was that it is very much a 10-year plan that you have to stick to, with some early wins, but the jobs tend to come a bit further down the line. However, some of the funds that started in a similar way to what we are looking now, with similar individuals involved, have built up to over £1 billion.

[23] **Edwina Hart:** I think, Chair, that the committee will be interested in the fact that these are not short-term solutions. I think the committee does have an understanding—I can see a bit of nodding around the table—that sometimes it is difficult to judge. If you did a simple analysis like accountants do, we would not get the end result we want to get, and we must be mindful of that when we do our budget allocations.

[24] **Alun Ffred Jones:** Yn ôl eich papur chi, mae eich hagwedd chi tuag at fonitro prosiectau yn golygu ail-ddyrannu adnoddau o brosiectau sy'n tanberfformio i gynlluniau sy'n mynd i greu swyddi a thwf. A allwch chi ddweud ar ba sail y byddech yn gwneud hynny, ac a oes enghreifftiau yn y gyllideb lle rydych chi wedi tynnu arian oddi ar brosiectau sy'n tanberfformio?

Alun Ffred Jones: According to your paper, your approach to monitoring projects involves the reallocation of resources from underperforming projects to schemes that will deliver jobs and growth. Can you tell us on what basis you would take these decisions, and are there examples in the budget of where you have taken funding away from underperforming projects?

[25] **Edwina Hart:** I covered some of these areas in detail in annex C in my paper. We look at the reallocation; for instance, we have looked at the JEREMIE funding in that regard to make some decisions. We have also looked at our operating grant to Finance Wales, which we have been able to reduce because of the way that we have dealt with Finance Wales. We also have, as I indicated earlier, pipeline projects for which we keep cash. Also, the issue of slippage sometimes becomes apparent, so we deal with those matters immediately. We now have a system in place that means that we know whether anything is going awry very quickly. I would not say that that has been the case historically—I am looking at Mr Hunter—but it is definitely the case now and then we make a judgment on it. At the end of the day, we have to get public money out of the door, and, in this recession and difficult period, people would not want to see us backing up money and keeping it for a rainy day when something is coming forward that we could spend it on.

[26] There is also the whole issue of the legacy single investment fund, which we have also reviewed in detail. We have a much clearer picture now of what our obligations are. In some areas, where people have not come in for funding, I have made it quite clear that, if they are not within the timescale, they will not be having things, but Rob can give you the detail of what he has been doing as finance director.

[27] **Mr Hunter:** One of the key things that we have done this year is align the outputs with the finances when we review them. So, when I do the quarterly deep dive review into all

of the projects, I am looking at the outputs that each project is delivering against the expenditure as well. Underperforming projects, which may be spending to schedule but may not be delivering as much output as we had anticipated, go under quite deep review. We are currently undertaking a review of European funded projects within BETS for example, so we are looking at a whole block of expenditure there to make sure that we are extracting absolutely the best value from that. Some of the decisions on setting those projects up would have been taken two, three or four years ago, but the economic climate has changed, so it is hugely prudent that we look at everything and constantly reassess everything to make sure that it is going to the right places.

[28] **Alun Ffred Jones:** Fy nghwestiwn i oedd: a oes enghreifftiau yn y gyllideb lle rydych chi wedi symud adnoddau o un i'r llall oherwydd cynlluniau sy'n tanberfformio? Dywedodd y Gweinidog bod llai o arian i Finance Wales. Rwy'n cymryd felly mai naill ai nad oed galw neu nid oedd yn effeithiol. A oes enghreifftiau eraill? Rwy'n edrych dan y pennawd 'sectorau a busnes' ac mae symudiad sylweddol iawn o arian allan o'r fan honno—£22 miliwn yn llai yn y gyllideb flwyddyn nesaf. A yw hynny oherwydd bod diffyg galw neu oherwydd bod y rhaglen honno heb gynhyrchu'r hyn yr ydych eisiau?

Alun Ffred Jones: My question was: are there were examples in the budget of where you have reallocated resources because of underperformance in projects? The Minister said that there was less funding available to Finance Wales. I take it therefore that either there was no demand for that funding or that it was not effective. Are there other examples? I am looking at the 'sectors and business' heading, and there is a significant virement of funding from there—£22 million less in next year's budget. Is that because there was not adequate demand or has that programme not performed as you would have wished?

10.45 a.m.

[29] **Mr Price:** I will come in first and then bring Rob in on some of the detail. Some of the best examples of where we have been reallocating funding are in the legacy SIF area. That also includes some of the more recent projects that we have done with business. As Rob said, we are looking at a project performing against budget, timescales and against outputs. If they are not, then we look to reallocate.

[30] Much of that SIF money was committed some five or six years ago—some of it even longer ago. We have been going back to companies and exploring with them whether they are still prepared to deliver their projects in the current economic climate. If they are, then we look to bring forward the investment by putting a short timescale on it and saying, 'Bring forward the investment, because we are not going to sit around and turn down other projects while we wait for you to do something that you might not do'. That has led to two things: some companies put up their hands and say that they have no intention of doing the project, which has freed up money for us to go to other projects and bring them forward. In the last year, quite a few of those would have been in the Welsh economic growth fund area, where companies came in and we had quite a strange conversation with a couple of big companies, which first complained that our funding had made them bring forward investment and, secondly, agreed that that was the point of our funding. If we simply sit here matching things at the rate that the private sector wants to do it, we are not inducing any investment. So the point is to hold stuff back where we are not inducing or not delivering value for money and put stuff in where we are; SIF was the biggest number in that area that you were talking about, but Rob can provide the detail.

[31] **Edwina Hart:** I think that it was a £25 million-plus reduction in the SIF legacy and then we increased the budget for the sectors and the entrepreneurship budget. The reduction was £17.2 million on the sectors and business side, as shown in the current budget. That is to do with the decrease in the legacy SIF and then an increase and balancing. So, that gives an

illustration of what we want to do. SIF in 2012-13 induced a lot of investment, as you indicated—around £170 million-worth. Around 1,200 gross jobs were created, with 500 jobs safeguarded, which shows that we are being good at managing that.

[32] **Mr Hunter:** The legacy single investment fund was always tapering off and the nature of the budget is that you get a rollover in-year, so the reduction looks large, but it was always planned. We have not been making new commitments for that for some years now—that stopped around two or three years ago, so this is just the legacy tailing off. As James said, some companies have come forward and said that they cannot carry on with the project, but we have also, in some cases, moved those companies on to other products that we are offering through the sectors. So, they are not necessarily lost.

[33] The other point to make is that we needed to find money for science and we have moved money to the science heading. In addition, we now have an agreed contract on next generation broadband and we also needed to move some money into the line for the next generation broadband.

[34] **Alun Ffred Jones:** Mae gennyf un cwestiwn arall: pa ymchwil a wnaethoch i weld effaith gwariant eich adran o ran eich cyfraniad tuag at dwf economaidd? Dywedasoch ei fod yn anodd mesur y peth o fis i fis neu o flwyddyn i flwyddyn, ond mae'n rhaid bod gennych ddata neu ymchwil sy'n ceisio mesur effeithiolrwydd eich rhaglenni. Ble mae'r gwybodaeth hwnnw?

Alun Ffred Jones: I have one further question: what research have you undertaken to see the effect of your department's expenditure in terms of your contribution to economic growth? You said that it is difficult to measure it from month to month or from year to year, but you must have some data or research that seeks to measure the effectiveness of your programmes. Where is that information?

[35] **Edwina Hart:** We are doing all that we can as a Government to stimulate growth. We can provide the broad figures in terms of what the Welsh economic growth fund has done in terms of maintaining and creating jobs. We will be able to do that all the way along the line with some of the investment that we make. As we have indicated, we have also tried to support international trade and investment, so we have created a major project scheme there in order that we can also start to measure that.

[36] On the jobs that have been created and safeguarded, the figures for 2011-12 are around 11,200. We anticipate that those will increase sharply in the next 12 months. James, would you like to comment on the economic analysis that we are undertaking of our projects?

[37] **Mr Price:** Broadly, you can break our activities down into two areas: there is long-term infrastructure or game-changing activities, and I would put some of the activity around enterprise zones into that category along with the next generation broadband activity and the work we do with education to ensure that it is delivering what businesses need. It is quite difficult to get accurate figures for the impact of those things because they have not been done before. However, we do have estimates of the likely impact of these activities and everything we do has a business case. Therefore, with something like next generation broadband, the simple act of putting it in the ground and the first phase activities are believed to create 3,500 jobs before you even get to any economy-changing effects.

[38] The other category is direct activity, which involves supporting jobs and growth in the here and now. That would involve a company expanding or an inward investor coming in. Basically, on that, we have a series of cost-per-job measures, which means that, if something exceeds a certain cost per job, unless there is a very good reason, we will not fund it. That is because we are trying to maximise the impact of our activities. So, there is the long-term stuff, which tends to be research-based, and then we evaluate it, and the shorter term stuff,

which is based on the cost per job, taking into account deadweight and displacement. Rob, I think that the figures on the cost per job have come down quite a bit, have they not?

[39] **Mr Hunter:** Yes. I think we are running at about £15,000.

[40] **Mr Price:** It was higher than that, and we have come down on some of the Welsh economic growth fund stuff to as low as £5,000 on certain projects.

[41] **David Rees:** I want to go back to the sectors and business element of the budget. You have already indicated that the legacy SIF has been a major contributor to the reduction in that area. I have one point on that. Have the grants and loans that were part of the SIF been reallocated? If so, where have they been allocated? Obviously, the drop of £25 million in that is huge.

[42] **Edwina Hart:** We do things on an individual basis when we analyse what is coming through in the SIF historically. Whether it is going to be real and whether it is coming forward are issues we have looked at. Rob has taken a particular interest in going through them all.

[43] **Mr Hunter:** On the face of it, there has been a very large reduction in sectors and business. In fact, we were given uplifts last year so the comparison is a bit strange. However, one of the things we need to take into account is that, last year, we set up the SME investment fund of £40 million. When that is running at full flow, it will be putting investment of around £10 million a year into SMEs. We also have a micro-finance fund of £6 million, which will contribute to that as well. In fact, it goes back to that first question about sustainability. These are investments, and the sustainability element of using Finance Wales and these vehicles is that we can use that money at least two or three times as it recycles through the system. It can provide long-term sustainability. Therefore, as the budgets have fallen on this side, we have created this fund that is countering that and putting at least £10 million into the economy every year alongside it, as it will for many years to come.

[44] **David Rees:** Okay, thanks for that. Mr Hunter has already mentioned the nine sectors. I think that you mentioned that these plans were submitted in January or February, that they have been reviewed and that allocations were based upon that review. With regard to the outcomes for each of the nine sectors, is it clear what you will get for that funding? We have not seen some of the outcomes. I know that six have published them but I am not sure whether all nine have published them.

[45] **Edwina Hart:** The panels have done their strategic priorities for publication. However, each sector also works on quite commercially sensitive information with regard to the areas from which they are trying to attract jobs and growth. Therefore, we are not able to put out anything in detail for some of the areas concerned. The plans from the six original sectors in particular are highly developed with regard to how we have made these decisions. With regard to the new sectors that have come into the frame, we have not yet achieved what I would like to achieve. There is a lot more work to be done on alignment issues across the portfolio.

[46] On construction, they are getting to the end game with the issues. What happens in construction will depend on other funds that might become available. They are talking about the wide policy agenda and issues around contracts and training. Their end game, if we put money into infrastructure, will be how to get value from that for the construction sector. It is a very different issue for them.

[47] The tourism sector is clear about where it wants to go and how it links to major events and developments in various markets. We have clarity in those areas. However, if the

committee wants, after I finish the discussions with the sectors, I could write a small note about the future direction of the sectors, although some of the commercially sensitive stuff that they deal with will not appear in it. I would be more than happy to prepare that if it would give you peace of mind on the development of the sectors.

[48] The sectors are developing their relationships with the enterprise zones, which is important. We have a cross-fertilisation of sector panel members now on enterprise zone boards in order to help with that. Chris Nott, if you recall, originally chaired the Cardiff one. He is not the chair now, but he is on it as a representative of the financial and professional services sector. We have also been lucky that the energy sector has provided people for the boards. We have that cross-fertilisation, because some issues in the enterprise zones are relevant to the sectors in the development of their particular policy agendas. If you want, I am more than happy to prepare a note on that strategic direction.

[49] **Nick Ramsay:** Thank you; Members would be grateful for that information.

[50] **David Rees:** Could that also include generic outcomes? I understand that there are specific commercially confidential issues, but it is important to have generic outcomes so that we can look at whether the sectors are achieving what we want them to achieve.

[51] **Edwina Hart:** The life sciences sector worked on the life sciences fund, which is now a reality. Do you mean something like that as an outcome?

[52] **David Rees:** Also, targets for how those sectors will generate economic growth.

[53] **Edwina Hart:** Research and development is a big issue. Outcomes for life sciences will be totally different to what we might want from advanced manufacturing. Advanced manufacturing has been discussing our offer, how we deal with international companies and how to do stuff. I could include those, because they could be quite measurable.

[54] **David Rees:** In the budget allocation, under the section on sectors and business, there is a pipeline development line. Is that funding focused on the sectors, or is it for the wider picture?

[55] **Edwina Hart:** It is, in the main, focused on the sectors.

[56] **Jenny Rathbone:** In your work on the construction sector or in your science activities, how much work is being done on developing energy-efficient homes? You have to balance getting zero-rated energy efficiency with building homes that are affordable. That is rising up the agenda as energy prices go up and up.

[57] **Edwina Hart:** We made an announcement yesterday on a new fund to help businesses with energy efficiency, which is our contribution. The policy lead on the development of energy efficiency is with John Griffiths. On housing, we have an excellent relationship with the Minister for Housing, Regeneration and Heritage hence why we are prepared to work with him on the general issues around housing. The point that you made was on developments in science, research and development. I am happy to take that up with the chief scientific officer.

[58] **Alun Ffred Jones:** I fynd yn ôl at y sectorau busnes, fel y gwnaeth David Rees, mae gennych linell hefyd ar gyfer *strategic and industry support*, sy'n bron i £4 miliwn. A yw hynny ar draws y sectorau? Beth yw'r llinell honno? Hefyd, pam nad yw'r *pipeline* **Alun Ffred Jones:** Going back to the business sectors, as did David Rees, you also have a line for strategic and industry support, standing at almost £4 million. Is that across the sectors? What is that line? Also, why are pipeline developments not within the sectors

developments o fewn y sectorau os mai ar if the work is for the sectors? What are those gyfer y sectorau mae'r gwaith? Beth yw'r two lines? ddwy linell hynny?

[59] **Edwina Hart:** Pipeline development is clear. They are developments across the piece. A development could race ahead on, say, advanced manufacturing linked to an enterprise zone, but then something could pop up that was immediate. We keep it in the pipeline. We have cash available to respond swiftly. If I keep money specifically in certain pots, I have to go through the process of moving the pots et cetera. That is why we have kept it within that particular area.

11.00 a.m.

[60] On your other point, that is a general BEL.

[61] **Mr Hunter:** It is a general BEL for fora and general support across all of the sectors.

[62] **Alun Ffred Jones:** It is general support for what?

[63] **Edwina Hart:** For work across all sectors, and for all businesses. (1)

[64] **Mr Price:** I can provide a breakdown, if you want to see one.

[65] **Alun Ffred Jones:** Yes.

[66] **Edwina Hart:** Do you want to see a breakdown? Obviously, you can have a breakdown if you want one.

[67] **Gwyn R. Price:** Could you outline how the £87.9 million allocated for business support in 2013-14 compares with the amount allocated for business support in the current financial year?

[68] **Edwina Hart:** We are delivering quite a lot in terms of business support, not only through our loan funds but through our high-potential start-ups and the funds in that area and, of course, our business support service. We now have a tailored business support service. There is a £6,000 bursary, I think, in one of them. We also have Finance Wales and the one-stop service currently, because we are redirecting the use into current regional centres. We are doing work on that. There are also other commitments, of course, that we must deal with. In very real terms, in terms of business support, there is specific money within the budget.

[69] **Mr Hunter:** That is correct. It has gone down. It is down by £17 million. It has dropped since last year. Some of that is offset by investments that we have made in Finance Wales, which will still invest in SMEs across Wales during those years. We are in early discussions at the moment over the possibility of something to follow on for the Wales economic growth fund. We will be discussing that with the Minister for Finance.

[70] **Gwyn R. Price:** How much of the £87.9 million allocated for business in 2013-14 is already committed?

[71] **Mr Hunter:** In the way that I have constructed it, it is actually quite high. I have given you the BEL tables. I can say that between 70% and 80% of that is committed at the moment. That drops down to probably around 50% to 60% in the following year. So, we do have a very healthy pipeline of projects, and quite high commitment.

[72] **Gwyn R. Price:** The Welsh Government's strategic equality plan includes an action

to explore the potential of entrepreneurship and business start-up initiatives that cover more take-up for women, ethnic minorities and disabled people. How is this objective reflected in your allocations?

[73] **Edwina Hart:** We look, quite clearly, at work and gender issues. In particular, the employment of people with disabilities becomes an issue for us. We look at what we tend to do in terms of how we allocate funds. We try to work very hard to get to those outcomes. I cannot say absolutely that we have been totally successful in this regard, because, in this current climate, we try to help and assist everyone who comes to us, wherever we can. We are trying to do a lot more on the entrepreneurship side, particularly when people want to work from home as entrepreneurs. That is why it is so important that we have our broadband project. Also, developing people's skills and their abilities makes life easier. Generally, from that point of view, it sounds like a loose answer, but it is an honest one.

[74] **Mr Price:** We try to embed it from the very start. I know that that is the sort of answer that you would expect me to give, but rather than having quite small budgets set aside for targeting specific groups with very small projects running in silos, we have looked at that. Typically, those things have not worked. We have tried to build it in right at the very beginning. If I were to be brutally honest, we have been best in the entrepreneurship area, where everything from the website to the contact centre to the sessions that we run for people have all had equality properly built in, and we test it all the way through, including with things like mystery shoppers.

[75] In the reactive business report stuff, we consider it and we take it on board, but that is more difficult to deal with in the current economic climate. However, it is something that the Minister is always pushing business to do, and, particularly on the anchor company side, that is part of our compact with the anchor companies: they take on board the need to continue to be socially responsible, because some of them are incredibly socially responsible.

[76] **David Rees:** Entrepreneurship is critical to start-up businesses in Wales, and we are, sometimes, seen to have a problem in terms of the number of failures as well. Are you working with the Minister for Education and Skills to look at how entrepreneurship can be pushed into schools and colleges? Is that part of your budget or his budget? What outcomes are you expecting as a consequence of that particular investment?

[77] **Edwina Hart:** I launched an entrepreneurship scheme in the south-west region on Monday, which involves schools and further and higher education and is based on the principles within our own entrepreneurship plans. So, it is starting to be embedded in the education system. The lovely winner last year, for its initiatives in relation to entrepreneurship, was the Pontlliw Primary School in my constituency. There are links between colleges that are running entrepreneurship courses with some primary schools in order to encourage entrepreneurship. So, my department has been assisting on this, and a key partner is the education department. I know that the Minister for education is very keen on the continuing development of that.

[78] **David Rees:** My concern is how we are going to measure success. On the outcome side of things, what kind of things is this Government doing to measure success?

[79] **Mr Price:** There is a quite simple measure of success really, which is the number of new starts. That is the outcome that you want at the end. The measure of success in the interim is how many schoolchildren have taken part in the various competitions, courses, training events et cetera. All of that is built around, first, making people more entrepreneurial in the way that they think, which is good for society as a whole, and, secondly, increasing the number of business starts. On your comment about the number of failures, the more new business starts we have, by definition, the more failures we have. All the evidence suggests

that we should not be scared of that. In fact, in the States, on average, the very successful businesspeople had failed three times before they became successful. We need to encourage a culture that says that that is okay and not write people off at the first hurdle.

[80] **David Rees:** Do you have a figure that you deem acceptable as a rate of failure?

[81] **Mr Price:** I do not think that that is a fair thing to do. You can look at the averages across different countries and make assumptions on that.

[82] **Edwina Hart:** It is incumbent on the Government, if we are sincere about entrepreneurship, to understand that failure does produce successful results in the end. The way that we work in Government means that we have to be less risk-averse in terms of the allocation of resources. Then, dare I say it, Assembly Members have to be less critical of Government, if we are prepared to take the risk, and if we all agree that entrepreneurship is a good thing and should be encouraged. It is difficult sometimes in Government, particularly in our department, where we want to take an element of risk, because we trust the businesses and the individuals who come to us. Anybody who has been a Government Minister—I am sure that Alun Ffred Jones will understand this—will know that, sometimes, you have to push, although the status quo dictates that to do nothing is the safest option. As a department, we are trying to do more, which is not necessarily the safest option for us, and there will always be the siren voices as to why we should not do it.

[83] **Nick Ramsay:** So, does that mean that an increase in business failures would not necessarily be recognised by you as a problem, so long as there is an increase in start-ups?

[84] **Edwina Hart:** Yes.

[85] **Nick Ramsay:** Given that you have to produce an annual budget, what timescale are you giving for a business to have success after a certain cycle of failure?

[86] **Mr Price:** That has been looked at by the microbusiness task and finish group and various other groups. Equally, some of the sectors, particularly sectors like the creative industries, are also looking at this. There is no defined answer, but it is a kind of generational change thing. So, my guess is that it is almost a decade-long thing that needs to be looked at. You should not stop doing an activity in year 2 simply because you cannot see the results coming through.

[87] **Nick Ramsay:** That raises a whole host of issues in relation to evaluating budgets.

[88] **Mr Price:** Evaluation is very important.

[89] **Edwina Hart:** It is important for the committee to understand some of our thinking on this, because it is quite difficult to move into this concept and idea, which is the right way to move. If we are going to increase the participation of the private sector, entrepreneurship and so on, we have to be prepared to think in this particular manner. It is not easy when outcomes are judged in this way. For instance, we get questions about the Wales economic growth fund, about why is money not going out of the door and why not this, that or the other. We have been good with the Wales economic growth fund, we have made sure that successful applicants have bought their capital equipment and that they are taking on the jobs that they have told us they would and then they have the money. That way of working is sometimes not easy in that it is not the way that the Government has traditionally worked. We are pushing the barriers, department-wise, to try to understand that we are in a different world now in terms of the economy and that we have to be alert, as a Government, about what our interventions are and how successful they might be. We also have to acknowledge that some of our interventions might not necessarily be successful otherwise, and we must take that risk.

[90] **Alun Ffred Jones:** Rydych wedi cynnal nifer o adolygiadau polisi ac rydych yn ystyried eich ymateb iddynt. Mae'r rhain yn cynnwys ardrethi busnes, rhanbarthau dinesig a pharthau twf lleol Powys. Ble yn y gyllideb mae'r adnoddau ar gyfer ymateb i'r rheini, os o gwbl, a pha hyblygrwydd sydd o fewn y gyllideb i ddelio â nhw?

Alun Ffred Jones: You have held a number of policy reviews and you are considering your response to them. These include business rates, city regions and Powys local growth zones. Where in the budget are the resources for responding to those, if at all, and what flexibility do you have within the budget to deal with them?

[91] **Edwina Hart:** On business rates, the Minister for Finance is aware that I am having discussions and that I am coming to a conclusion about what recommendations I am likely to make. So, that will feature in further discussions with the Minister for Finance if any additional resources are required.

[92] The report on city regions will influence Government policy, and we are taking it forward in key areas. We also have a lot of partners involved with city regions, because this will involve local government and how it feels about it, and further and higher education; they all have a role in the city regions. I am particularly confident about city regions, as the concept is helpful in terms of the development of how we use European structural funds and about partnership working on the ground. I am pretty confident that, as we move that forward, there will be a role for every department, including mine, to bring it together. That will not necessarily have any large-scale financial implications, because this is a way of thinking, a way of doing things and a way of bringing resources together, probably.

[93] On business rates, I have a further meeting with Professor Brian Morgan to finalise our position. There are also developments going on within the rest of the UK on discussions about non-domestic rates and other issues, and I will have to take into account what might be happening in Scotland and Northern Ireland before I respond, but I have a discussion scheduled with the Minister for Finance in case I require any additional resources.

[94] **Yr Arglwydd Elis-Thomas:** Gan fynd yn ôl at fy hoff bwnc, Weinidog, sef parthau menter, roeddwn yn ddiolchgar i chi am gyfeirio atynt, a pharth menter Eryri yn arbennig, ar ddechrau trafodaeth y pwyllgor hwn. Carwn gael deall yn well sut y byddwch yn sicrhau hyblygrwydd cyllidol i wneud yr hyn roeddech yn ei ddisgrifio yn eich trafodaethau gyda'r Gweinidog Cyllid ac, yn arbennig, sut mae hynny'n cysylltu gyda'r cynlluniau a fydd yn dod i mewn o'r gwahanol barthau menter a'r byrddau a'r cysylltiad rhwng hynny a gwariant adrannau eraill y Llywodraeth. Rydych wedi sôn am hyn yn barod, ond, yn amlwg, mae oblygiadau ynglŷn â thrafnidiaeth a gwariant amgylcheddol yn codi o'r arweiniad ar y parthau hyn ac fe garwn gael deall yn well sut y byddwch yn gofalu am y dyraniadau hynny i sicrhau bod y cyllid ar gael.

Lord Elis-Thomas: To return to my favourite topic, Minister, namely enterprise zones, I was grateful to you for referring to them, particularly the Snowdonia enterprise zone, at the outset of this committee's discussion. I would like to gain a better understanding of how you will ensure budgetary flexibility to do what you described in your negotiations with the Minister for Finance and, in particular, how that links to the plans that will be submitted by the various enterprise zones and the boards and the link between that and the spend of other Government departments. You have already talked about this, but, obviously, there are implications for transport and environmental spend arising from the lead that you are taking on these zones, and I would like to gain a better understanding of how you will take care of those allocations to ensure that the funding is available.

[95] **Edwina Hart:** We have now received the final plans from the enterprise zone boards in respect of how they want to take various projects forward, including some of their transport

and other infrastructure-related issues. I have signalled to the Minister for Finance, and she has agreed, that there will be a discussion between the draft budget and the final budget about the allocation to enterprise zones, depending on what comes out of the plans. I have also scheduled discussions with the Minister for transport on what is emerging from those plans that fall into his portfolio in terms of how he would be able to prioritise any of the requirements there. In terms of education and training, we are confident that we know what the offer is across the piece and that there is the flexibility in our dealings with education and training for them to be able to deliver on this particularly key agenda.

11.15 a.m.

[96] However, you are right to ask, if the plans come out with a lot of proposals to look at infrastructure, transport and everything, how the prioritisation will occur. I think that that is something that I must give some further consideration to. What I will say is that some of them will be nice to have, and some will be essential. So, I think that we will have to have that type of scoring mechanism for what would be nice to have—a little bit of icing on the cake—and what will be a core element, and I will be concentrating on what is central to delivery. I think that we will have a clearer picture in the next few weeks, when I make my statement on enterprise zones.

[97] **Yr Arglwydd Elis-Thomas:** Ynglŷn â hynny, mae rhai parthau menter lle mae penderfyniadau cyllidol Llywodraeth y Deyrnas Unedig, a'r Adran Ynni a Newid yn yr Hinsawdd yn arbennig, yn gallu effeithio'n ddifrifol ar yr hyn sy'n digwydd yno. Yn amlwg, rwy'n sôn yn arbennig am barth menter Eryri, ond rwy'n siŵr bod penderfyniadau gwariant y DU yn effeithio ar barthau menter eraill. Pa drafodaethau y gallwch eu cael yn effeithiol â Gweinidogion y DU—a'ch swyddogion chithau â'u swyddogion hwy, wrth gwrs—i sicrhau bod yr ysbryd o gydweithredu a gyhoeddir gan yr Ysgrifennydd Gwladol newydd yn cael ei adlewyrchu yn y modd y mae adrannau Llywodraeth y DU yn gweithredu mewn perthynas â Gweinidogion Cymru?

Lord Elis-Thomas: With regard to that, there are some enterprise zones where budgetary decisions taken by the United Kingdom Government, and the Department of Energy and Climate Change in particular, can seriously affect what happens there. Clearly, I am talking specifically about the Snowdonia enterprise zone, but I am sure that UK expenditure decisions affect other enterprise zones. What discussions can you have effectively with UK Ministers—and your officials with their officials, of course—to ensure that the spirit of collaboration announced by the new Secretary of State is reflected in the way that UK Government departments operate with regard to Welsh Ministers?

[98] **Edwina Hart:** Obviously, my officials have been involved, because we have had correspondence with the appropriate officials, and Jane Hutt has very kindly raised issues when she has attended her bilateral meetings with the Chief Secretary to the Treasury. My officials have also been in contact with the Treasury about seeing where we are going on some of these issues that you have alluded to. We understand that the Scots have not yet had a reply to their letter of May concerning some of these issues, because there are issues for them in terms of the enterprise zones—

[99] **Lord Elis-Thomas:** I am not so worried about the Scots, Minister; they are well able to look after themselves.

[100] **Edwina Hart:** Yes, but we understand that they have issues, because we keep in close contact with the other devolved administrations, so that we understand what responses they have and, if they have something, what we should be looking for.

[101] We understand from the Treasury that these outstanding matters will be resolved in

the next couple of weeks, and it is good that the party conference season has finished so that everybody can now concentrate on the main business of the day, which I think is to sort out some of these areas.

[102] We are very pleased about the announcement in Deeside, because that has enabled us to be very competitive in that arena. We do understand the issue about an even playing field, which does not allow us necessarily to make the offers that we would like to. Now, in terms of some of the enhanced capital allowance issues, we might be in the position of being better off making our own arrangements in terms of what we can offer as a Government, rather than looking for enhanced capital allowances.

[103] This is difficult territory across the piece, to be frank, in terms of discussions, and it would be easy for me to make a really nasty jibe about things. I do not intend to do that, however, because I want to resolve the matter.

[104] **Nick Ramsay:** Thank you, Minister; no nasty jibes at the moment. I would point out to Members that we have 10 minutes left, and we have some questions on tourism that it is important that we get to. So, if Members, like Ken Skates, can be succinct it would help.

[105] **Kenneth Skates:** Thank you, Chair. With regard to next generation broadband, are you able to clarify whether any of the UK Government's £57 million is reflected in your budget?

[106] **Mr Hunter:** I can state clearly that it is not reflected in this budget. We are in negotiations at the moment; the money has been agreed, but, on the phasing of the money, we are talking to Broadband Delivery UK at the moment and will finalise that within the next few weeks.

[107] **Kenneth Skates:** Just as a follow-up to that, what consideration is being given to tackling inequalities with regard to next generation broadband, because it is an area that clearly shows socioeconomic group inequalities?

[108] **Edwina Hart:** That has been a core part of the discussion with BT on the implementation programme. We have looked at what areas the market will naturally deal with, which we do not intend to be involved in, and we have looked particularly at the issues in rural areas to ensure that not everything is done in the easiest areas, but that there is a balance between the difficult and the easy being undertaken.

[109] **Kenneth Skates:** I have one really quick point—this may be a query that I should take up with BT, but, in north-east Wales, a lot of households have the Chester number. Will the roll-out of next generation broadband therefore be the responsibility of the local authority across the border, or will it be met by the Welsh Government?

[110] **Edwina Hart:** It is our responsibility.

[111] **Kenneth Skates:** Okay, that is fine.

[112] **Nick Ramsay:** Joyce Watson has some questions on tourism investment.

[113] **Joyce Watson:** Good morning, Minister. In 2011-12, there was a tourism investment support scheme that had an allocation of £3.9 million for tourism businesses in Wales since April 2011. Will that TISS continue into 2013-14? If it is to continue, which budget line will the money come from?

[114] **Edwina Hart:** TISS is funded from the strategic and industry support budget and is

set to continue. I think that its allocation is just over £2 million for 2013-14 and 2014-15.

[115] **Alun Ffred Jones:** Is that a hefty cut in support, from £3.9 million to £2.3 million?

[116] **Edwina Hart:** Yes. From 1 April 2011, TISS was £4 million, and just under 100 projects were funded with the investment, and £14 million-worth of investment arose from it. Businesses will also be able to allocate through other funds, so, we have looked at the TISS budget and it is down to £2.3 million for 2013-14.

[117] **Mr Price:** The really important thing on is that while TISS was running previously, businesses were unable to apply for some of the mainstream business investment funds, but they can do so now. So, we had quite a big internal debate originally about whether the Welsh economic growth fund should be able to fund tourism projects, and the conclusion is that yes, it can. The conclusion of all of that is that, if good projects come from tourism, in comparison with other projects, they will be funded.

[118] **Eluned Parrott:** To follow on from that, in your answer to questions on monitoring and selecting which projects to cut and support, you said that, at the moment, you are running at about £15,000 per job created, whereas, if we look at this scheme, for which you are quoted as saying that 350 jobs would be created with £3.9 million, it is a little over £10,000 per job. So, on the raw statistics of your analysis, it is clearly more cost-effective than other programmes. So, why has it been cut?

[119] **Edwina Hart:** As we have indicated on TISS, businesses are now eligible to apply for money through other schemes.

[120] **Mr Price:** The other thing that you have to bear in mind is the quality of the job created. The £15,000 will, on average, be supporting a higher-value-added job than the tourism ones.

[121] **Eluned Parrott:** Okay. Turning to major events, which is linked to the tourism budget as well, I see that, in cash terms, there is a reduction of nearly 2% for the overall budget. Will you tell us what your main funding commitments are in the next financial year and why that budget can accommodate a cut?

[122] **Edwina Hart:** Some 50% of the budget is already allocated. We have the Rugby World Cup; extreme sailing, which is very popular; in golf, we have the Seniors Open Championship; and there is also Rally GB, which takes up a substantial percentage of the budget at 13%. It is a long-standing flagship event that the industry and the sectors are very keen on in terms of who they get to meet and who we might do business with, as well as the impact for the general public and the publicity for Wales.

[123] **Eluned Parrott:** What kind of percentage of that budget is currently being used to look at the feasibility of bidding to host the Commonwealth Games?

[124] **Edwina Hart:** We are obviously looking at the feasibility issues in relation to 2026. It is mainly administration at the moment.

[125] **Mr Hunter:** The review, at the moment, has been internal, so we have not allocated a specific budget to that yet. The feasibility study has started, but it has started with internal resources.

[126] **Yr Arglwydd Elis-Thomas:** Hoffwn **Lord Elis-Thomas:** I would like to ask about ofyn am gynladwyedd ar draws y sustainability across the Government, and the Llywodraeth, a'r graddau y mae'r gyllideb extent to which the budget has been

wedi cael ei harfarnu o safbwynt datblygiad cynaliadwy fel rhan o broses cynllunio'r gyllideb. Nid yw hwn wedi ei anelu yn arbennig atoch chi, Weinidog, mae'n gwestiwn y byddaf yn ceisio gofyn i bawb oherwydd fy niddordeb mewn datblygiad cynaliadwy ar draws y bwrdd.

evaluated in terms of sustainable development as part of the budget planning process. This is not aimed specifically at you, Minister, it is a question that I will try to ask of everyone because of my interest in sustainable development across the board.

[127] **Edwina Hart:** We have adopted a business planning strategy in relation to delivering our results against the Government's commitment on sustainability in its programme for government. We consult Sustainable Futures on such matters and we look at all the legislation in this area. We work particularly closely with Peter Davies, Wales's Commissioner for Sustainable Futures. He has undertaken a lot of work for us on our responses to consultation documents, and he has taken a lead with industry on our behalf to do it.

[128] We have also encouraged corporate social responsibility in terms of sustainability from the companies that we deal with. As you can see, it is key to some of the anchor companies, not only because it is the right thing to do, but because it is also good for the way that they run their businesses.

[129] Sustainability is also built into the way in which we deal with the budget for the Welsh European Funding Office in terms of European funds, because environmental sustainability is a cross-cutting theme within WEFO. Therefore, it has been embedded in budget proposals from the outset, and that is one of the things that we must go through when looking at all the schemes that we run.

[130] **Lord Elis-Thomas:** You have discovered no negative attitudes when you have raised these issues in discussion. I am alluding to some of the rather superficial discussions that there is some kind of trade-off in adversity between sustainability and further economic growth, when, surely, sustainable growth is what we want in any economic context.

[131] **Edwina Hart:** We understand sustainable growth, as does the sustainability commissioner in his dealings with us as a business department and with companies; they understand it. The problem is that some people think that sustainability is about the world not changing—they do not understand the meaning of sustainable development and sustainable industry. That is the problem that we confront: people's misuse of language and a lack of understanding. That is why we have chosen to use the commissioner to engage in dialogue with businesses on our behalf, particularly when we look at issues around planning and various other things, and he has been a useful facilitator for us. Everything can be incorporated, but everyone must understand that sustainability does not stop the world from moving on.

[132] **Nick Ramsay:** Do Members have any final questions for the Minister?

[133] **David Rees:** You mentioned WEFO and I notice that there is no change in the budget for WEFO—this is the figure for administrative costs, effectively. I know that you are undertaking a review of WEFO at the moment. Does that figure anticipate that there will be no change in the operation of WEFO as a consequence of that review?

[134] **Edwina Hart:** I do not think that you can think that at all.

[135] **David Rees:** I just wanted to make sure that there was a little flexibility. We have also not discussed any funding for social enterprises and co-operatives. Has the Government looked at increasing that area to encourage greater aspects of that?

[136] **Edwina Hart:** We have the commission now, under Andrew Davies, which is going to do some interim reports. We will then work on the basis of what Andrew reports. You have all had my letter about some of the issues around this; I thought that I would give you early notice of some of the issues. We are working our way through the problems that arise as a result of that communication to you.

[137] **Alun Ffred Jones:** I fynd yn ôl at y parthau menter, mae'n aneglur iawn lle mae'r arian ar eu cyfer. Hynny yw, mae'n rhaid i'r parthau menter fod yn rhywbeth heblaw stadau diwydiannol gyda ffordd i mewn. O ble y daw'r arian i helpu'r cwmnïau hynny a fydd angen symud i mewn i'r ardal? Os cofiaf yn iawn, roedd £10 miliwn wedi cael ei glustnodi yn y gyllideb ddiwethaf. Ble mae'r £10 miliwn hwnnw wedi mynd eleni?

Alun Ffred Jones: Returning to the enterprise zones, it is very unclear where the money is for them. That is, the enterprise zones must be something apart from industrial estates with a road in. Where will the money come from to help those companies that will need to move into the area? If I remember correctly, £10 million had been allocated in the last budget. Where has that £10 million gone this year?

[138] **Mr Hunter:** There are a number of things. We have allocated funds to a couple of schemes: a scheme for flood defences in Deeside received £2.5 million or £3.5 million and a scheme for some work at St Athan also received about £2.5 million to £3 million. So, some schemes have been funded. That consequential is still there. It is not reflected in this budget, but it is just under £10 million over three years. So, we have the source of funding there. Some of the work that is going on in sectors will benefit enterprise zones anyway. As the Minister said, we are having discussions with the Minister for Finance on the results of the plans once they have been thoroughly reviewed.

[139] **Mr Price:** Each enterprise zone has a sectoral priority attached to it, although we are not going to be hard and fast about that because things might change, and we are not going to turn an investor away. Therefore, the delivery of those sectoral priorities is built into the sector plans and those budgets.

11.30 a.m.

[140] So, in terms of delivering for individual businesses in an enterprise zone, that will be built into the sector plans already. We may need more money; we may need to lever in more private sector money and we are working on that.

[141] **Alun Ffred Jones:** When we are looking at the budget, I am trying to find where that £3 million, or whatever it may be, lies in the budget for your use, or has it been spread across?

[142] **Mr Price:** It is spread across.

[143] **Edwina Hart:** It is spread across several budget lines. It is also in potential pipeline projects. We are aware that, in certain enterprise zones, there are negotiations going on that indicate that we may be successful in having something, and that will certainly benefit that particular zone, so we have to have the flexibility to put that money in.

[144] **Nick Ramsay:** That is a very positive point, on which I am going to draw this session to a close because our next witnesses have now arrived.

[145] **Edwina Hart:** Thank you. I hope you feel better soon.

[146] **Nick Ramsay:** Thank you, Minister, for attending today. I hope you feel better soon as well.

11.32 a.m.

**Cynigion Cyllideb Ddrafft Llywodraeth Cymru ar gyfer 2013-14: Sesiwn i
Graffu ar Waith y Gweinidog
Welsh Government Draft Budget Proposals for 2013-14: Ministerial Scrutiny
Session**

[147] **Nick Ramsay:** I welcome the Minister for Local Government and Communities to this session of the Enterprise and Business Committee. Sorry for the short delay in bringing you in. The aim of this meeting is for the committee to scrutinise the Minister on his draft budget proposals for 2013-14. As I said previously, this along with our stakeholder event last week will inform the committee's recommendations to the Welsh Government. Will the Minister and his officials please give your names and positions for the record?

[148] **The Minister for Local Government and Communities (Carl Sargeant):** Good morning, Chair and committee. As you are aware, I am Carl Sargeant, the Minister for Local Government and Communities.

[149] **Ms Bennett:** Good morning. I am Claire Bennett, the deputy director of policy, planning and partnerships in transport.

[150] **Ms Duffy:** I am Frances Duffy, director of transport.

[151] **Nick Ramsay:** Thank you. We have a number of questions for you, so we will go straight into them. Gwyn Price has the opening question.

[152] **Gwyn R. Price:** Good morning, Minister. How are the transport commitments in the programme for government provided for in the budget allocations?

[153] **Carl Sargeant:** Good morning, Gwyn. This is the third year of the budget proposals, so nothing really changes. The programme for government and the announcements in it are pretty much aligned. This is a continuation of the budget proposals for this year.

[154] **Gwyn R. Price:** Are there any areas where you are concerned that limited resources may have an impact on the ability to deliver programme for government transport commitments?

[155] **Carl Sargeant:** Yes, of course. There is a reduction of around £2.1 billion over the period that we are trying to deal with as Government. Making decisions and programme commitments, and then being affected by financial change, causes pressures in the system. However, we are working very hard to do things differently. With my other hat on, that of local government, you will be aware of the issues around collaboration that also form part of the transportation opportunities. Doing things differently gives us some flexibility to mitigate some of the reductions in the budgets. It is a pressure, but our team is working very hard to make sure that the commitments that we have made in the programme for government are completed.

[156] **Byron Davies:** Good morning, Minister. The paper that you have provided states that you have identified a number of specific actions to develop further collaboration between local authorities and the Welsh Government, and you say that there are already examples where initiatives have been delivered. Can you tell us what these are and what specific actions have been identified? I would be interested to know what these are.

[157] **Carl Sargeant:** We are exploring many opportunities with Welsh local government

and the regional transport consortia—all the different agencies that we have brought together. A lot of it is being led by the public service leadership group and the Simpson agenda on the transformation of public services. However, you are interested in the pounds, shillings and pence element of this, as I am, and that is always the challenge when talking about change and what it delivers in the end.

[158] I can share with you some of the projects that have already delivered. An example in south-west Wales is the e-procurement passenger transport system. That is already an IT-based programme between Neath Port Talbot, Pembrokeshire, Carmarthenshire and Swansea. Savings of around £3.7 million are already being reported in terms of that collaboration agenda and that is about doing things differently.

[159] Another example in north Wales, which I know colleagues will be interested in, is in Denbighshire council, which is the main office for collaboration between several authorities, namely Bridgend, the Vale of Glamorgan and Denbighshire. They are collaborating to deliver civic parking enforcement.

[160] **Alun Ffred Jones:** It is very effective.

[161] **Carl Sargeant:** I will not go into that in detail, but they are looking, on average, at a saving of around £100,000 a year, just through Denbighshire doing that for a couple of authorities. If we could ramp that up to include the 22 local authorities, who knows what the cost-effectiveness of that would be? Those are just two examples. I hope they were helpful.

[162] **Nick Ramsay:** Ken Skates has a question on fiscal sustainability.

[163] **Kenneth Skates:** Good morning, Minister. If the next spending review brings further cuts to the Welsh Government's budget, how prepared is your department for that?

[164] **Carl Sargeant:** I hope that that is a hypothetical question because I am really hopeful that our budgets will increase. However, in reality, that is probably not going to happen and we are all aware of that. It is extremely challenging now. There have been reductions in our budgets, as you are aware. I hope that my team can prepare and start to give me examples as to where we need to make changes to the services that we deliver. I will just go back to that number of £2.1 billion now; if that cut is increased by any proportion, then it will be the difference between delivering and not delivering a service. I am concerned about that, but I do not know what those numbers are, so I cannot speculate on what I would or would not cut.

[165] **Nick Ramsay:** Dafydd Elis-Thomas is next on infrastructure investment priorities.

[166] **Yr Arglwydd Elis-Thomas:** Bore da. Mae'r Gweinidog a minnau yn teithio rhwng de a gogledd Cymru o leiaf ddwywaith yr wythnos, felly mae gennym ddiddordeb yn y cwestiwn o'r berthynas rhwng cynllun buddsoddi seilwaith Cymru a'r cynllun trafniadaeth cenedlaethol. Yn arbennig, Weinidog, sut wyt ti'n llwyddo i gydbwyso cysylltedd y gogledd a'r de â chysylltedd y dwyrain a'r gorllewin, a hynny ar draws pob modd o drafnidiaeth? Sut mae hynny'n cael ei adlewyrchu yn y dyraniadau yn y gyllideb?

Lord Elis-Thomas: Good morning. The Minister and I travel from north to south Wales at least twice a week, so we are interested in the question of the relationship between the Wales infrastructure investment plan and the national transport plan. Particularly, Minister, how do you balance the need to develop north-south connectivity and east-west links across all transport modes? How is that reflected in the budgetary allocations?

[167] **Carl Sargeant:** I am grateful for the Member's question; it really is an interesting

one. As Members will know, people suggest that investment opportunities are given to favoured areas—wherever you do not represent, generally. People say, ‘It all goes to the south’, or, ‘It all goes to the north’. However, I know that Dafydd Elis-Thomas’s constituency is well-served and well-serviced by Welsh Government contributions in terms of the networks that we provide.

[168] On a serious note, connectivity is important and the focus for the Welsh Government, working across the boundaries of this department and other ministerial portfolios, is the economy. We understand that to drive Wales as being a successful nation, we have to ensure that the economy has every opportunity. That is not just about building new infrastructure because sometimes it is about connectivity and those go hand in hand.

[169] We have made priorities in the national transport plan, as the Member is aware, in terms of east-west connectivity, whether that be through the road network or the rail network. The active travel Bill is also quite an exciting proposal in the department. It is looking beyond the traditional modes of transport and how we can develop those. Notwithstanding the Member’s important question, connectivity is still required between the north and south. He will be aware of the current interventions on the A470 in Maes yr Helmau, Gelli Gemlyn and Glandyfi on the A487. They are all of strategic importance to us, but this is a balancing act: how do we encourage growth in the economy along the east to west route, which we know is industry’s favoured route, and maintain connectivity between north and south? That is the balance that we have tried to bring through the national transport plan and the Wales infrastructure plan, which runs alongside that.

[170] **Nick Ramsay:** Given that you have just mentioned the active travel Bill, Minister and Dafydd Elis-Thomas, I think Byron Davies would like to ask a question on that.

[171] **Byron Davies:** You mention in the paper that you provided that the costs of aligning walking and cycling with the delivery of the Bill will be met through the existing active travel, walking and cycling budgets. What impact will this have on the delivery of existing programmes, for example?

[172] **Carl Sargeant:** The active travel Bill is a really exciting piece of work that is getting worldwide recognition, because of the change or cultural shift from traditional modes of transport of road or rail, in which we would make significant investments, as other Governments in other areas have done.

[173] What we are trying to encourage—this is a long answer to your question, but it is significant—is looking at a holistic approach to what we have for Wales and at how we integrate all those forms of transport, cycling, walking, sustainable travel centres and so on. That is why the Bill comes forward with the principle of what we want to do, and then we need to feed in what we are currently doing with cycling, walking and sustainable travel centres to sustain that.

[174] I have, therefore, asked my team to look at rationalising the funding that is currently available to support active travel. It is not taking money away from walking and cycling; it is building it into the main structure of support around active travel. How does this run alongside sustainable travel centres? How do the interventions in rail transport fit into the active travel Bill? It is all about building a bigger structure in terms of understanding modal shift in transport in Wales. It is a very exciting Bill, which probably sits better in the health department, because there is a health consequence to the active travel Bill, and its preventative spend certainly lies within the health budget. We have had a lot of encouraging interest across Wales and beyond that we have had interest from Canada, Australia and New Zealand: they are all looking at what we are doing, because they are interested in the opportunities that this might present.

[175] **Byron Davies:** The evidence for that will be a long way down the road, I guess. So, you would say that there will be absolutely no impact on the delivery of existing programmes.

[176] **Carl Sargeant:** I am not saying that those programmes will look the same: they certainly will not. I am saying that the walking and cycling spending programme area that you are currently familiar with will be introduced into the active travel Bill to support that. I say that very broadly as I have not yet made that decision, but that is my vision. That will be the ethos of the Bill. What are we trying to achieve and where are the pots of money? If we can rationalise those, we can make bigger savings across the areas we currently invest in—22 authorities and four sustainable towns, etcetera. If we can understand that what we are trying to achieve is to make more people active, it makes sense to bring them together. So, will the money disappear? No. Will it be in a different place? Yes.

[177] **Byron Davies:** What is the timescale for all this?

[178] **Carl Sargeant:** We are currently consulting on the Bill. When is that being presented as legislation, Claire?

[179] **Ms Bennett:** It is due to be introduced in February next year. So, depending on how long the passage through the National Assembly for Wales is, we are hoping it might receive Royal Assent towards the late summer, early autumn of next year, but that depends on the National Assembly for Wales. Given the way that the provisions in the Bill are set out, there is a process of mapping the current active travel network and then thinking about the future vision network. Local authorities need to set about doing that mapping work. From then on, it is a process of investing on a continuous improvement basis to deliver the visionary network on top of the existing one. So, we have a bit of time to start reshaping the programmes as the Minister has outlined, to deliver against those priorities. That is one of the important points. Rather than what we have at the moment, which is a series of programmes that support really great projects around Wales, we will have that prioritised on the basis of a map of the most important routes to build on or connect up in order to deliver active travel outcomes. It should give us much better strategic alignment between what we are spending and the things most important to each community to enable people to travel actively.

11.45 a.m.

[180] **Byron Davies:** I have a very brief final question on this. We did a review of town-centre regeneration. Have you looked at that? Is that interacting with it?

[181] **Carl Sargeant:** Yes. I mentioned earlier the shift I saw last year in how the Government operates between departments. It would be fair to say that we used to operate in silos. We had an amount of money and we worked on local government and communities or economic elements of delivery. We are much more joined up now. I have regular meetings with Edwina Hart, with Huw Lewis on regeneration, and with John Griffiths on the environment, about our interventions. We have to do that, because finances are getting much tighter. We need to stop duplication and look at the opportunities in these communities. Does active travel fit in with regeneration? Absolutely. People will have views on this, but we should recognise that we have 22 authorities delivering on economic development and regeneration proposals, and active travel does not recognise boundaries and borders. We have to look at how to get from A to B better, whether that is in Wales or beyond its boundaries. We can do that as a partnership, rather than as individual departments looking at what they do compared to what anybody else does.

[182] **Nick Ramsay:** Before I bring Eluned Parrott in, Jenny Rathbone, did you have a supplementary question?

[183] **Jenny Rathbone:** I do not have a supplementary question, but I wanted to follow up on the rail aspects. I am happy to come back in later.

[184] **David Rees:** I have a quick supplementary question on this one. Clearly, the Bill transfers responsibility to local authorities. At the moment, we have a budget line within the transport portfolio. You said earlier that it is not going anywhere, it just may be placed somewhere different. Is there an intention to transfer any of that budget into local authority funding, or will it stay within the transport portfolio?

[185] **Carl Sargeant:** There is a process for developing legislation and we do strategic assessments of the cost of legislation. I have always said that if there are known cost implications, whether they are a burden on local authorities or another body, we should consider funding them—or not, but be upfront about it. We should tell people, if there is a cost to something, that the cost is theirs and we are not going to pay for it, or that we are going to pay for it. We are not in that position yet, because we have not constructed the legislation—it is still being framed. We also have to remember what I said earlier, that local authorities already invest through the regional transport consortia—Taith, SEWTA, SWWITCH, etcetera—which is money that comes from the Welsh Government to local authorities in some form for delivery. We are saying that, if we all think about what we are trying to achieve here—active travel—the regional transport consortia can make better use of their money. There also needs to be an investment by us and Sustrans and so on—a partnership approach to developing an integrated plan for Wales. Instead of having, for example, a Cardiff plan and a Neath Port Talbot plan, we need to think about how we join all of this up across Wales. The mapping element is an opportunity to do that. We do not think that doing the ground work in the Bill will be a big financial burden on local authorities. The investment will be part of the programme for government in combination with third parties. How to do that better is still up for discussion, but they are really engaged in it, because it is quite exciting.

[186] **Eluned Parrott:** My family is looking forward to the active travel Bill. My husband commutes to work, with two trains and two bike rides in each direction. He gets booted off his train about once a fortnight on average because overcrowding means it cannot take the bike. There are infrastructure requirements in terms of rolling stock and bicycle storage in railway stations, which are very real costs. If the money is coming out of the existing walking and cycling budget, there is a 10% cut in that budget for 2013-14 and nothing at all in it for 2014-15. So, how are you going to deliver those requirements if you have no money at all in 2014-15?

[187] **Carl Sargeant:** I will ask the team to look at the 2014-15 element not in the budget line. As I said earlier, we have to consolidate the budget. The budget is reducing, and I cannot do anything other than react in the same way as you or anybody else in this room would do. When there is no more money, you cannot spend anymore. So, you have to build your work programme within the boundaries of the financial envelope. We believe that, by creating this piece of legislation and changing the way that people operate, there will certainly be savings to be made in terms of economies of scale and the way that we operate. The budgets I will be aligning up to support the active travel Bill will be less than what is currently allocated in budget lines for the other elements.

[188] When we are developing the road network, which has a separate budget, I have to think about what I do alongside it to ensure that, when we create a new road space, it is active-travel compliant. We are looking at opportunities in the design of the network so that, when we build a road, we think about whether it is right to build a cycle path at the side of it or have linkages. There are other elements of the budget that can support this. We cannot have legislation or policy development in isolation of everything else. There has to be a

holistic approach to travel and transport in Wales. The department is looking at that in relation to integrating rail and road travel. In Wales, we build really good roads, but we have to go beyond that and look at how those good road builders can work alongside the good rail infrastructure development officers. Building those synergies is sometimes challenging, because this is what people do, but we are getting used to it, and we are understanding that work together. My team is leading on this, and I believe that we are moving into a very different place with regard to travel. I do not know whether Claire wants to talk about the finances.

[189] **Ms Bennett:** Looking at the table that was annexed to the committee paper about the capital lines, which is the final page of the paper, the walking and cycling investment line shows a continued investment of £1.8 million throughout the budget period. There is also quite significant investment in walking and cycling in the sustainable travel towns programme, which is just underneath. Also, as the Minister said, a reasonably significant proportion of the regional transport plan investment goes on walking and cycling. That kind of capital investment, which is used to support walking and cycling or active travel infrastructure, is broadly maintained through the year, with a reduction in the regional transport plan funding available.

[190] **Eluned Parrott:** But the regional transport plan revenue budget has also been cut by a significant margin over that period.

[191] **Ms Bennett:** Indeed, but the actual infrastructure investment comes from capital funding, not from revenue.

[192] **Eluned Parrott:** Are you content, therefore, that there are no policy interventions that require revenue funding in walking and cycling in 2014-15?

[193] **Carl Sargeant:** The active travel Bill and the walking and cycling policy interventions that we are creating will be funded. Are there challenges to the budget? Absolutely. I am not going to sit here with a reducing budget saying that everything will be fantastically well served, because we have huge challenges, which are beyond my control.

[194] **Nick Ramsay:** As we have just touched on regional transport planning, Alun Ffred, would you like to ask your question?

[195] **Alun Ffred Jones:** Fel y dywedodd **Alun Ffred Jones:** As Eluned Parrott said, Eluned Parrott, mae'r gyllideb ar gyfer y the budget for the regional transport plans cynlluniau trafnidiaeth rhanbarthol yn will reduce from £11.5 million to £0.5 gostwng o £11.5 miliwn i £0.5 miliwn yn y million in the next two years. Why? ddwy flynedd nesaf. Pam?

[196] **Carl Sargeant:** That is an accounting issue, which I am happy to explain. Last year, there was a budget transfer from the business, enterprise, technology and science department to our department. That was about £7 million that was repatriated back to our department. It is in that line. With regard to the additional £3.5 million—

[197] **Ms Bennett:** It is revenue associated with the local government borrowing initiative, which has been placed into that budget line, but it is not being spent on regional transport consortia work per se, it is supporting the local government borrowing initiative. So, the baseline position for that budget is the £0.5 million that is shown in future years.

[198] **Carl Sargeant:** It is about accounting. I am more than happy, Chair, to drop you a note on that if it is helpful. It is not a difficult element of this, but—[*Interruption.*]

[199] **Nick Ramsay:** Given the number of perplexed faces around the room, it would be useful to have that clarified.

[200] **Carl Sargeant:** I am more than happy to write that note, but it is basically a £7 million transfer that went out last year and has come back to us this year from the business, enterprise, technology and science department—it was an accounting transfer. We put it into that budget line, and the additional £3.5 million is the borrowing initiative that was issued by me and Jane Hutt for highway infrastructure, which will go into the revenue support grant next year. It is just an accounting element, but I am happy to explain that further.

[201] **Alun Ffred Jones:** Ar gorn hynny, rydych chi'n dweud nad oes gweithgarwch sy'n digwydd ar hyn o bryd na fydd yn digwydd oherwydd y newidiadau hyn. Mae gostyngiad yma—beth bynnag yw'r rheswm am hynny—a'r cwestiwn yw: a oes gweithgarwch a fydd yn dod i ben oherwydd y newidiadau hyn?

Alun Ffred Jones: On the back of that, you are saying that no current activity will cease to take place because of these changes. There is a reduction here—for whatever reason—and the question is: is there any activity that will come to an end because of these changes?

[202] **Carl Sargeant:** No; there is not, in effect, a reduction—I know that it is hard to see that because of the numbers. It is £0.5 million and it will continue to be £0.5 million; there is a reason that that additionality is there, and it is just an accounting issue for us. As I said, I am happy to explain that further in a note.

[203] **Alun Ffred Jones:** Ar linell arall, sef gwella a chynnal a chadw seilwaith ffyrdd lleol, mae'r gyllideb yn diflannu-mae'n werth £13 miliwn ac wedyn nid oes dim. A allwch chi esbonio hynny?

Alun Ffred Jones: On another line, namely improving and maintaining local road infrastructure, the budget is disappearing—it is currently worth £13 million and then there is nothing. Can you explain that?

[204] **Ms Bennett:** That was the budget line that paid for the former transport grant, which offered support to local road projects and is no longer available for new projects. The last of the projects to complete is the docks peripheral distributor road in Neath Port Talbot. That was one of the choices made in managing the reductions.

[205] **Alun Ffred Jones:** A oedd yr arian hwnnw ar gael i awdurdodau lleol wella a chynnal ffyrdd lleol? Rwy'n deall nad yw'r arian hwnnw bellach ar gael.

Alun Ffred Jones: Was that money available to local authorities to improve and maintain local roads? I understand that that money is no longer available.

[206] **Carl Sargeant:** That is the case in that respect, and that is part of the Wales infrastructure plan, which is part of the £3.5 million borrowing proposals. You will be aware that this was an agreement between local government and the Welsh Government, where there is huge investment and a long-term borrowing element for local authorities, which is funded by the Welsh Government. They borrow an amount and we pay the revenue cost of that loan. There was an agreement that this was a better way to lever more money into the system. 'Yes' is the answer to your question on whether that funding has now gone, but we have replaced it with this proposal to fund a borrowing regime for local authorities to deliver on infrastructure projects for local roads.

[207] **Alun Ffred Jones:** Beth yw gwerth yr arian hwnnw sy'n cael ei fenthyl gan awdurdodau lleol yn flynyddol?

Alun Ffred Jones: What is the value of the money that is borrowed by local authorities every year?

[208] **Carl Sargeant:** I can give you a note on the overall amount borrowed, but I think it is

in excess of £170 million in total.

[209] **Alun Ffred Jones:** What is the annual value?

[210] **Carl Sargeant:** Let me give you the right figures, as I would not want to mislead you in any way—the Welsh Government’s revenue-funded investment of around £12 million in annual revenue supports the local government borrowing initiative. In 2012-13, we will pay £4 million, and £8 million in 2013-14; that will allow the total amount over the period to be around £170 million. That is not an annual total of £170 million being borrowed.

[211] **Joyce Watson:** I want to take us back to last year, when we asked questions about monitoring the national transport plan that was updated in 2011. What specific changes have you made in policy delivery following the publication of the update on the monitoring of the national transport plan? How are those reflected in budget allocations?

12.00 p.m.

[212] **Carl Sargeant:** We launched the reprioritised national transport plan. How best can I describe the transport plan? It is a sort of deliverable shopping list that looks at what we want to do in terms of the longer term vision for transport in Wales. We monitor the effects of what is happening in the system. However, because we had a change in data in one year, we did not think it was right to change the whole national transport plan. We have a vision of what we would like to achieve and how we intend to get there.

[213] So, we monitor the indicators of the transport plan as trends. Going back to the issue of active travel, this is what we are trying to achieve. We are trying to create a modal shift, getting people from vehicles on to cycles, cycles on to trains or whatever. However, we look at the long-term trends to see whether we are having an effect in order to influence the transport plan and the next stages of the plan. So, yes, we do monitor them. Do we make significant changes on the back of an indicator in transport planning? No, because there could be many reasons for the results. We monitor the trends rather than the indicators per se with regard to policy shifts. One example—and this is not factual—would be that, if bus usage increased this year it could be because of increased tourism due to the Olympics. We would not change our transport planning operation for next year because of the Olympics this year. It is about the trends. We need to look at the trends and how we influence things. In the longer term, those will influence the national transport plan.

[214] **Nick Ramsay:** David Rees is next on joint transport authorities.

[215] **David Rees:** Before we start, Alun Ffred mentioned the budget for the regional transport plans going down. What does the regional transport plans’ budget line actually cover?

[216] **Carl Sargeant:** Claire, do we have the detail on exactly what we pay them for?

[217] **Ms Bennett:** It varies across the different regional transport consortia, because each consortium has a regional transport plan, on the basis of which they prioritise the investment needs for that area. The budget tends to include walking, cycling or active travel schemes, integrated transport measures—such as park-and-ride facilities or facilities at railway stations—occasionally railway investment, and occasionally local roads investment. So, the particular balance of investment will depend on the priorities in the region, but on the basis of what is set out in the regional transport plan, they have the scope to come to us with proposals every year on what they would like to take forward in the next year. We discuss the plan with them, agree it and then the funding is made available.

[218] **David Rees:** In your paper, you identify that regional transport consortia are key partners in delivering transport services. However, although I accept the point about the accounting figures, we can clearly see the revenue budget for the regional transport plan is flat. There is also a decrease in the capital. If they are key partners, how are you going to manage to get value for money out of the decreasing figure?

[219] **Carl Sargeant:** Again, I go back to the point that our budget, and particularly the capital budget, has been reduced significantly over the years. That is a consequence of what comes in and what goes out. That is the allocation for this department and we have to deal with that. There is a knock-on effect on regional transport consortia in that respect. If we do not have it, they cannot have it either. However, it does not take away from the fact that they still have their regional planning role with regard to what they want to do locally in respect of the broad objectives Claire just shared with you. What is it they are trying to achieve? Is it better bus routes or better infrastructure projects, for example? A couple of Members here continually write to me about Carno station, which is just one of the pressures that was not in the national transport plan or in the regional transport plan for that consortium. So, these are the local things that these consortia need to consider.

[220] **David Rees:** I can think of other stations that are close to my heart. *[Laughter.]*

[221] **Carl Sargeant:** That is just an example. I am sure that I will get letters on the back of this. *[Laughter.]*

[222] The issue for me, David, is the function of the regional consortia, which I am considering. You will be aware of the manifesto commitment to look at regional transport boards, and so we are looking at whether we need regional transport boards as well as regional transport consortia. We are considering whether there are some more things that they can do, given that they have been helpful in the way that they are collectively looking at bus services across Wales. So, that is just one example of what they can do, despite the funding issues. Funding is of course challenging, and every question that you are going to ask me is on what is going to be reduced. We must look at how we deliver services differently and the consortia are part of that partnership approach to achieving that.

[223] **David Rees:** You have pre-empted my next question on the joint transport authorities. What time frame are you considering within your review as to whether you wish to go ahead with that?

[224] **Carl Sargeant:** We have done some scoping around that, but there are still many more questions to be asked. There is a similar scenario in relation to some of the legislation that I am considering on youth justice, which is totally separate from transport but has the same principle. The question is whether we need to go to that position. I have the powers to create joint transport authorities, but we already have things in place that, should their ability to deliver be strengthened, could possibly be the right route forward, as opposed to creating more legislation. So, I am getting some further advice on that. The manifesto commitment said that we would scope this, which I am doing.

[225] I am having a really constructive relationship with the regional transport consortia, and they are stepping up to the mark in terms of delivery. There is still a long way to go in terms of what they can and cannot do, but I am encouraged with that relationship and with the way things are going. The consortia are not now just third parties that deliver on their own priorities with Welsh Government money; it is about what they can offer and bring to the table as well. So, the relationship has changed significantly.

[226] **David Rees:** So, do you think that, by this time next year, we will have a clearer picture as to whether you will want to go ahead with those authorities or stick with what we

already have?

[227] **Carl Sargeant:** We will certainly be in a clearer position, because the consortia are currently involved in some significant changes to operation. I mentioned earlier what they have done with bus services in Wales and their involvement in that. That will give me an indication of their capacity and whether they are capable of taking what we require them to do to the next level.

[228] **Nick Ramsay:** We have a couple more questions on capital investment from Gwyn Price.

[229] **Gwyn R. Price:** The Wales infrastructure investment plan identifies M4 improvements between Magor and Castleton, and at junction 28, for delivery in 2013-14. How will these improvements be funded? Are you satisfied that all Welsh Government's transport capital investment commitments for 2014-15 are fully funded?

[230] **Carl Sargeant:** The improvements that you mentioned in that particular area on the M4 and at junction 28 will be funded fully by the transport capital budget. However, we are talking with technical advisers about that to see how we can move forward to the next level in relation to statutory services and the development of new road networks or the upgrading of road networks. So, yes that will be fine.

[231] Will everything be fully funded? We believe that we are on schedule for delivery, but that is on the basis that there are no unforeseen objects placed in our way. We rely heavily on European funding for network infrastructure improvements. If that suddenly stops or something changes, then we will have to have a serious think about how we start delivering some of these projects. I mentioned earlier to Joyce that the national transport plan is a shopping list of aspiration and delivery. We have to have what we want and we need to set the goals that we need to achieve. However, there are many incoming things that have an effect on that. At the moment, we are confident that we can deliver these things, but who knows what is around the corner?

[232] **Byron Davies:** My favourite subject is the M4, on which I suffer virtually every day. On the M4 corridor enhancement measures, I understand that discussions are ongoing on financing strategic enhancements. How will delivery of the M4 corridor enhancement measures be funded, given the limitations on capital budgets?

[233] **Carl Sargeant:** I will be cautious in what I say about the enhancement measures, because some issues are still ongoing regarding the consultation on the outcome of that, so I will be careful about the detail. However, the broader principle of funding is an important one. I have had regular meetings with the Minister for Finance to look at new opportunities for funding. I think that they are now called single-purpose vehicles—a modern way of looking at how we support new projects by different models of borrowing opportunities, subject to the ability to borrow. So, there is an important element here: future projects will be based on the premise that we are allowed to borrow in the future. Some of the M4 improvement projects are long-term aspirations and, again, I do not know what they will be yet, because I have not made a decision on that. So, what we will have in the future will be based on different funding models that I am exploring with the Minister for Finance. A lot will depend on the ability to borrow.

[234] **Byron Davies:** I understand that.

[235] **Nick Ramsay:** Alun Ffred, did you have some questions on the M4 and the national strategic plan?

[236] **Alun Ffred Jones:** No.

[237] **Nick Ramsay:** Are you sure?

[238] **Alun Ffred Jones:** I am certain.

[239] **Nick Ramsay:** Jenny Rathbone, we have spoken a lot about roads, so would you like to ask about rail?

[240] **Jenny Rathbone:** To follow up your comments about the importance of active travel plans, which are hugely important to Cardiff—not least because of its air quality, because of the numbers coming into the city by car—a lot hangs on Network Rail’s completion of the Cardiff area signalling renewal by 2015 for the Cardiff region, and the travel plans for that, and for the Cardiff to Swansea links. What are the penalties to make sure that Network Rail delivers by 2015?

[241] **Carl Sargeant:** You will be aware that some of the interventions on the rail infrastructure element are not devolved. We believe that these are all on target, but I will ask Frances to give you the detail on the penalties element.

[242] **Ms Duffy:** The Cardiff area resignalling programme is part of the high-level output specification and the priority investment that has been set out by the UK Government for Network Rail to deliver. We engage with it frequently and monitor progress, but it is the responsibility of the Office of Rail Regulation to ensure that Network Rail delivers on its specified outputs, and that is part of that specification. So, there is a process by which the ORR monitors the outputs from Network Rail as well, and, through the regulatory regime, it has different options for penalties if Network Rail does not deliver on what its programme should be.

[243] **Jenny Rathbone:** Okay, but I can see that the projects that are the Welsh Government’s responsibility hang on other people delivering on that signalling. Things such as improving services to Caerphilly, Pontypridd, the Vale of Glamorgan and Maesteg cannot be delivered unless we can improve that signalling. So, how might it affect your budget if other people do not deliver on those targets?

[244] **Carl Sargeant:** You are absolutely right. Most of the projects that you just mentioned are not possible without the main infrastructure being completed successfully, but they are also based upon the principles of the new franchise and the electrification of the Valleys lines and the West Coast main line. So, the interventions there are quite complex. Fundamentally, however, if that is not completed, all the other things go out the window. We have confidence that that will be completed and that it will not, therefore, have a direct impact on the budgets or the future planning for the upgraded proposals made, predominantly, on the premise of electrification.

12.15 p.m.

[245] **Jenny Rathbone:** Just following on from that, I wondered if you could just tell us a bit about what role you have in ensuring that there is a proper, integrated rail-bus link at Cardiff, so that people like Byron Davies would consider coming in by public transport.

[246] **Carl Sargeant:** I am more than happy to have a discussion with Byron directly about his personal travel arrangements.

[247] **Jenny Rathbone:** He is a good example. Cardiff Central rail station is not outside our door here, but we have to encourage people to use the railways and then complete their

journey by bus.

[248] **Carl Sargeant:** Yes, and you will be aware, specifically around Cardiff, that Cardiff Bus and the local authority have placed clear importance on joining up the services, and have looked at how to do that. Of course, my team has spoken with all local authorities, including Cardiff, about timetabling with Arriva and network delivery with Network Rail.

[249] What I have said in the past about our vision for transport in Wales is that active travel is key to all of this in terms of delivery, but by 2018 I think that we have a great opportunity to look at how the Welsh Government finances buses, and what we are trying to achieve by that. How do we finance the new franchise, and how do we integrate it? That is partly why we have had the difficult discussion about changing the way we finance buses in the first place—we have to be in a place where we can influence that. Before, we were funding fuel, but now we will be funding routes, and therefore we can change the way that operates. However, it is a package, and you cannot isolate buses from trains. I think that the franchise date of 2018, with electrification, gives us a whole new opportunity, alongside the metro concept as well. At the moment it is about relationships and how they work. In the future, we will have much more of a lever to make those things happen.

[250] **Nick Ramsay:** Before we move on to the metro, you have talked about buses and Joyce Watson had a question for you specifically on that.

[251] **Joyce Watson:** I am sure that you will not be surprised, Minister, that I am going to ask you some questions on bus funding. I write to you all the time on that subject. The bus funding technical group was expected to report to you in September this year. Do you expect service levels to be improved following the implementation of the new funding arrangements? How will you monitor the impact of the review of bus funding on service levels?

[252] **Carl Sargeant:** The simple answer is ‘yes’. Do I expect a better service? Of course I do. I am also hoping that that will happen. In term of monitoring this, I have not made any firm decision yet. We are still in discussions about shaping this new service, but I alluded in my last answer to my change of direction, away from fuel subsidy to service and mileage subsidy, so that we do not pay in the future for fuel for buses that travel empty. It has to be services that we pay for, because that is the right thing to do. We are certainly getting into that space now. One of the interventions alongside this is about the principle of quality bus partnerships. It is about funding ticketing machines, so that services that we fund will have machines that will be able to identify the journey, and recognise bus passes as well. We know that there are some operators that have not operated the system as they perhaps should have done, and now we will be able to fully understand the route, the service that is being used, and how many are using it, by providing buses with these machines that can read the card. That will give us a lot more information. On that basis, we think that there may be a cost saving as well. So, I am quite excited about these new proposals. There is a little bit of resistance to pursuing this from some organisations, but change is always difficult.

[253] **Joyce Watson:** Do you have scope within your current budget allocation to take action should new funding arrangements lead to any service reductions?

[254] **Carl Sargeant:** Have we got any more money? No. That is why we are making these changes—for the betterment of the service, to adopt the more targeted approach to bus service delivery that we need and are happy to pay for.

[255] **Joyce Watson:** Still on buses, and moving on to concessionary fares, Minister, the three-year deal to fund concessionary fares was agreed prior to the current review of bus funding. Do you have any concerns about the future financial viability of the scheme given

the subsequent reductions in, and reorganisation of, wider bus funding?

[256] **Carl Sargeant:** The concessionary bus fare scheme has nothing to do with the bus operator grant or the new service that will be in place in the future; there is no correlation between them. Do I have enough money for the scheme? Currently, yes. I can give you complete reassurance that we will not amend the flagship scheme in Wales on concessionary fares. Will it be challenging in the future? Yes, but that is a negotiating position that we will adopt with the operators when we seek another three-year capping agreement on what the funding and delivery mechanism will be in future.

[257] **Alun Ffred Jones:** Wrth edrych ar y llinell ar gefnogi bysys a thrafnidiaeth leol, mae gostyngiad o 10%. A yw'r arian hwnnw ar gyfer y grant gweithredwyr gwasanaethau bysiau a'r grant trafndiaeth lleol? Ai dyna yw'r elfennau yn y £29 miliwn sy'n gostwng i £26 miliwn?

Alun Ffred Jones: In looking at the line on supporting buses and local transport, there is a reduction of 10%. Is this money for the bus service operators grant and the local transport grant? Are those the elements in the £29 million that is reducing to £26 million?

[258] **Carl Sargeant:** Yes.

[259] **Alun Ffred Jones:** Felly, mae gostyngiad o 10% ac mae'n anodd iawn gweld sut y gallwch gael gwasanaeth gwell allan o hynny. Rwyf wedi gweld llythyr gan gyngor sir i gwmni bysiau sy'n dweud bod llai o arian yn dod iddo. Pan ofynnwyd sut y byddai'n cynnal y gwasanaeth, ei ateb oedd y byddai'n codi pris tocyn ar gyfer teithwyr. Oni fydd hynny yn cael effaith uniongyrchol ar yr arian rydych yn gorfod ei ddyrannu ar gyfer y rhai sy'n teithio am ddim, achos os yw'r daith yn ddrutach mae'n costio i chi? Felly, gallai hynny gael effaith ar y gyllideb honno o £52 miliwn ar gyfer tocynnau teithio rhatach. A yw hynny'n wir?

Alun Ffred Jones: So, there is a 10% reduction, and it is very difficult to see how you can get a better service from that. I have seen a letter from a county council to a bus company stating that it will receive less funding. When it was asked how it would maintain the service, its response was that it would increase fares for passengers. Will this not have a direct impact on the funding that you allocate for those travelling for free, because if the journey is more expensive, it costs you more? So, that could have an impact on the £52 million budget for the concessionary bus scheme. Is that true?

[260] **Carl Sargeant:** Let me take us back a few steps in terms of why we did this in the first place. The Member will be aware that the bus service operators grant was at a much higher level than anywhere else in the UK; we were paying much more than England and Scotland. I made a conscious decision to realign that finance, because a disproportionate amount was going on fuel subsidy and route subsidy. I still stand by this; we should not be subsidising empty buses going round the country, wherever they are. We should be providing services for people who need them, on a route and mileage basis. That is why we made the shift.

[261] So, based on the premise that there was much more money in the system than anywhere else in the UK, we have reduced it. It is still more than in other areas; we are potentially paying 1p more than in England, but that is less relevant at the moment. By changing the system, so that we now pay for service routes, there is an opportunity for bus operators, regional transport consortia and the Welsh Government to develop a new way of delivering the service.

[262] I was rather perplexed by the actions of some local authorities and bus operators that ran interesting campaigns to suggest that there was a reduction in funding, when there was not—there was no change in the subsidy that we gave. We were in negotiations with the bus

companies and local authorities. Some of the companies increased fares, some of them reduced routes, and some local authorities changed how they operated the relationship with the services when there was no change whatsoever in the subsidy. It was unfortunate for the people who jumped the gun in those circumstances. I am happier to deal with the facts of the situation than with anecdotal evidence from organisations that wish to make mischief because, actually, those facts are not true.

[263] **Alun Ffred Jones:** I gadarnhau, mae gostyngiad y flwyddyn nesaf o 10% yn y gyllideb hon, felly bydd gostyngiad yn yr arian a fydd ar gael, sut bynnag y byddwch yn ei dalu, i lywodraeth leol ac i'r cwmnïau bysiau.

Alun Ffred Jones: To confirm, there is a decrease next year of 10% in this budget, so there will be a decrease in the money that will be available, however you pay it, to local government and to the bus operators.

[264] **Carl Sargeant:** Yes.

[265] **David Rees:** I have a very simple supplementary question. The reduction in the bus service operators grants and the local transport service grants is clearly there, and you are looking to hold a review of that and, effectively, a replacement. Is greater efficiency going to be required, and do you expect better outputs? At the end of the day, we are looking at value for money, so are you expecting better outputs, perhaps by having more services or at least in the non-reduction of services, as a consequence of rearranging your funding?

[266] **Carl Sargeant:** Yes, I am, and we should not get hung up on the fact that the subsidies that we were paying out did not deliver services; they delivered fuel subsidies. That is the big difference, and while I hate to say it, this is public money, and we are paying a lot of private companies a lot of money as a fuel subsidy. Now, that might have been right at the time, and I am not going to argue for or against it, but now we have less money, so there is less money to go into the system.

[267] What we have done is, again, about rationalising the system that is out there. Local authorities already place money, separate to Welsh Government funding, into bus companies to deliver additional services. The principle that I have asked them to look at is that of how we can rationalise this by bringing the whole pot together—everybody brings all their money together, we understand which routes are required, and we pay for the route, and not for the fuel that it takes to get the bus from the depot and around the route.

[268] Do I expect better services? I am hopeful. Is this a more targeted response for bus services, as opposed to a fuel subsidy? Absolutely.

[269] **Yr Arglwydd Elis-Thomas:** Mae gennyf un cwestiwn ar hyn. Sut mae'r gyllideb honno yn ein symud tuag at drafnidiaeth fwy integredig—rhwng bysiau a threnau yn arbennig—a pha arweiniad mae'r Gweinidog yn ei roi i'r consortia trafnidiaeth rhanbarthol ac awdurdodau lleol i ddelifro hyn yn fwy effeithiol? Rwy'n derbyn y feirniadaeth, mewn ateb i gwestiwn blaenorol, ynglŷn â'r ffordd nad oedd y cymhorthdal blaenorol, o safbwynt y cwmnïau bysiau a llywodraeth leol, yn gweithredu yn yr un modd mewn gwahanol ardaloedd, ond onid yw'r Gweinidog yn gallu delio â hynny drwy'r consortia rhanbarthol?

Lord Elis-Thomas: I have one question on this. How does that budget move us towards a more integrated transport system—between buses and trains in particular—and what guidance can the Minister give to the regional transport consortia and local authorities to deliver this more effectively? I accept the criticism, in response to an earlier question, about how the previous subsidy, from the perspective of the bus companies and the local authorities, did not function in the same way in different areas, but can the Minister not deal with those through the regional consortia?

[270] **Carl Sargeant:** Yes. I think that I mentioned earlier that I believe that regional consortia have grown up with us. We are looking at operations between local authorities and how they can work as regional transport consortia, and I am very keen to allocate funding that they have not had in the past, because they can do it on a regional basis. Byron Davies asked earlier about a collaborative approach to delivery: in north Wales, the regional transport consortium, Taith, is looking at a bus programme for fleet management between all six authorities, because they recognise that they can get cost savings—

[271] **Lord Elis-Thomas:** I cannot wait, Minister.

[272] **Carl Sargeant:** They recognise that they can get cost savings by using the six services across north Wales. At the moment, they have six individual ones; why not bring them together? This is not rocket science, and once we have brought down the barriers of personal ownership, we can move ahead on this.

[273] **Nick Ramsay:** Minister, are you free to stay for a couple of minutes?

[274] **Carl Sargeant:** I can probably give you a good five minutes, if that is okay, Chair.

[275] **Nick Ramsay:** That is fine. We have just a couple more questions that we would like to get through.

[276] **Joyce Watson:** To save you time, Minister, because everybody is interested in integrated travel, particularly bus journeys and the changes, and as we do not have time to explore it here in the way that we would perhaps like, would you be able to write a paper for us, explaining the changes between the different funding levels and what they might mean for the customer? It would be very useful, I am sure, to everybody around the table, in that we could then present it to the people who keep writing to us, leading to us in turn writing to you.

[277] **Carl Sargeant:** I am happy to do that.

[278] **Eluned Parrott:** On community transport, I noted that the programme for government annual report says that you are

[279] ‘continuing to fund the Community Transport Concessionary Fares Initiative scheme for the first part of 2012/13 pending a review’.

[280] I understand that funding for the CTCFI pilot schemes was due to end at the end of September this year, but when I spoke to them on 27 September, they still did not know whether that funding was to be continued. Do they have that funding agreed now and, if so, until when?

12.30 p.m.

[281] **Carl Sargeant:** They will have the funding agreed until I make a decision.

[282] **Eluned Parrott:** I notice as well that, in the budget, there is an increase of £1.5 million in the concessionary fares line. Does that mean that you are hoping to mainstream the CTCFI funding into that budget?

[283] **Carl Sargeant:** No.

[284] **Eluned Parrott:** So, what is the likely timescale for the decision making on the CTCFI pilot projects?

[285] **Carl Sargeant:** It will be any time now, really. As you have said, the report was coming through to me in September. I have asked for more clarity on some of the detail on that. That has gone out for some more discussion. When I have fully appraised that, I will make a decision and I will make the appropriate budgetary changes, should I have to do so, with regard to the services that are provided.

[286] **Eluned Parrott:** How much notice will you be able to give to the operators to be able to make the changes that you require?

[287] **Carl Sargeant:** Three months.

[288] **Nick Ramsay:** Minister, the national transport plan strategic environmental assessment undertaken in 2009 did not consider the specific proposals contained in the M4 corridor enhancement measures consultation. Why was an SEA on these proposals not published alongside that consultation?

[289] **Carl Sargeant:** As I said earlier, I am conscious about decisions made on this and things that I may say that might prejudice any remarks that I make with regard to the future decision regarding the proposals. However, if I may, I will discuss this in the broadest sense as it would apply to any scheme. That proposal was unique with regard to the way in which we consulted. We have gone out to the public in the broadest way and have said that there is an issue and we have asked what people believe can resolve the problem—whether the answer is to do a little or to do a lot. On the scale of works, from doing nothing to doing a lot, there is a lot of legislation behind it regarding the proposals to stack up that scheme. I have said that we should go out to consultation, ask people for their views, they can tell us their views and, when they come back in, I will make a decision on that—whether it is to do nothing, do something, do a lot, or anything in between. Once I have identified what we are going to do, we will go back out to consultation, with the SEA, looking through the legislative proposals to see exactly what we need to do to comply with the statutory services that we have to provide.

[290] We have not done this before, so this is unique. We have been transparent and people think that we should not have done it—that we should have stuck to the rules. However, there are no rules in this. This is consultation about the broader scheme, identifying what people want and listening to people. Once we find out what people are interested in, we will follow those proposals through with the statutory processes, including the SEA, aligned to the scheme that I may or may not choose.

[291] **Nick Ramsay:** Do you accept that there was an issue and that some consultants might have felt that they were not fully aware of the environmental impact?

[292] **Carl Sargeant:** Of course, there are views out there and people have said that this should have been done before we even got to this position. Is there anything wrong with talking about potential schemes, whatever they may be—whether they involve doing something or doing nothing? This is a genuine consultation. We will see what people are interested in or whether this will turn out to be a non-starter. Why would I waste money on doing something that may never happen? It makes sense to consider whether this is the right scheme for the proposal. You will understand this. There will always be people who will be for or against a scheme. Once we have established my position and theirs, let us try to bring them as close together as possible and then launch a consultation with all of the statutory considerations involved in that. I accept that people are disappointed because this was not in place when it went out, but it does not prevent us from doing that in future for any scheme that we may identify.

[293] **Nick Ramsay:** Thank you, Minister, for agreeing to stay for a few more minutes, as we had a lot of questions to get through. I thank you, Minister, and your officials for attending today. You have helped us greatly with our scrutiny of the budget process.

[294] **Carl Sargeant:** Chair, if there is anything that was not clear or if you require any further information, I will be happy to answer that by letter or to appear before you again.

[295] **Nick Ramsay:** Okay; thank you.

12.35 p.m.

Cynnig Gweithdrefnol Procedural Motion

[296] **Nick Ramsay:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[297] This is so that the committee can discuss the budget report. I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 12.35 p.m.
The public part of the meeting ended at 12.35 p.m.*

*(1) Hoffai'r tystion wneud y cywiriad canlynol:
The witness would like to make the following correction:*

The answer at points 60-63 should have been: 'The £4 million revenue budget for the strategic and industry support BEL provides support for the tourism industry'.