

Scrutiny of the Welsh Government's Draft Budget 2021/22

January 2021

On 21 December 2020 the Welsh Government laid its draft budget for 2021/22 before the Welsh Parliament. This report outlines the Committee's views on the draft budget and recommendations.

1. Evidence

1. This report draws on evidence given to the Economy, Infrastructure and Skills Committee (EIS) in a budget scrutiny session on 20 January 2021 by:

- Ken Skates MS, Minister for Economy, Transport and North Wales
- Lee Waters MS, Deputy Minister for Economy and Transport
- Sioned Evans, Director Business and Regions
- Simon Jones, Director Economic Infrastructure
- Dean Medcraft, Director Finance and Operations
- Huw Morris, Group Director Skills Higher Education and Lifelong Learning

2. A proportion of the budget relating to the Committee's skills and research and innovation remits sit within the portfolio of Kirsty Williams MS, Minister for Education. In order to minimise burdens on committee and ministerial time the Chairs of the EIS and the Children, Young People and Education (CYPE) Committees were content that Hefin David MS, a member of both committees, would ask questions related to research and innovation, relevant to this



Committee's remit, at the CYPE budget scrutiny session on **21 January 2021**. This report reflects the answers given at that session and the Welsh Government's **written evidence**.

The majority of this report is related to the portfolio of the Minister for Economy, Transport and North Wales however, as noted above it also touches on elements of the Minister for Education's portfolio. To this end, for ease of reading, under Economy and Skills when 'the Minister' is used this refers to the Minister for Economy, Transport and North Wales. As the skills element is where the report discusses the two Ministers' portfolios, each Minister is referenced by their full title.

2. Recommendations

Recommendation 1. The Committee welcomes the Minister's commitment to "ensure that those who are most likely to be adversely impacted are given the greatest level of support" and to make sure no one is left behind. This commitment must be maintained throughout any new support and recovery planning.

Recommendation 2. Members are concerned that the fact all available budget for pandemic business relief was not drawn down could be interpreted as the Welsh Government not being able to spend it. If this is the case the Government should set out why, if it is not the case the Government need to clearly explain their approach.

Recommendation 3. The Welsh Government should set out its plans for drawing down funds which could be used for further rounds of the Economic Resilience Fund, including an explanation setting out how Welsh Government will ensure none of this money will be lost to Wales.

Recommendation 4. The UK Government should extend maximum flexibility to Welsh Government with regards to drawing down any increased funding flowing from pandemic-related spend in England.

Recommendation 5. Welsh Government should provide further details of uptake on the sector-specific business support funding which launched on 13 January, including detail on uptake against expectations and actions taken by Welsh Government to ensure everyone eligible is aware of the schemes and can apply.

Recommendation 6. Given the Committee's concerns about maximising take-up of business support, Welsh Government should set out what robust evaluation there has been of the effectiveness of Business Wales website and support

services, to identify any further measures needed to help businesses understand the entire suite of support on offer.

Recommendation 7. Welsh Government should supply the Committee with a breakdown of the business support offered in Wales to date including: a breakdown of the uptake of each fund; a breakdown of uptake by people with protected characteristics; uptake of support provided against expected uptake; and a comparison with the support available in other UK nations.

Recommendation 8. Welsh Government should set out their plans to support businesses as COVID support tapers off and any actions planned to mitigate business closures as large support schemes are withdrawn.

Recommendation 9. Welsh Government should inform the Committee of the breakdown of funds allocated to the Business Wales budget expenditure line, particularly the split between foundational economy, town centres and any increases for Business Wales itself.

Recommendation 10. Welsh Government must identify and implement a process to ensure all investments appraised through WelTAG, both their own and those funded through other bodies, contribute to their policy objectives. WelTAG must be used correctly, not as a box ticking exercise to support a policy objective already formed, and options presented for appraisal must be selected effectively reflecting Welsh Government transport strategy and objectives.

Recommendation 11. The Welsh Government must embed effective monitoring and evaluation of longer-term outcomes into projects and investments, including active travel projects. This process should be transparent and should clearly inform and feedback into guidance and the project development and delivery process.

Recommendation 12. The embedded monitoring and evaluation advocated under Recommendation 9 should also be regularly reevaluated to ensure the process is still effective and is still achieving Welsh Governments desired aims. Details of new monitoring and evaluation process, and its outcomes should be shared with this Committee or its successor in the Sixth Senedd.

Recommendation 13. The Welsh Government should set out the budgetary implications of different scenarios for subsidy supporting public transport recovery and provide assurance that these are affordable. It should set out where any additional funds required by each scenario will be drawn from and detail how any additional allocations will impact on other programmes.

Recommendation 14. Welsh Government should provide assurance that any new public transport subsidy regimes fully support Welsh Government policy objectives and do not include perverse incentives.

Recommendation 15. With each new subsidy regime the Welsh Government should provide the Committee or its successor Committee in the Sixth Senedd details of how the new scheme does not create perverse incentives and considerations taken to ensure that.

Recommendation 16. The Welsh Government should commit to funding and supporting the Regional Skills Partnerships to develop their role along the lines the Committee set out in its report last year, this should include reconsidering funding for labour market intelligence tools.

Recommendation 17. The Welsh Government should set out where the new funding to establish the fourth Regional Skills Partnership would be drawn from.

Recommendation 18. The Welsh Government should set out for the Committee how it aligns the separate budgets for lifelong learning provision into a coherent strategy and what outcomes it expects this funding to deliver.

Recommendation 19. The Welsh Government should update the Ministerial Responsibilities Document to include which Minister now has responsibility for lifelong learning.

Recommendation 20. The Welsh Government should provide the committee with the total quantum of research and development funding it provides and spends, broken down by areas of spend and the bodies to which is it disbursed or spent by.

Recommendation 21. Now that the Reid review recommendations have not been fully funded before the UK left the EU, the Welsh Government should urgently set out its alternative plans for replacing EU research and innovation funding.

3. Economy

Pandemic support and recovery

Members are very aware that the pandemic will not end with the financial year 2021/22 and that many people and businesses in Wales will face pandemic-

related hardship next financial year and for many subsequent years. As a result Members are very interested in ongoing planning around support and recovery. Most of the Committee's views on long term recovery will be contained in a forthcoming report on the matter, however the Committee's views and concerns with regard to the budget are set out below.

The Committee was pleased to hear the Minister set out his commitment to ensuring that the recovery doesn't leave anyone behind. The Minister told Members "What we know from previous recessions is that those who are furthest from the labour market tend to be left furthest behind" and that "there'll be targeted support as part of the COVID commitment, through Working Wales, to ensure that those who are most likely to be adversely impacted are given the greatest level of support".

The Committee discussed financing of the current and future rounds of the Economic Resilience Fund. Dean Medcraft, director finance and operations, explained that money for the current round of the fund 'is coming out of this year's funding' but any money that might be needed for future rounds of the ERF was being "being held in the centre by Welsh Government. The Chair probed why the money had not all been drawn down this financial year and Sioned Evans, director business and regions, went on to explain "it's both getting the schemes open and ready, but also ensuring that people apply for them."

Members are concerned that this could be perceived as the ERF budget holders not being able to spend all the money allocated to business relief. The Committee would like the Government to expand on Dean and Sioned's comment and detail plans for drawing down those funds.

Dean Medcraft told the Committee that Welsh Government was in discussions with UK Government regarding more flexibility with budgeting between this (2020-21) and the next financial year. He stated "the pandemic is not going to finish on 31 March. However, because of the accounting regime we're in, it's really hard for us to carry money over", and said that the Welsh Government were pushing the UK Treasury to "have more leeway to carry some money over into next year to support companies going into the next financial year as well." The Committee supports this approach and is of the view that, in these exceptional circumstances, the UK Government should extend maximum flexibility regarding transfer of funds between financial years in order to support COVID-19 relief.

Sioned Evans took the Committee through the support offered by the latest round of the Economic Resilience Fund (business rates and sector specific

support) which offers support to businesses through the increased COVID restrictions which were brought in just before Christmas.

Sioned explained the Welsh Government felt they had “robust figures in terms of the number of businesses” “but we're not seeing quite those figures coming through yet.” She also told Members that “Ministers wish to ensure that all those who are eligible do take advantage” of the money”

Members were surprised to hear that the rate of uptake of the sector specific scheme was lower than expected. However they were pleased to hear Sioned Evans state that the Welsh Government were “making sure that everyone who is eligible for this will apply for it.”

Sioned Evans offered to share work the Welsh Government had undertaken to compare and contrast support in Wales with support in the other UK nations. Members would be keen to see this, and would also like to see a breakdown of uptake of COVID business support in Wales to date.

Members were pleased to hear that Wales has a lower rate of ‘business death’ than expected. Sioned Evans noted “During this period, considerably fewer businesses have folded.” Members would like to see the details on those ‘business death’ statistics, particularly broken down by sector.

Although the low rate of businesses closing is very good news, Members are concerned that the package of support offered may be the ‘life support’ keeping many businesses open. It is vital that the Welsh Government has a COVID support exit strategy for Wales. This should include how the Welsh Government will support businesses through the end of Welsh and UK wide support schemes, as well as how to support people who own or work for businesses that close when the support is removed.

Recommendation 1. The Committee welcomes the Minister’s commitment to “ensure that those who are most likely to be adversely impacted are given the greatest level of support” and to make sure no one is left behind. This commitment must be maintained throughout any new support and recovery planning.

Recommendation 2. Members are concerned that the fact all available budget for pandemic business relief was not drawn down could be interpreted as the Welsh Government not being able to spend it. If this is the case the Government should set out why, if it is not the case the Government need to clearly explain their approach.

Recommendation 3. The Welsh Government should set out its plans for drawing down funds which could be used for further rounds of the Economic Resilience Fund, including an explanation setting out how Welsh Government will ensure none of this money will be lost to Wales.

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Recommendation 6. Given the Committee's concerns about maximising take-up of business support, Welsh Government should set out what robust evaluation there has been of the effectiveness of Business Wales website and support services, to identify any further measures needed to help businesses understand the entire suite of support on offer.

Recommendation 7. Welsh Government should supply the Committee with a breakdown of the business support offered in Wales to date including: a breakdown of the uptake of each fund; a breakdown of uptake by people with protected characteristics; uptake of support provided against expected uptake; and a comparison with the support available in other UK nations.

Recommendation 8. Welsh Government should set out their plans to support businesses as COVID support tapers off and any actions planned to mitigate business closures as large support schemes are withdrawn.

Business Wales

Members were pleased to see an uplift in the 2021-22 allocation for the Business Wales Budget Expenditure Line. The Minister informed Members that the uplift was made up of "two specific allocations: one for the foundational economy, and also for town centres." The Committee would like to know whether there is any additional funding for Business Wales itself in 2021-22, given it is a key instrument to support Wales' economy to recover from the pandemic.

Recommendation 9. Welsh Government should inform the Committee of the breakdown of funds allocated to the Business Wales budget expenditure line, particularly the split between foundational economy, town centres and any increases for Business Wales itself.

4. Transport

During the discussion of the Welsh Transport Appraisal Guidance (WelTAG) the Deputy Minister told the committee “you can change the [WelTAG] formula and you can change the processes, but if the people who are sitting down making those decisions have already made their minds up” then “WelTAG is sufficiently malleable that it can produce the result that you want it to produce”. The Committee welcomed this frankness from the Deputy Minister however Members are concerned this means that the Welsh Government may be funding projects that do not meet their strategic objectives and may not, therefore, provide value for money.

The Committee discussed the fact that the Burns Commission had identified a holistic public transport solution to M4 congestion around Newport. This was despite the fact that during the development process for the M4 Relief Road the Welsh Government repeatedly maintained that it had appraised public transport options and found that they would have insufficient impact. When questioned, the Deputy Minister explained that the process to develop the relief road “looked at road solutions primarily, and therefore, given that framing, a public transport solution was never going to score highly.” He went on to explain that the Burns Commission started from a different point, one focused on supporting biodiversity and carbon reduction, so it came to a different decision.

The Committee believe this example neatly illustrates the issue around the effectiveness of appraisal, and suggests a lack of transparency and objectivity in project development which not only potentially affects value for money, but risks undermining public confidence in the solutions generated by the appraisal process.

Members are also concerned about the ongoing monitoring and evaluation of projects and investments, particularly their long-term outcome and impact. The Deputy Minister stated that on active travel the Welsh Government was “not evaluating”, “not monitoring sufficiently robustly” and “not evaluating post scheme”. He also stated that similar could also be said for road schemes.

Ensuring projects meet Welsh Government’s strategic objectives, and that those projects are correctly evaluated throughout their life, is important. This is particularly acute in these unprecedented times when the challenges are huge and pressure on budgets so significant.

Recommendation 10. Welsh Government must identify and implement a process to ensure all investments appraised through WelTAG, both their own and those funded through other bodies, contribute to their policy objectives. WelTAG must be used correctly, not as a box ticking exercise to support a policy objective already formed, and options presented for appraisal must be selected effectively reflecting Welsh Government transport strategy and objectives.

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Recommendation 12. The embedded monitoring and evaluation advocated under Recommendation 9 should also be regularly reevaluated to ensure the process is still effective and is still achieving Welsh Governments desired aims. Details of new monitoring and evaluation process, and its outcomes should be shared with this Committee or its successor in the Sixth Senedd.

Public transport subsidies

As a result of the dramatic decrease in passenger numbers caused by the pandemic, the Welsh Government is currently heavily subsidising bus and rail services in Wales. Simon Jones, director economic infrastructure, told the Committee that Welsh Government had redirected its normal bus funding into the “Bus Emergency Scheme” and this had allowed “30 per cent of the route network to operate” in the summer. In order to support Wales reopening Welsh government provided “top-up funding”, on top of the usual bus spend, to allow bus operators to run 80% of the normal network. Simon informed Members that the draft budget included additional allocations to continue to provide extra support for the first quarter of 2021-22.

Members support the Government’s decision to provide substantial emergency subsidy for the bus and rail sectors to maintain networks which are is vital to keep Wales moving.

The Committee discussed some of the perverse incentives which are present in the current Bus Services Support Grant system. The Deputy Minister highlighted that this incentivises “operators to run empty buses in order to qualify for extra BSSG” and noted that this was “sub optimal”. Members were pleased to hear the Government was looking to address these perverse incentives when developing the successor to the Bus Services Support Grant.

The Committee feel it is clear that the allocations for bus and rail set out in the draft budget are unlikely to be sufficient to meet the revenue needs of these modes in the light of the pandemic. Given the very significant revenue requirements for the modes in the current financial year, Members are concerned about the ongoing affordability of these subsidies which are currently unquantified and unquantifiable. It is uncertain when fare revenues will recover allowing the Government to reduce emergency funding.

Recommendation 13. The Welsh Government should set out the budgetary implications of different scenarios for subsidy supporting public transport recovery and provide assurance that these are affordable. It should set out where any additional funds required by each scenario will be drawn from and detail how any additional allocations will impact on other programmes.

Recommendation 14. Welsh Government should provide assurance that any new public transport subsidy regimes fully support Welsh Government policy objectives and do not include perverse incentives.

Recommendation 15. With each new subsidy regime the Welsh Government should provide the Committee or its successor Committee in the Sixth Senedd details of how the new scheme does not create perverse incentives and considerations taken to ensure that.

5. Skills

Regional Skills Partnerships

Over this Senedd term the Committee has undertaken a lot of work on regional skills partnerships including undertaking a detailed Inquiry into their operation and publishing a [report on the matter in 2019](#). That report contained detailed recommendations on reinvigorating and strengthening regional skills partnerships as a way to help break ‘low skills traps’ which are present in sections of Wales’ economy.

The Committee believes that regional skills partnerships have and will have a key role to play in supporting Wales to grow out of the economic crisis created by the pandemic and to achieve the Minister for Economy, Transport and North Wales’ regularly stated ambition to ‘build back better’.

The Committee were surprised to see that Regional Skills Partnerships do not receive an uplift in the draft budget. The Welsh Government's evidence paper to the Committee explained that the consequences of not increasing the budget of Regional Skills Partnerships would be no partnership for Mid Wales, the expansion in remit previously recommended by this Committee would not be possible and there would be no increased Labour Market Intelligence activity. The Committee is concerned this would inhibit Regional Skills Partnerships' ability to play their crucial role in recovery.

Huw Morris, director skills, higher education and lifelong learning, mentioned how important labour market data was for the Regional Skills Partnerships stating the data Regional Skills Partnerships use is "drawn from labour market intelligence, which gives us up-to-date views about what's happening with vacancies". However Members are concerned that without the uplift the partnerships will not be able to buy a labour market intelligence tool which would greatly enhance their ability to analyse this data.

Members were pleased to note the Minister for Economy, Transport and North Wales felt he would be could "probably find the required sums" for a new Mid Wales partnership from "within our own budget." However Members are keen to understand in more detail where the funding for this would come from.

Recommendation 16. The Welsh Government should commit to funding and supporting the Regional Skills Partnerships to develop their role along the lines the Committee set out in its report last year, this should include reconsidering funding for labour market intelligence tools.

Recommendation 17. The Welsh Government should set out where the new funding to establish the fourth Regional Skills Partnership would be drawn from.

Life Long Learning

The Committee was pleased that part-time provision in colleges and adult community learning have both received an increase in funding. However Members are concerned around a lack of clarity on lifelong learning funding. The Minister explained "lifelong learning doesn't sit in one particular budget; it's a suite of interventions right the way across the post-16 sector". Members would be keen to see how the budgets for this suite of interventions are aligned into a coherent lifelong learning strategy and what outcomes this activity is expected to achieve.

Previously Eluned Morgan was Minister for Welsh Language and Lifelong Learning. Following the change in the Deputy Minister's title, Members would like to know which Minister is now responsible for lifelong learning.

Recommendation 18. The Welsh Government should set out for the Committee how it aligns the separate budgets for lifelong learning provision into a coherent strategy and what outcomes it expects this funding to deliver.

Recommendation 19. The Welsh Government should update the Committee Ministerial Responsibilities Document to include which Minister now has responsibility for lifelong learning. policy within their portfolio

Research and Development

In last year's budget report the Committee made two recommendations on research and development. Recommendation 20 was around the Welsh Government setting out its priorities for replacing EU research and development funding. Recommendation 21 was for the Welsh Government to collate a full breakdown of research funding from across Welsh Government budgets.

The Welsh Government accepted both of these recommendations, however the Committee does not feel the priorities around replacing EU funding have been clearly set out and the research and development breakdown has not yet been produced. Members accept the pandemic has, rightfully, been the priority so fulfilling these recommendations will not have been a priority for Welsh Government this year. However it is vital Welsh Government, and civil society more widely, can get a handle on research and development funding. As the UK has now formally left the European Union, and will no longer participate in new rounds of EU funding, the Welsh Government's plan for how this funding will be replaced, becomes even more important. As a result the Committee has decided to include updated versions of last year's recommendations 20 and 21 in this report.

Recommendation 20. The Welsh Government should provide the committee with the total quantum of research and development funding it provides and spends, broken down by areas of spend and the bodies to which is it disbursed or spent by.

Recommendation 21. Now that the Reid review recommendations have not been fully funded before the UK left the EU, the Welsh Government should urgently set out its alternative plans for replacing EU research and innovation funding.