

## **Written Response to the Enterprise and learning Committee's Report on the Welsh Assembly Government's Response to the International Economic Downturn, by the Deputy First Minister**

I wish to thank the committee for this report and its support for many of our actions to help businesses in Wales survive the downturn and be ready to take advantage of the recovery when it comes.

Some of the recommendations are not within my portfolio and I have consulted the Minister for Children Education Lifelong Learning and Skills, the Minister for Social Justice and Local Government and the Minister for Finance and Public Services when writing this response.

The Welsh Assembly Government has been proactive in its response to the downturn, responding to the first signs early on by instigating the Economic Summits. We have now had six Summits and introduced a number of measures in response our partners that have helped businesses and individuals.

I will now respond to the recommendations

- 1. We recommend that the Welsh Assembly Government begins publishing immediately information on the implementation of recent and established initiatives for business support, so that the effectiveness of its actions may be scrutinised more easily, openly, and transparently.**

### **Response: Accept in principle.**

The Minister for Children, Education, Lifelong Learning and Skills and the Deputy Minister for Skills have been totally committed to the development of skills-based responses to the economic downturn and have encouraged DCELLS to work on these with speed and maximum impact. CELLS Ministers have been pleased to announce these additional measures at the Economic Summits;

- **12,000** workers on short time working can benefit from new £48m **ProAct**. As at 21 May:-
  - 179 applications;
  - 63 training plans started, 54 companies; 2,700 jobs; £6m spend;
  - 63 training plans in preparation;
- **12,000** redundant workers will be helped to develop their skills and find a job under **ReAct**. Backed by Rapid Response to Redundancy team;
- **30** more **Careers Advisers**;
- **750** Graduates supported by **Go Wales** this year;

- **7,500** extra places on **SkillBuild and related programmes** this year. 12,500 young people and adults can benefit from this employability training programme. Supports DWP's **Golden Hello** for unemployed over 6 months;
- **2,500** extra places in **6<sup>th</sup> Form and Further Education** from September 2009
- **1,000** new places on £10m **Young Recruits** apprenticeship programme from September 2009
- **2,000** young people to be offered **Pathways to Apprenticeships** from September 2009.
- **Apprenticeship Unit** in place by end May
- **70%** new intervention rate, up from 50% backdated to October 2008 for SME's on **Workforce Development Programme**
- **10,000** employees who can benefit from expanded **Basic Skills Employers Pledge** in 09-10
- **£500,000** additional funds for **Leadership & Management Development** training at all levels;
- **£2m HE Economic Support** initiative for SME's
- **£1.3m WULF** and extra support for TUC learning service to support rapid response to redundancy

Progress on each measure is included in the monitoring report published on the occasion of each Economic Summit.

DCELLS has acted with pace, scale and flexibility. For example, the capacity of the ReAct Scheme was quickly enhanced to deal with the rising scale of redundancies. ReAct processed 3598 applications in the first quarter of 2009, up 253% on the same period last year, showing that we can respond quickly to the needs of redundant workers.

Minister CELLS announced ProAct at the December Summit. ProAct's design and development was led by DCELLS and it went live on 2<sup>nd</sup> January. It was extended later that month once European Social Fund resources had been secured. The expenditure target to end March was achieved. By the end of May in the 21 weeks since its introduction, 179 applications have been considered, that is 1.5 every working day. Feedback to improve the service level has been actively sought and amendments made accordingly, within certain ESF funding rules. Employer and provider response has been overwhelmingly positive to ProAct. It is considered by many to set the standard for future programmes for the Assembly Government.

The cross-DCELLS ProAct team won the Welsh Assembly Government Award for delivering excellence.

All programmes are being delivered on time as announced at the Economic Summit. Maximum convergence with existing policies and programmes and with the strategic direction in 'Skills that Work for Wales' ensured as part of implementation arrangements.

Formal monitoring and evaluations are in place for each programme. The independent evaluation reports will be published in due course.

**Financial Implication: None**

- 2. We ask the Welsh Assembly Government to note, consider, and respond to these observations. We understand that the Auditor General for Wales is planning a related review and we look forward to receiving the Welsh Assembly Government's response to this also in due course. (page 6 para 20)**

**Response: Reject**

The views of businesses across Wales and their representatives were sought during the process of the merger between the Welsh Development Agency and the Welsh Assembly Government.

The Auditor General for Wales presented to the Audit Committee a long list of possible future value for money examination topics in October 2007. This included reference to the creation of what is now the Department for Economy and Transport.

The examination of the creation of the DE&T did not subsequently make it onto their formal work programme. However, they did take a paper to the Audit Committee on the National Assembly for Wales's 2006-07 Consolidated Resource Accounts in December 2007. That report had a strong focus on the ASPB/Assembly Government merger process. The Audit Committee then produced its own report in April 08 with a response from the Assembly Government to that report in May 08.

Advice from the Wales Audit office is that In terms of their current plans, it is unlikely that they would now be planning to look back at the specific issues relating to the process of the WDA/Assembly Government merger.

The Wales Audit office are currently thinking about the identification and selection of new value for money studies and will be consulting with the Assembly Government and other stakeholders over the summer and early autumn about this.

**Financial Implications: None.**

- 3. We recommend that the Welsh Assembly Government invites an independent review of its cross-portfolio working across all areas of Government responsibility, but with particular reference to the performance of the Department for Economy and Transport and the Department for Children, Education, Lifelong Learning and Skills.**  
(page 6 para 21)

**Response: Reject**

Cross-portfolio working underpins the One Wales programme of Government. While Cabinet remains the ultimate decision-making body, cross-portfolio Cabinet Committees have been established to allow fuller, and more strategic, consideration of policy in the major cross-cutting areas. These Committees are supported by the relevant Director General who also has a cross-cutting remit, so that joint working is embedded in policy development and programme delivery.

In particular reference to joint working between Department for Economy and Transport and the Department for Children, Education, Lifelong Learning and Skills, the Cabinet Committee process is supplemented by regular Ministerial bilateral meetings to discuss progress in joint working. For example, there has been substantial progress in the simplification of business and skills support through Flexible Solutions for Business (FS4B) and the Workforce Development Programme. There is a Cabinet agreed action plan to further the simplification and integration programme for 2009-10.

In addition, the Wales Employment and Skills Board is tasked with examining the effectiveness of the integration of business, skills and employment support and reports annually.

The Minister CELLS believes that the Department is open, effective and responsive. All policies and programmes are subject to appropriate formal consultations and there is regular engagement with all stakeholders. As noted in response to Recommendation 1 the Department has responded with creativity, speed and flexibility to the consequences of the recession.

As the Committee knows from its separate inquiry into Apprenticeships, Wales has a record to be proud of in terms of the much higher levels of apprentices in Wales compared with England. At the Economic Summits the Minister CELLS has announced measures to protect existing apprentices and to sustain opportunities for young apprentices.

In 'Skills that Work for Wales', published jointly with the Deputy First Minister, the Minister CELLS has set out a compelling vision for our Further Education Colleges as centres for skills development with a high reputation with employers and learners.

The Minister CELLS and Deputy First Minister hold regular joint meetings to enhance cross-portfolio working and have identified priority areas for action.

**Financial implications: None**

- 4. We recommend that, following the fifth summit, the Welsh Assembly Government begins to focus on longer-term planning, and how it might use those economic levers which are at its disposal to underpin a post-recession economy for Wales.** (Page 8 para 27)

**Response: Accept in principle**

The Deputy first Minister set out his priorities for a stronger, more sustainable future Welsh economy in a plenary debate on 9 June. In this debate, he shared his re-focussed priorities to assist businesses through the economic downturn, his plans for the financial year ahead and how he was laying foundations for a more sustainable, more prosperous Wales as the economy recovers.

The focus of the summits has been on helping businesses and individuals survive the economic downturn. We are now looking ahead and the latest Economic Summit (June) focussed on the social impacts and the agenda for the next Economic summit on 17 July will have Green Jobs, the Economic Contribution of Higher and Further Education and Skills, R&D and a follow up on provision of routine lending by Banks.

The Minister CELLS's philosophy behind all of the skills interventions at the Economic Summits is that now is the time to invest in learning and skills development because it will be the basis of future prosperity.

The 'Skills that Work for Wales' strategy and action plan is forward looking and sets out an agenda for a competitive and prosperous Wales. Within that strategy, there is a commitment to aligning provider funding more closely to the future needs of employers through collaboration with the Sector Skills Councils – and the transformation agenda aims to ensure Wales has the right training provision in the right place.

The Foundation Phase and 14-19 programme are designed to ensure our young people have the key skills and love of learning to equip them for the future. The 14-19 programme and the Welsh Baccalaureate are also designed to offer pathways that meet the needs of all young people, including employability skills; this aspect of the Welsh Baccalaureate has been strongly supported by CBI Wales.

In the Minister CELLS response to the review of the mission and purpose of Higher Education it is made clear that the Minister expects to work with the sector to ensure that it acts as a driver of economic development for Wales. In this regard, following extensive discussion between DCELLS and the Department of Economy and Transport, the Deputy First Minister and Minister CELLS proposed, and the Cabinet supported, the definition of Assembly Government priority sectors for research and development and

commercialisation. The Minister CELLS has communicated these to the Higher Education sector.

The Wales Employment and Skills Board's first Annual Report is welcome for the clarity of its recommendation on the future success of the Welsh economy

**Financial Implications:** None.

- 5. We recommend that, ahead of future summits, the Welsh Assembly Government evaluates the operation of the reference groups and where necessary produces guidance on expected operation and outcomes.** (page 9 para 28)

**Response: Accept:**

Terms of reference for the Reference Group are in place.

**Financial Implications:** None.

- 6. We recommend that the Welsh Assembly Government, as soon as possible, publishes details of the implementation of its ProAct scheme, and where necessary considers how it might simplify the application process for businesses by providing further advice and guidance.** (page 10 para 33)

**Response: Accept**

The Minister CELLS has already published the results and ensured there have been continuous improvements to the operation of ProAct within the guidelines of the ESF programme. The Deputy Minister for Skills holds regular meetings with users and training providers to seek feedback and ideas for improvement.

**Financial Implications:** None

- 7. We recommend that the Welsh Assembly Government recommences work on its manufacturing strategy with a view to begin implementing it in the second half of 2009.** (page 10 para 37)

**Response: Accept**

Manufacturing is critical to the current and future Welsh economy. That is why we have set up a Manufacturing Forum for Wales and why we responded so quickly with the innovative programme ProAct, the only one of its kind in the UK providing the assistance that the manufacturing sector were telling us they needed. Manufacturing plays a vital role in providing well paid employment opportunities for our people. It is for that reason

that a Manufacturing Task and Finish Group was established in 2004, which led in turn to the creation of the Manufacturing Forum. The Forum had completed the first draft of its strategy document in October last year, just as the economic downturn hit with full force. The consequence of this timing of events has been that, short term, there has been a need to concentrate on urgent measures of a kind that the strategy could not have anticipated.

The Forum made a major contribution to the thinking in the first economic summit meetings that were held and its Chairman was instrumental in proposing and shaping the ProAct initiative.

A further meeting has been held in recent weeks to discuss how, in the light of the very different economic circumstances, the key proposals for action contained in the forum's draft strategy are taken forward, together with other measures. Work is now in hand to develop, with the Forum, further thinking around how to shape a strategic response to the challenges that the sector faces.

**Financial Implications:** None

8. **Given the importance of this new service, we recommend that the Welsh Assembly Government keeps under review the criteria for FS4B to ensure that they are appropriate to the current economic situation and publishes details of the implementation of the new scheme, including the outputs and outcomes.** (page 12 para 43)

**Response: Accept in Principle**

The Department for the Economy and Transport continually keeps under review the criteria and the application of Flexible Support for Business (FS4B) to ensure that they are appropriate to the current economic situation.

**Financial Implications:** None. Any costs will be drawn from existing programme budgets.

9. **Given the importance of this fund, we recommend that the Welsh Assembly Government keeps under review the criteria for the single investment fund to ensure that they are appropriate to the current economic situation and publishes details of the implementation of the new scheme, including the outputs and outcomes.**

**Response: Accept in principle**

The Department for the Economy and Transport continually keeps under review the criteria and the application of the Single Investment Fund to ensure that they are appropriate to the current economic situation.

**Financial Implications:** None.

**10. We are of the opinion that the Welsh Assembly Government, following the example of the Scottish Executive, should be providing more business rate relief, which could help businesses throughout Wales.**

**Response: Reject**

Rates relief for small businesses in Wales was enhanced in December 2008 and backdated to 1 April 2008 in line with the Assembly Government's One Wales commitment and we have made available £20 million to fund rates relief for small businesses in Wales.

Up to half of all business premises in Wales could benefit from this relief, and, when other such reliefs such as those for charities and unoccupied properties are taken into account, most business premises in Wales do benefit from a reduction in their rates.

A balance must be made regarding the most beneficial apportionment of resources to fund business rates relief as opposed to other schemes. The Assembly Government keeps under review developments in other parts of the United Kingdom, and the effectiveness of the small business rates relief scheme in Wales. As part of this process it will be commissioning research into the effectiveness of rates relief later this year, and representatives of the businesses sector will be invited to contribute and give evidence. Any enhancement to this relief should be considered in the light of the evidence that emanates from this research.

**Financial Implications:**

Rates are an important source of funding for local authorities – any reduction in revenue collected as a consequence of increasing relief has to be borne either by local authorities, through reductions in services or increases in council tax, or by the Assembly Government, which would have to make corresponding reductions to resources available for other areas. If the Scottish scheme were to be implemented in Wales it could cost up to an additional £70 million.

**11. We recommend that Value Wales reviews how further acceleration of sustainable procurement practices across the public service would bring forward added benefits. (page 13 para 50)**

**Response: Accept**

The Assembly Government led Procurement Task Force, under the Chairmanship of Andrew Davies AM, Minister for Finance and Public Service Delivery, has already overseen three successful pilots of the use of Community Benefits/Social Clauses aimed at getting long-term economically inactive people back into work as part of public sector construction contracts. Commissioned research indicates that if this was



adopted across the whole of the public sector in Wales, 2,000 jobs could be created for economically inactive people and there would be other economic and social benefits.

A programme of new projects using Community Benefits/Social Clauses is underway, overseen once more by the Procurement Task Force with support from the Assembly Government's *Value Wales*. The programme includes seven schemes to deliver a range of Community Benefits: recruitment opportunities for the long term unemployed; training, supply chain initiatives, community engagement and contributions to local education.

The seven schemes are:

- Llandudno Junction Construction Project – Welsh Assembly Government;
- Church Village By Pass (£55m) – Rhondda Cynon Taf CBC;
- South East Wales Highways Framework (up to £200m) - Local Authority Consortia led by Rhondda Cynon Taf CBC;
- Port Talbot Peripheral Distributor Road;
- Highways Framework (£12m) – City & Council of Swansea;
- Welsh Health Estates Construction Framework;
- Kitchens & Bathrooms Project (£5.8million per annum over 4 years) - Cardiff City Council.

Work is also on going with a number of other projects that offer great potential to deliver community benefits:

- Several projects across the Heads of the Valleys Programme;
- City & Council of Swansea's Bricks and Mortar Project (SA1);
- Opportunities across Cardiff County Council procurement programme;
- The Assembly Government's Future Facilities Management project;
- Wrexham County Borough Council's Road procurement;
- RCT CBC Transfer of housing stock to RCT Homes;
- WAG / Parc Cybi / Holyhead;
- Caerphilly CBC / Ystrad Mynach Hospital Highway Improvements / £13million over 4 phases;
- Denbighshire / £4million Bridge at Rhyl.

*Value Wales* is also working with the "*Inform to Involve (i2i)*" project, which is applying the 'Can Do' toolkit for targeted recruitment and training to contracts for the refurbishment of social housing by making training a core part of contracts. The toolkit has been developed and is currently being rolled out to Registered Social Landlords in Wales. The approach not only centres on getting economically inactive people into work through the main contract, but also ensures a similar approach applies throughout the supply chain. *Value Wales* and *i2i* are working closely to develop joined up approach to the delivery of community benefits through different mechanisms.

Wider benefits from the current programme include measures to reduce the public sector's carbon footprint through intelligent procurement by use of the sustainable risk assessment tool.

**Financial Implications:** None. Any additional costs will be drawn from existing programme budgets.

**12. We recommend that the Welsh Assembly Government takes the lead on the introduction of more effective procurement policies by ensuring that contracts stipulate a deadline for payment to be made to subcontractors and that they contain social clauses, which would allow contracts to provide added social value to communities by, for example, prioritising the need to train employers or provide work to the long-term unemployed. (page 13 para 52).**

**Response: Accept**

Andrew Davies AM, Minister for Finance and Public Service Delivery leads on procurement policy for the Welsh Assembly Government.

Policy on SME Friendly Procurement is set out in our 'Opening Doors' Charter. This was revised and re-issued by the Assembly Government at the end of last year and includes the principle that public services will use sustainable development criteria in determining value for money, including assessing the impact of economic, environmental and social factors. There has been an encouraging response to the Charter with all major public sector bodies in Wales having now signed up to it.

The Welsh Assembly Government's current Terms and Conditions require our contractors to include a term in all sub-contracts that payments will be made by the contractor to the sub-contractor within 30 days of a valid invoice being submitted.

All our contract opportunities over £25,000 are advertised on the Sell2Wales webs site to ensure they are visible and Welsh businesses have the opportunity to bid. The facility to advertise on Sell2Wales has now been extended to successful contractors for Assembly Government contracts, who wish to advertise for sub-contracting opportunities.

All contracts over £25,000 are subject to a Sustainable Risk Assessment, which looks specifically for opportunities to use Small to Medium Enterprises, Supported Enterprises and the Third sector organisations. Prime contractors are also encouraged to use local businesses for subcontracting work. The Sustainable Risk Assessment requires evaluation of opportunities to recruit the long term economically inactive and apply Community Benefits Methodology.

This approach has achieved a number of results, including:

- Welsh Assembly Government was the first public sector organisation in Wales to advertise and award an EU contract for Sheltered Workshops. Remploi has now commenced a contract for the refurbishment or disposal of surplus ICT equipment;
- Our Catering contract includes provision for apprenticeships through partnerships with local colleges;
- The Facilities management contractor for the new Assembly Government building in Aberystwyth (Taylor Woodrow) has appointed a local contract manager and worked closely with the local Supplier Development Service to award a sub-contract for grounds maintenance to a local firm;
- The contractor for the new Assembly Government building at Llandudno (Pochins Plc) has engaged with the local Supplier Development Service and prepared an Unemployment Utilisation Plan to take on and train a number of economically inactive or unemployed persons;
- The Future Facilities Management Contract is currently out to tender. The successful bidder will be encouraged to apply an Unemployment Utilisation Plan to take on and train a number of economically inactive candidates.

The Assembly Government is exploring wider opportunities for use of social clauses, including the possible introduction of a requirement placed upon recipients of Assembly Government grant to adopt such clauses where a project would lend itself to such an approach.

**Financial Implications:** None. Any additional costs will be drawn from existing programme budgets.

**13. We see no need for further delay in this matter and therefore recommend that the Welsh Assembly Government implements the Sector Priorities Fund as soon as possible.** (page 16 para 59)

**Response: Accept**

The Minister CELLS committed in Skills that Work for Wales to consult on the Sector Priorities Fund. Full implementation of the Sector Priorities Fund is scheduled for August 2011, a timetable fixed by the next round of contracting for workbased learning activity.

To help the sectors and providers prepare for the new funding arrangements from 2011 and to build capacity in the relationship between Welsh Assembly Government, Sector Skills Councils and the provider network, the Minister CELLS is introducing a pilot project which will run up to August 2011.

The Sector Priorities Fund Pilot (SPFP) Programme is a two year programme to which support from the European Social Fund is being sought. It is designed to take forward strategic project activity with Sector Skills Councils (SSCs) in order to realise key policy recommendations

outlined in *“Skills That Work for Wales”*. SPFP builds on, and replaces, the previous funding streams of the Skills Development Fund (SDF) and Sector Skills Fund (SSF).

The overarching aim of the Programme is to provide the evidence base on which to inform and influence policy and delivery systems in Wales to enable mainstream programmes supported by the Welsh Assembly Government (WAG) to become more demand-responsive. SSC projects will be underpinned by evidence of employer-demand gained through the Sector Skills Agreements (SSAs) and Sector Qualifications Strategies (SQSs) and will pilot activity aimed at feeding intelligence to inform the 2011 Sector Priorities Fund identified in *“Skills That Work for Wales”*.

**Financial implications:** The Sector Priorities Fund Pilot is provided for in current budget. The proposed Sector Priorities Fund would align several DCELLS budget lines and put in place new arrangements for funding within the context of agreed DCELLS budgets.

**14. We recommend that the Welsh Assembly Government revises the stakeholder arrangements in the SSCs agreements to include further education as a key partner.** (page 16 para 61)

**Accept in principle.**

The re-licensing of Sector Skills Councils is due for completion by later summer and thereafter Sector Skills agreements will be refreshed and we will seek the engagement of all key partners.

**Financial Implications: None**

**15. We feel that it is important to remember that the private sector will be a key partner in the procurement of services under the schemes.** (page 19 para 73)

**Response: Accept in principle.**

With respect to European funding there are many opportunities for the private sector to benefit from European funding, not only as lead sponsor and beneficiaries of projects, but also by tendering for project delivery activities in response to invitations published on the ‘Buy4Wales’ and ‘Sell2Wales’ websites. This is further promoted through projects with procurement elements being clearly identified on the WEFO website and links provided directly to the relevant parts of the Sell2Wales website. Guidance is also given for searching on the Sell2Wales website for projects funded by the Structural Funds.

**Financial Implications:** None. Already part of programme activity.

**16. We would emphasise the importance of the Welsh Assembly Government using European funds for sustainable projects and to**

**underpin a strategic vision rather than short-term emergency support.** (page 19 para 74)

**Response: Accept in principle.**

Structural Funds aim to address medium to long term challenges and structural weaknesses within the Welsh economy. While the Structural Funds have been used in recent months to offer some more short-term support, such as through the ProAct scheme, the focus of the programmes remains very much on the medium to long term strategic priorities identified in the Operational Programmes and aligned with the Lisbon agenda for Jobs and Growth. This approach has been endorsed by the all-Wales Programme Monitoring Committee and will help ensure Wales is well placed to take advantage once the economic crisis has passed.

Sustainability of Structural Funds investments is part of the project selection and prioritisation criteria and WEFO is working with projects to ensure that exit strategies are in place. Wales is also leading the way in the development of JEREMIE and JESSICA schemes to ensure the sustainability of Structural Funds investments beyond the programme period.

**Financial Implications:** None. Already part of programme activity.

**17. We recommend that the Welsh Assembly Government considers a more comprehensive role for Finance Wales to enable it to provide more routine credit to businesses.** (page 19 para 77)

**Response: Accept in principle**

The Welsh Assembly Government will continue to keep Finance Wales' role under review, taking account of market conditions in the provision of credit.

Finance Wales was established by the Welsh Assembly Government to provide commercial investment to viable SMEs in Wales that may be unable to secure the capital they require from the private market.

Finance Wales does not act as a high street bank but instead works with such lenders in a complementary way, often investing alongside private investors as 'gap financier' to ensure that SMEs are able to access the full amount of capital they require.

Finance Wales has invested over £120 million since 2001, and a new £150 million fund was launched by Finance Wales in April 2009. This use £75 million from the European Investment Bank (EIB) under the EU's JEREMIE initiative (Joint European Resources for Micro to Medium Enterprises) and a further £75 million from a combination of European Regional Development Fund (ERDF) resources and Finance Wales' own contribution.

The funding, the first JEREMIE fund of this type to be launched in Europe, will enable Finance Wales plc to make debt and equity investments in growing businesses throughout Wales at unprecedented levels.

During the last financial year Finance Wales has experienced a substantial increase in its rate of investment, up from £20.8 million in 2007/2008 to £25.9 million in 2008/09. In 2009/2010 and beyond, it is hoped Finance Wales' annual rate of investment will increase further due to the scale of the capital available under the JEREMIE fund in Wales and an increase in permitted deal sizes.

**Financial Implications:** to be determined, depending on the outcome of the Welsh Assembly Government's ongoing review and monitoring.