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Y Gweinidog dros Gyllid a Chyflenwi Gwasanaethau Cyhoeddus
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Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Ein cyf / Our ref: DC/AD/05115/09

Angela Burns AM
National Assembly for Wales
Cardiff Bay
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Dear Angela,

Finance committee - Supplementary Budget 2009-10

When finance officials attended Finance Committee on 24 September in relation to Supplementary Budget 2009-10, further information was requested on projects supported by the bringing forward of capital funding of around £100 million from 2010-11 into 2009-10, and the expected economic benefits.

It is difficult to be precise in predicting employments impacts of brought forward capital expenditure. However, using established UK Government methodology the number of jobs created in 2009-10 is estimated to be in the range of 1,609 to 2,253, with a central estimate of around 1,931. Care needs to be taken in interpreting these figures, but on this basis our decision to bring forward capital projects has helped to create or safeguard of the order of 2,000 jobs in this financial year.

The specific projects and expected economic benefits for individual portfolios are outlined in the attached note. The note also includes an Annex on methodology used.

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Further information was also requested by the Committee on the initial capital budget for Learning Works at Ebbw Vale for 2009-10 prior to the allocation of £4.5m of brought forward capital. The capital Learning Works at Ebbw Vale (this includes FE, School, SEN and a Leisure Centre) were originally planned to begin in 2010-11; therefore no prior budget was in place for 2009-10. The £4.5m was brought forward from the 2010-11 budget of £48.902m for the Learning Works.

Yours

Andrew

Brought Forward Capital – Projects and Economic benefits

The bringing forward of capital projects of around £100 million into 2009/10 from 2010/11 has supported the construction industry and the wider economy by stimulating building and development, thereby maintaining jobs.

It is difficult to be precise in predicting the employment impact of brought forward capital expenditure and a range of figures are possible using established UK Government methodology. However, the number of jobs created in 2009/10 is estimated to be in the range of 1,609 to 2,253, with a central estimate of around 1,931. Direct jobs have been calculated using 'labour coefficients' which estimate the number of jobs sustained for different types of projects and also taking account of multiplier effects. A detailed note on methodology is attached at Annex 1.

The specific projects and expected economic benefits for individual portfolios are as follows:

Housing

Programme	Brought Forward Capital Allocation £000s
Main Social Housing Grant Programme	15,100
Physical Adaptation Grant	3,400
Mortgage Rescue	9,500
Total	**28,000**

The brought forward capital funding for Environment, Sustainability and Housing has enabled programmes to be accelerated to meet the One Wales target of providing 6,500 affordable homes. The £28 million brought forward capital funding for 2009-10 has been used to supplement Main Social Housing Grant Programme (£15.1m), providing up to 300 affordable homes; and the Physical Adaptations Grants (£3.4m) providing up to 500 adaptations for tenants with disabilities.

In total, it is estimated that between 535-749 jobs in 2009-10 have been created and safeguarded by the bringing forward of £18.5 million on these projects. Furthermore, the additional £9.5 million brought forward funding has supported the Mortage Rescue Scheme, assisting up to 150 families.

Children, Education, Lifelong Learning and Skills

Programme	Brought Forward Capital Allocation £000s
Schools budget	14,000
Further Education budget	6,000
Higher Education budget	5,000
Total	**25,000**

In total, it is estimated that between 353-494 jobs in 2009-10 have been created and safeguarded by the bringing forward of £25 million on these projects.

Economy and Transport

Programme	Brought Forward Capital Allocation £000s
Maintenance schemes: motorway & trunk Road network	3,000
M4 Safety Improvements	1,500
Early release of retention monies on construction contracts	2,000
Upgrading the local highway at Pembroke Dock	2,500
North Wales Coast Regeneration	2,000
Infrastructure works – Felindre	2,600
Site Access-Infrastructure – Warren Hall	2,000
Acquisition-Site Servicing – Offa's Dyke BP	600
Infrastructure – Parc Eirin	500
Total	**16,700**

In total, it is estimated that between 309-433 jobs in 2009-10 have been created and safeguarded by the bringing forward of £16.7 million on these projects.

Health and Social Services

Programme	Brought Forward Capital Allocation £000s
Ysbyty Glan Clwyd Theatre Development	6,000
Welsh Ambulance Service Electronic Patient Record	2,200
Health Vision Swansea	7,000
Cardiff & Vale Mental Health Services	10,000
Ysbyty Gwynedd Electrical Infrastructure	4,000
Total	**29,200**

In total, it is estimated that between 412-577 jobs in 2009-10 have been created and safeguarded by the bringing forward of £29.2 million on these projects.

Labour coefficients (workers per £1m output per year at 2009 prices)

Department	Brought forward capital allocation £000s	Labour coefficient[1]	Labour coefficient definition[2]	All occupations (no. of new jobs created)	All occupations- Multiplier 1.5 (1.25 – 1.75)[3]
DESH - Physical Adaptation Grant	3,400	32.6	Housing repair and maintenance	111	642 (535-749)
DESH - Main Social Housing Grant Programme	15,100	21.0	New housing	317	
CELLS	25,000	11.3	Public non-housing, includes Schools, Universities, Health	283	424 (353-494)
E&T	16,700	14.8	Infrastructure, includes roads, railways, gas and air	247	371 (309-433)
HSS	29,200	11.3	Public non-housing, includes Schools, Universities, Health	330	495 (412-577)
Total	**89,400[4]**			**1,288**	**1,931 (1,609-2,253)**

[1] Based on UK Government estimates of the employment impacts for planned capital expenditure.
[2] Categories used in UK Government guidance note on estimating the employment impacts for planned capital expenditure.
[3] See Annex 1 for multiplier methodology.
[4] This is less than the total £98,900 brought forward capital for 2009/10 as it includes £9.5m brought forward for the Mortage Rescue Scheme.

Annex 1

Employment Impacts for Construction Projects in Wales

1. HM Treasury (HMT) has provided guidance on counting the number of people directly employed in delivering different types of construction investment. Direct jobs can be calculated by using labour coefficients updated by Department for Communities and Local Government (CLG) and originally estimated by the Sector Skills Council for Construction.

2. The recommended labour coefficients express the number of workers required over one year to deliver £1m of construction output. For example, as the table below shows, it is estimated that £1m of annual new housing output would require 21 full-time equivalent jobs for one year.

3. The labour coefficients were calculated through analysis of output and employment in different construction sectors over a 10 year period. The coefficients cannot be used to provide the net employment resulting from a construction project. Only the direct employment impact is captured by the coefficients.

4. To calculate the net employment effect other aspects have to be taken into account. First, indirect and induced jobs need to be added to direct employment. This is the multiplier effect. Also, deadweight (employment that would have occurred anyway), displacement (the extent to which an increase in employment is offset by a reduction elsewhere) and substitution effects. These latter effects are generally negative.

5. In regard to capital investment projects in Wales, the Chief Economist has advised that, particularly in current untypical economic circumstances, it is not practical to assess such effects on the basis of economic modelling. It is, however, appropriate to make an adjustment based on broad assumptions. It should be understood that this adjustment is intended to reflect the likely order of magnitude of a range of effects, rather than a precise estimate. For this reason, it is important to present results as a range, rather than a point estimate.

6. In respect of the multiplier effects, there are no available studies which provides results specific to the relevant categories of spending in Wales. However, a review of multipliers typically employed in regional economic impact studies would suggest that the application of a multiplier in the range 1.25 - 1.75, with a central estimate of 1.5 would be reasonable based on the analysis of economic input-output tables. (It should be noted that up-to-date tables are not available for Wales, and tables produced in the past have been based upon incomplete information. The range quoted, however, remains robust).

7. In respect of deadweight, the large amount of spare capacity in the economy, particularly, in the construction sector, justifies an assumption that all the expenditure is additional. Equally, recessionary conditions suggest displacement and substitution effects are likely to be negligible. The table below lists the CLG labour coefficients and a likely range of net employment impacts based on the multiplier range mentioned above.

Workers Per £1m Output Per Year at 2009 Prices

		New Hous.	Infrastr ucture	Public Non Hous.	Private Indus.	Private Comm.	Housing Repair & Maint.	Non Hous. Repair & Maint.
	Direct Employment	21.0	14.8	11.3	10.6	17.6	32.6	31.4
Range of Net employment effects	Lower point of range (multiplier = 1.25)	26.3	18.5	14.1	13.3	22.0	40.8	39.3
	Mid point of range (multiplier = 1.5)	31.5	22.2	17.0	15.9	26.4	48.9	47.1
	Upper point of range (multiplier = 1.75)	36.8	25.9	19.8	18.6	30.8	57.1	55.0

Source: HMT, CLG EcAd Calculations