

Enterprise and Learning Committee

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Department for the Economy and Transport

Draft Budget Proposals for 2011-12 to 2013-14

Introduction

This paper provides background and briefing information to the Enterprise & Learning Committee for the Economy and Transport (DE&T) programme budget proposals for 2011-12 and indicative plans for 2012-13 and 2013-14 as outlined in the draft budget announcement made by the Minister for Business & Budget on 17 November 2010.

Background

The draft budget settlement for DE&T for the next three years was approved by Cabinet on 8 November. More detailed information and a breakdown by programme 'Action' level was published on 17 November. Over the next three years the draft proposals require DE&T to reduce its current baseline budget in cash terms by £10.2m for revenue expenditure and £116.5m for capital.

The following summary financial table shows the overall effect on the DE&T's Department Expenditure Limit (DEL) baseline budget.

Summary DE&T Financial Table (including non cash costs)

	2010-11 Revised budget £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Revenue	597,490	589,848	584,528	587,237
Capital	376,240	313,194	291,315	259,683
TOTAL DEL	973,730	903,042	875,843	846,920

Specifically in relation to the 2011-12 financial year the Department is required to reduce its Departmental Expenditure Limit by £70.7m. In summary it is proposed to achieve this reduction primarily from the following budget areas:

Revenue £7.6m:

- A reduction in funding for Major Events primarily reflecting the conclusion of the Ryder Cup
- Reduced funding for public transport and public transport enhancements

Capital £63.1m:

- Reduction in funding for property infrastructure
- Reduction in funding for rail services and road schemes
- Refocusing support for business

Overview for 2011-12

The publication of Economic Renewal: a new direction on 5 July 2010 sets the future policy framework within which the Department will prioritise its budget allocations. We will facilitate a strong and more sustainable economy through cross-Departmental working and investing in infrastructure, skills, research and development and improving the conditions within which all businesses operate.

Economic Renewal: a new direction sets out the following priorities:

- Investing in high quality and sustainable infrastructure;
- Making Wales a more attractive place to do business;
- Broadening and deepening the skills base;
- Encouraging Innovation;
- Targeting the business support we offer.

Despite the difficult settlement received from the UK Government this budget reflects the Welsh Assembly Government's determination to implement 'Economic Renewal: a new direction' and prioritise areas such as the key growth sectors and investment in Next Generation Broadband. The reduction in revenue funding for Major Events primarily reflects the successful conclusion of the Ryder Cup and in relation to the capital budget there is also a reduction in funding for property infrastructure. In transport we remain committed to maintaining a greater proportion of the total overall expenditure on sustainable travel, although clearly the department will have to accommodate a significant reduction in its capital budget allocation. The department's budget also recognises the commitment to protect concessionary fares for the 650,000 people across Wales who are benefitting from this policy.

More detailed information on specific spending programme areas is set out below:

Spending Programme Areas

General

As a result of our new economic renewal policy it has been necessary to make changes to the structure and presentation of the Department's 'Spending Programme Areas' and 'Action' expenditure lines (excluding Transport). The following information has been presented on the basis of the new structure. In order to ensure a proper comparison with the baseline budgets in the current year, all 2010-11 budgets have been restated in accordance with the new structure.

In order to help the Committee understand the movement between the existing structure and the revised presentation for 2011-12 onwards, a mapping of the existing 2010-11 budget allocations to the new Sectors & Business Group / Infrastructure is provided in **Annex A** (this excludes Transport spending areas as there has been no change to the current year's presentation format).

In addition to the core budget allocation shown in the attached tables, European Funding for 2011-12 in support of our spending programme areas is expected to be circa £23m (subject to the necessary approvals from WEFO).

Sectors & Business

Action	Expenditure Category	2010-11 Revised Budgets £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Sectors & Business	Revenue	48,145	47,990	45,887	45,917
	Capital	71,045	69,129	59,992	43,711
	TOTAL	119,190	117,119	105,879	89,628

The Sectors and Business programme area will provide direct support to the six priority sectors, recently announced in Economic Renewal: a new direction, which have been chosen where Wales has a clear advantage for growth. Funding from this budget area will also support our programme of encouraging businesses to invest in R&D and making the most of links with academia through our A4B programme. In addition to the sector approach we will also be providing funding for entrepreneurship and business information, covering youth entrepreneurship, start up support to encourage self employment and the creation of high potential starts and responsible business practices.

Funding in 2011/12 for the sectors and business spending programme area remains broadly in line with the current financial year, primarily reflecting the high level of commitments from the former Single Investment Fund. Funding reduces in subsequent years as a consequence of the new policy commitment to transfer funding to ICT Infrastructure.

Encouraging Innovation

Action	Expenditure Category	2010-11 Revised Budgets £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Encouraging Innovation	Revenue	3,162	2,162	2,129	2,144
	Capital	1,457	433	357	300
	TOTAL	4,619	2,595	2,486	2,444

This area of activity primarily provides funding to support the provision of innovation centres and specialist R&D facilities. Also included here is the Departments on-going commitment to the PET scanner project of £810k.

Regional Funding

Action	Expenditure Category	2010-11 Revised Budgets £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Regional Funding	Revenue	0	2,005	2,005	2,005
	Capital	0	995	995	995
	TOTAL	0	3,000	3,000	3,000

In addition to the funding that is to be made available directly to the six key sectors and in order to maintain flexibility, £3m will be made available for Regional Priority Funding to invest in regionally significant projects across Wales.

Finance Wales

Action	Expenditure Category	2010-11 Revised Budgets £`000	2011-12 Proposed Budget £`000	2012-13 Indicative Plans £`000	2013-14 Indicative Plans £`000
Finance Wales	Revenue	5,102	5,102	4,802	4,102
	Capital	1,500	1,500	1,500	1,500
	TOTAL	6,602	6,602	6,302	5,602

Finance Wales continues to provide equity, mezzanine and loan investments for businesses in Wales. We will continue to provide core funding and the provision of capital to support the JEREMIE fund.

The funding for the running costs of Finance Wales will remain the same for 2011/12 but over the three years will reduce by £1m. The reduction has been profiled so that Finance Wales can make the necessary arrangements to reduce its overhead costs.

Major Events and Marketing

Action	Expenditure Category	2010-11 Revised Budgets £`000	2011-12 Proposed Budget £`000	2012-13 Indicative Plans £`000	2013-14 Indicative Plans £`000
Major Events and Marketing	Revenue	9,528	6,770	6,666	6,712
	Capital	400	0	0	0
	TOTAL	9,928	6,770	6,666	6,712

Expenditure on Major Events and Marketing will help build the image and reputation of Wales. Funding will facilitate relevant marketing campaigns and aim to exploit major events to an international audience.

The reduction in funding for 2011-12 recognises the conclusion of the Ryder Cup Event. However, the budget in 2011/12 allows for £1.8m headroom to support new events and a release of a further £2m for 2012/13 and 2013/14.

Transport & Infrastructure

Economic Renewal: A New Direction, recognises the importance of playing a more enabling role by investing in 21st century infrastructure to create a competitive environment for businesses in Wales. Such infrastructure includes road and rail, public transport, ICT and broadband.

Infrastructure

Action	Expenditure Category	2010-11 Revised Budgets £`000	2011-12 Proposed Budget £`000	2012-13 Indicative Plans £`000	2013-14 Indicative Plans £`000
Infrastructure	Revenue	20,585	20,470	22,415	23,571
	Capital	19,607	6,291	10,031	18,456
	TOTAL	40,192	26,761	32,446	42,027

In view of the substantial reduction in the Departments overall capital allocation, core funding for the property programme has been reduced in 2011-12. Spending will focus upon non financial support with limited financial intervention where there is demonstrable market failure or high market demand requires other support. In addition to this core funding provision, a programme of property asset disposals will be implemented to provide additional capital resources and to support ICT Infrastructure development. A range of funding tools will also be developed to support new ways of funding 21st Century Infrastructure.

In accordance with the policy direction outlined in Economic Renewal; a new direction spending on the delivery of next generation Broadband will rise in future years to help businesses across Wales compete in an increasingly open and competitive market

Transport

We will continue to invest in transport infrastructure to create a competitive environment for Wales in line with the National Transport plan where funding allows. The plan focuses on transport issues along the main movement corridors in Wales and the development of the most appropriate modal solutions.

Support for roads and public transport has seen a greater emphasis in terms of the budget available to focus on public transport rising from 50% in 2009-10, 56% in 2010-11 to 61% in 2011-12 (excluding non cash resource and supported borrowings). Indicative plans for future years are such that investment in public transport will remain proportionally higher than for roads investment.

Improve Domestic Connectivity (Regional & National)

Action	Expenditure Category	2010-11 Revised Budgets £`000	2011-12 Proposed Budget £`000	2012-13 Indicative Plans £`000	2013-14 Indicative Plans £`000
Improve domestic connectivity	Revenue	262,239	265,418	261,286	257,716
	Capital	103,834	83,674	73,670	55,850
	TOTAL	366,073	349,092	334,956	313,566

This SPA funds improvements and maintenance of our domestic Trunk Road network and discharges Welsh Assembly Government's statutory duty to manage, operate and maintain the safety of the network. It also funds rail investment and the rail franchise. The SPA also includes £65.1m of non-cash resource.

The capital budget movements for 2011/12 and future years reflect the fact that a number of road and rail schemes cannot go ahead on the time scales previously set out and this is currently under review. Although the revenue budgets for 2011/12 and future years are broadly in line with 2010/11, to support rising contractual rail franchise pressures there will be reductions to further rail enhancements and less provision for claims made against the Assembly Government in relation to the operation and maintenance of the trunk road network.

Improve International Connectivity

Action	Expenditure Category	2010-11 Revised Budgets £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Improve International Connectivity	Revenue	140,561	145,681	145,031	145,008
	Capital	38,683	59,088	56,029	83,836
	TOTAL	179,244	204,769	201,060	228,844

This SPA funds key activities relating to international links by road, air and sea. Funding covers improvement maintenance, the traffic officer patrol service of the M4 and A55 network, the A465 Section 3 dualling, Trans European network construction schemes, support for the intra-Wales air service, support for promotion of eco driving, freight facilities grant and improving and maintaining ports activity. This SPA also includes £105.1m of non-cash resource.

The capital budget for 2011/12 and future years includes an increased capital maintenance budget to address major remedial works to the road network and funding for M4 corridor enhancement measures and the A465. Other roads schemes are currently under review and may have to be suspended or re-profiled. Although the revenue budget for 2011/12 and future years is broadly in line with 2010/11, the need to maintain the roads maintenance budgets at essential safety levels means that additional funding will not be available to extend the Traffic Officer service to the wider trunk road network. A review of trunk road agency services and costs will release efficiency savings to support the maintenance budget.

Improve Integrated Transport (Local)

Action	Expenditure Category	2010-11 Revised Budgets £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Improve Integrated Transport	Revenue	93,006	84,527	84,667	91,384
	Capital	120,917	80,713	77,402	43,741
	TOTAL	213,923	165,240	162,069	135,125

The revised budgets continue to support our commitment to sustainable travel and public transport with these activities receiving the majority of the investment provided by these budgets. Developing sustainable travel will be supported with continued investment in walking and cycling and local transport initiatives as well as concessionary fares, sustainable travel towns, smart cards and regional

transport plans. We will continue to increase the overall percentage proportion of spend on sustainable travel. This SPA also includes £19.9m of local authority supported borrowings (this resource is not controlled by DE&T).

The capital budget movement in 2011/12 and future years reflects a reduction of the grants to local authorities for local road maintenance backlog, and a decrease reflecting the reducing requirements of funding to support local roads schemes and regional transport plan delivery. The revenue budget in 2011/12 reflects reductions in the funding to support bus services and the local transport services grant. These reductions are likely to impact on fares, thus increasing the budget requirement for concessionary fares in future years.

The potential impact on the less-well off and rural areas, of a reduction in support for bus services has been acknowledged by Cabinet in terms of the revenue settlement in 2011-12. There is a high degree of contractual commitments in the Transport revenue budgets and thus a reduction in the level of revenue support for public transport services is unavoidable.

Improve Road Safety & Transport's Impact on the Environment

Action	Expenditure Category	2010-11 Revised Budgets £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Improve Road Safety & Transport's Impact on the Environment	Revenue	8,397	3,056	3,056	2,056
	Capital	18,257	10,922	10,922	10,922
	TOTAL	26,654	13,978	13,978	12,978

The funded schemes and initiatives will continue to support the aims of the Road Safety Strategy for Wales. This will include funding, at a reduced level, the Wales Road Casualty Reduction Partnership (WRCRP - accident prevention and casualty reduction through speed management), grants to RoSPA Wales for road safety education, training, publicity information and advice, and grants to local authorities to finance local road safety initiatives.

The revenue and capital budget movement in 2011/12 and future years reflects a reduced level of funding for WRCRP and grants to Local Authorities. Road safety objectives will also continue to be met through investment in the Safe Routes in Communities programme.

Corporate Programmes & Services

Action	Expenditure Category	2010-11 Revised Budgets £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Corporate Programmes & Services	Revenue	5,243	5,145	5,062	5,100
	Capital	540	449	417	372
	TOTAL	5,783	5,594	5,479	5,472

Corporate requirements including National Loans Fund repayments and the Health Challenge Wales programme will be supported by this spending programme. Support will extend also to the wider Government implementation of Economic Renewal including stakeholder engagement, economic analysis and future policy development.

Manage Delivery of Structural Fund Programmes in Wales

Action	Expenditure Category	2010-11 Revised Budgets £'000	2011-12 Proposed Budget £'000	2012-13 Indicative Plans £'000	2013-14 Indicative Plans £'000
Manage delivery of Structural Fund Programmes in Wales	Revenue	1,522	1,522	1,522	1,522
	Total	1,522	1,522	1,522	1,522

The Welsh European Funding Office (WEFO) will continue to manage the delivery, monitoring and reporting of EU Structural Fund programmes in Wales and ensure alignment of EU Structural Funds Programmes and projects with Welsh Assembly Government policies and strategies.