

Y Pwyllgor Cyllid

Lleoliad:
Ystafell Bwyllgora 4 – Ty Hywel

Dyddiad:
Dydd Mercher, 16 Mai 2012

Amser:
09:15

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



I gael rhagor o wybodaeth, cysylltwch â:

Helen Finlayson
Clerc y Pwyllgor
02920898409
FinanceCommittee@wales.gov.uk

Agenda

Cyfarfod briffio preifat (9:15 – 9:30)

1. Cyflwyniad, ymddiheuriadau a dirprwyon (9:30 – 9:35)

2. Cyllid Datganoledig: Pwerau Benthg a Dulliau Arloesol o Ddefnyddio Arian Cyfalaf

(9:35 – 10:35) (Tudalennau 1 – 29)
FIN(4) 07–12 – Papur 1 – Llywodraeth Cymru

Jane Hutt AC, y Gweinidog Cyllid
Gerry Holtham, Cynghorydd ar Fuddsoddi mewn Seilwaith
Andrew Jeffreys, Dirprwy Gyfarwyddwr, Buddsoddi Cyfalaf Strategol, Llywodraeth Cymru
Jeff Andrews, Cynghorydd polisi

3. Cyllid Datganoledig: Pwerau Benthg a Dulliau Arloesol o Ddefnyddio Arian Cyfalaf

(10:35 – 11:20) (Tudalennau 30 – 37)
FIN(4) 07–12 – Paper 2 – Local Government Association

Stephen Jones, Director of Finance and Resources, Local Government Association

Egwyl (11:20 – 11:30)

4. Effeithiolrwydd Cyllid Strwythurol Ewropeaidd yng Nghymru (11:30 – 12:15) (Tudalennau 38 – 44)

Tidal Energy Cyf

FIN(4) 07–12 – Papur 3

Chris Williams, Cyfarwyddwr Datblygu, Tidal Energy Cyf

Furnace Farm Cyf (mewn cynhadledd fideo)

FIN(4) 07–12 – Papur 4

Katherine Himsworth, Furnace Farm Cyf

5. Papurau i'w nodi (Tudalennau 45 – 47)

FIN(4) 07–12 – Papur 5 – Gohebiaeth gan y Gweinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd ynghylch JESSICA

FIN(4) 06–12 – Cofnodion y cyfrafod blaenorol

6. Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y canlynol:

Eitemau 7 ac 8.

7. Trafod y dystiolaeth – Cyllid Datganoledig: Pwerau Benthyc a dulliau arloesol o ddefnyddio arian cyfalaf (12:15 – 12:25)

8. Trafod y dystiolaeth – Effeithiolrwydd Cyllid Strwythurol Ewropeaidd yng Nghymru (12:25 – 12:35)

Y Pwyllgor Cyllid

FIN(4) 07-12 – Papur 1

Cyllid Datganoledig: Pwerau Benthycu a Chyfalaf

Rhennir y papur hwn yn dair rhan. Mae Rhan 1 yn ymwneud â threfniadau ar gyfer cyllido awdurdodau lleol (tt. 1-9); Rhan 2 yn ymwneud â datganoli pwerau benthycu (tt. 9-11) a Rhan 3 yn ymwneud â chyllido arloesol (tt.11-14)

Rhan 1

Llywodraeth Leol yng Nghymru: Trefniadau Cyllido

Cyflwyniad

Defnyddir tair system wahanol i ariannu tri phrif floc gwariant yr awdurdodau lleol. Y blociau hyn yw:

- gwariant cyfredol ar dai cyngor;
- gwariant ar brosiectau cyfalaf megis ffyrdd, adeiladau ysgolion neu lyfrgelloedd, neu gyfrifiaduron; a
- gwariant refeniw cyffredinol, yn bennaf ar gyflogau a chostau eraill sy'n codi o gynnal gwasanaethau ac eithrio tai cyngor.

Refeniw

Gellir gwahaniaethu rhwng dau fath o gyllid refeniw, sef y cyllid craidd anneilltuedig ar gyfer cyflenwi ystod o wasanaethau rheolaidd, a'r cyllid neilltuedig a ddarperir drwy grantiau penodol ar gyfer costau refeniw penodedig, ac a gyfyngir weithiau i gyfnodau penodol o amser.

Cyllid anneilltuedig

Darperir y cyllid craidd drwy'r setliad refeniw, ac yn 2012-13 mae'r cyfanswm ychydig dros £4 biliwn.

Tua chanol mis Hydref bob blwyddyn, bydd y Gweinidog Llywodraeth Leol a Chymunedau yn cyflwyno Setliad Cyllid Llywodraeth Leol dros dro, i'r Cynulliad ac i'r awdurdodau lleol.

Dilynir hynny gan gyfnod o ymgynghori, a fydd yn arwain at gymeradwyo Setliad Cyllid Llywodraeth Leol terfynol gan Gynulliad Cenedlaethol Cymru yn gynnar yn Ionawr, neu ddechrau Chwefror yn achos awdurdodau heddlu, mewn pryd i'r awdurdodau bennu eu cyllidebau ar gyfer y flwyddyn ariannol nesaf.

Bydd Llywodraeth Cymru wedyn yn ystyried a ddylai ddefnyddio ei phwerau i gyfyngu ar y cynnydd yng nghyllideb unrhyw gyngor. Os bydd y Llywodraeth yn defnyddio'r pwerau hynny, bydd yn dweud wrth yr awdurdod o ba faint y caniateir iddo gynyddu ei gyllideb. Yna, bydd y Llywodraeth yn ystyried unrhyw ddadleuon a roddir gerbron gan yr awdurdod hwnnw, o blaid caniatáu iddo wario rhagor.

Bydd Llywodraeth Cymru yn dechrau drwy penderfynu cyfanswm y gwariant craidd, gan y cyfan o lywodraeth leol, y bydd Llywodraeth Cymru yn barod i'w gefnogi. Y swm hwnnw yw'r Cyfanswm Gwariant Safonol (CGS).

Mae Llywodraeth Cymru yn ymrwmo i ddarparu cymorth ar gyfer tuag 80 y cant o'r Cyfanswm Gwariant Safonol drwy ddsbarthu Grant Cynnal Refeniw (GCR) ac incwm o aiddosbarthu'r ardreth annomestig genedlaethol (NNDR). Y cyllid hwn, ar y cyd, yw'r Cyllid Allanol Cyfun (CAC). Y gwahaniaeth rhwng y Cyfanswm Gwariant Safonol a'r Cyllid Allanol Cyfun yw'r swm enghreifftiol y rhagdybir y bydd awdurdodau lleol yn ei godi drwy'r Dreth Gyngor os byddant yn gwario ar lefel y Cyfanswm Gwariant Safonol.

Grantiau penodol ac arbennig

Bydd y Llywodraeth yn darparu ar gyfer gwariant penodol arall gan lywodraeth leol drwy gyfrwng grantiau penodol ac arbennig sy'n ariannu gweithgareddau penodol.

Rhannu adnoddau rhwng awdurdodau – yr Aseiad Gwariant Safonol

Mae'r Llywodraeth yn penderfynu cyfran pob cyngor unigol o'r Cyfanswm Gwariant Safonol drwy gyfrifol Aseiad Gwariant Safonol (AGS). Mae cyfanswm Aseidiadau Gwariant Safonol yr holl gynghorau yn hafal i'r Cyfanswm Gwariant Safonol.

Wrth gyfrifo'r Aseidiadau Gwariant Safonol, bydd y Llywodraeth yn cymryd i ystyriaeth boblogaeth, strwythur cymdeithasol a nodweddion eraill pob awdurdod unigol. Mae'r Llywodraeth (ar ôl ymgynghori â llywodraeth leol), wedi datblygu fformiwlâu ar wahân ar gyfer y prif feysydd gwasanaeth canlynol.

- Addysg
- Gwasanaethau cymdeithasol personol
- Yr heddlu
- Tân
- Cynnal priffyrdd
- Gwasanaethau amgylcheddol, amddiffynnol a diwylliannol
- Cyllid cyfalaf

Seiliwyd y fformiwlâu hyn ar ymchwil ac ar ddadansoddiad o'r ystadegau. Maent yn gymwys i bob awdurdod sy'n darparu gwasanaeth penodol. Sefydlwyd rhaglen waith reolaidd o dan nawdd y Cyngor Partneriaeth, er mwyn sicrhau bod y fformiwlâu hyn yn parhau'n berthnasol a chyfoes.

Incwm o Aiddosbarthu'r Ardreth Annomestig Genedlaethol

Nid yw meddianwyr eiddo annomestig (megis siopau, ffatrioedd, swyddfeydd ac ystordai) yn talu Treth Gyngor ar yr eiddo hwnnw. Yn hytrach, maent yn talu ardrethi busnes – a elwir hefyd yn Ardreth Annomestig Genedlaethol.

Mae un cyngor ym mhob ardal yn casglu ardrethi busnes ac yn eu talu i mewn i 'gronfa' genedlaethol, a rennir wedyn rhwng yr holl awdurdodau gan Lywodraeth Cymru.

Cyn dechrau pob blwyddyn ariannol, amcangyfrifir y swm a fydd ar gael i awdurdodau lleol allan o'r gronfa. Bydd y swm hwnnw, sef y Swm Dosbarthadwy (SD), wedyn yn cael ei bennu a'i ddosbarthu rhwng yr holl awdurdodau lleol, yn ôl nifer y preswylwyr 18 oed a throsodd ym mhob awdurdod, yn unol â'r amcangyfrifon poblogaeth canol blwyddyn diweddaraf a fydd ar gael. Ar gyfer 2012-13 mae'r SD yn £911 miliwn.

Unwaith y bydd y Swm Dosbarthadwy wedi ei bennu, ni chaiff ei amrywio, hyd yn oed os telir mwy neu lai na'r swm hwnnw i'r gronfa mewn gwirionedd yn ystod y flwyddyn ariannol. Bydd unrhyw warged neu ddiffyg a achosir yn y gronfa o ganlyniad i hynny yn cael ei gario ymlaen i'r cyfrifiad o'r swm dosbarthadwy am y flwyddyn ddilynol.

Y Grant Cynnal Refeniw

Yn syml, y Grant Cynnal Refeniw yw'r rhan o'r Cyllid Allanol Cyfun nas darperir o'r NNDR.

Yn fras, mae'r Llywodraeth yn dosbarthu'r CAC mewn ffordd a fyddai'n golygu y byddai'r Dreth Gyngor ar gyfer pob eiddo sydd yn yr un band prisio yr un faint ledled Cymru, pe bai pob awdurdod yn gosod ei gyllideb ar lefel yr Asesiad Gwariant Safonol.

Y swm o Grant Cynnal Refeniw a roddir i awdurdod lleol yw:

- Asesiad Gwariant Safonol yr awdurdod; llai
- y swm a gaiff o'r gronfa ardrethi busnes genedlaethol; llai
- ei gyfran o dreth gyngor ar sail gwariant safonol.

Gosod Trethi Cyngor

Bydd yr awdurdodau lleol yn dechrau paratoi eu cyllidebau ar gyfer y flwyddyn sy'n dod, rai misoedd cyn cael gwybod union faint y cyllid a gânt gan y Llywodraeth. Unwaith y bydd awdurdod yn gwybod maint y cyllid, gall wneud penderfyniadau terfynol ynglŷn â:

- swm ei wariant disgwylidig yn ystod y flwyddyn sy'n dod;
- pa incwm arall, ar wahân i'r incwm o'r Llywodraeth, y gall ddisgwyl ei gael yn ystod y flwyddyn nesaf; a

- sut y gall ddefnyddio arian o'i gronfeydd wrth gefn i gyllido gwariant neu ostwng lefel ei Dreth Gyngor.

Y gwariant a gynllunnir gan yr awdurdod, ar ôl didynnu ohono unrhyw gyllid o'r cronfeydd wrth gefn ac unrhyw incwm arall y disgwylir ei gael (ar wahân i'r cyllid cyffredinol o'r Llywodraeth ac o'r Dreth Gyngor), yw'r swm a elwir "y gofyniad cyllidebol". Swm y Dreth Gyngor y mae'n ofynnol i awdurdod ei godi yw'r gwahaniaeth rhwng ei ofyniad cyllidebol a'r cyllid y bydd yn ei gael o'r Llywodraeth.

Bydd pob awdurdod unigol wedyn yn gosod ei Dreth Gyngor ar y lefel sy'n angenrheidiol er mwyn codi'r swm hwnnw.

Yn 2011-12, amcangyfrifwyd y byddai'r awdurdodau lleol (gan gynnwys awdurdodau heddlu) yn codi £1.3 biliwn. Roedd hynny'n gyfwerth â 23% of o ofyniad cyllidebol yr awdurdodau lleol.

Capio

Mae Llywodraeth Cymru yn cadw'r pŵer i osod 'cap' neu derfyn ar ofyniad cyllidebol unrhyw gyngor unigol, os bydd Llywodraeth Cymru o'r farn bod y gofyniad cyllidebol a'r Dreth Gyngor wedi cynyddu'n ormodol. Yn Neddf Llywodraeth Leol 1999 cyflwynwyd pwerau wrth gefn newydd, sy'n llawer mwy hyblyg na'r pwerau capio blaenorol. Maent yn caniatáu i'r Llywodraeth leihau'r gofyniad cyllidebol yn y flwyddyn ddilynol yn ogystal ag yn y flwyddyn ariannol gyfredol (yr olaf oedd yr unig opsiwn a ganiateid cyn hynny). Os bydd rhaid, bydd y Llywodraeth yn defnyddio'r pwerau hyn i ddiogelu talwyr y Dreth Gyngor rhag codiadau mawr yn eu biliau Treth Gyngor.

Roedd Deddf Lleoliaeth 2011 yn cyflwyno newidiadau yn y trefniadau capio ar gyfer Lloegr, gan drosglwyddo'r cyfrifoldeb am benderfyniadau capio i gymunedau lleol drwy gyfrwng refferenda treth gyngor. Nid yw'r newidiadau hynny yn gymwys o ran Cymru

Awdurdodau tân

Mae cyllido gwasanaeth tân yn rhan integrol o broses gosod cyllideb yr awdurdodau lleol.

Mae'r rheoliadau a sefydlodd yr awdurdodau tân cyfunol yn gosod dyletswydd ar yr awdurdodau lleol cyfansoddol i ddarparu cyllid digonol i'w hawdurdod tân, i'w alluogi i gyflawni ei rwymedigaethau statudol. Mae hyn yn cynnwys gwneud taliadau ychwanegol o fewn y flwyddyn ariannol, os gofynnir amdanynt gan yr awdurdod tân.

Mater i bob awdurdod tân unigol yw gosod cyllideb a fydd yn galluogi ei wasanaeth tân i gyflawni ei rwymedigaethau statudol tra'n sicrhau bod y gwasanaethau'n cael eu darparu mor effeithiol ac effeithlon ag y bo modd.

Bydd yr awdurdodau tân yn cyflwyno'u cyllidebau gerbron yr awdurdodau lleol cyfansoddol sy'n cyfrannu yn gymesur â'u poblogaeth. Os yw'n dewis, caiff yr awdurdod tân gynnwys yn ei gyllideb elfen wrth gefn ar gyfer unrhyw

hapddigwyddiadau, er mwyn lleihau'r risg y gofynnir am daliadau a allai achosi anhawster ariannol i awdurdod cyfansoddol, unwaith y bydd yr awdurdod hwnnw wedi gosod ei gyllideb ei hunan.

Cyllid Cyfalaf

Mae'r cyllid cyfalaf ar gyfer awdurdodau lleol yn gymysgedd o gymorth refeniw ar gyfer benthyca, ac o grantiau cyfalaf penodol.

Yn 2012-13, mae cyfanswm y cyllid cyfalaf a ddarperir gan Lywodraeth Cymru yn £424 miliwn.

Benthyca Darbodus

Cyn 2004-05, ni chaniateid i gyrff lywodraeth leol fenthyca heb yn gyntaf gael 'cymeradwyaeth credyd'. Fodd bynnag, yn Neddf Llywodraeth Leol 2003 (DLIL 2003), rhoddwyd pŵer i gyrff llywodraeth leol fenthyca at unrhyw ddiben sy'n berthnasol i'w swyddogaethau neu reolaeth ddarbodus o'u materion ariannol.

O ganlyniad i DLIL 2003, y cyrff lywodraeth leol eu hunain sy'n rheoli maint eu benthyca, drwy benderfynu ar 'derfyn benthyca fforddiadwy', er bod gan Lywodraeth Cymru hefyd bwerau wrth gefn i osod terfynau ar fenthyca. Felly, roedd DLIL 2003 yn caniatáu mwy o ddisgresiwn i gyrff llywodraeth leol, ynglŷn â swm yr adnoddau ddyrennir ar gyfer buddsoddiadau cyfalaf, a'r swm a ddyrennir r gyfer wariant cyfredol (refeniw). Roedd DLIL 2003 hefyd yn gwahaniaethu rhwng 'benthyca â chymorth' (*'supported borrowing'*) (a gynorthwyir yn ariannol gan Lywodraeth Cymru) a 'benthyca digymorth' (*'unsupported borrowing'*).

Wrth benderfynu ar y terfyn benthyca fforddiadwy, rhaid i gyrff llywodraeth leol roi sylw i'r arferion priodol, fel y'u pennir yn y *Prudential Code for Capital Finance in Local Authorities* a gyhoeddir gan y Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifyddiaeth (CIPFA).

Gofynion trosfwaol y Cod hwnnw yw fod rhaid i fenthyca fod yn ddarbodus, cynaliadwy a fforddiadwy. Bydd benthyca â chymorth yn fforddiadwy o anghenraid, gan fod ad-dalu'r ddyled yn ffactor a gymerir i ystyriaeth yn y setliad refeniw.

Dangosyddion darbodaeth

Er mwyn i awdurdod lleol fodloni ei hunan bod unrhyw fenthyca arfaethedig yn fforddiadwy, darbodus a chynaliadwy, mae'r *Prudential Code* a baratowyd gan CIPFA yn sefydlu nifer o Ddangosyddion Darbodaeth. Mae'r rhain yn sefydlu terfynau uchaf ar gyfer y ddyled allanol, yn gyffredinol ac o ddydd i ddydd, ynghyd â mesurau o'r gwariant cyfalaf a lefelau dyled, a dangosyddion rheoli trysorfa. Maent yn cynnwys y dangosyddion "terfyn awdurdodedig" (*"authorised limit"*) a "ffin weithredol" (*"operational boundary"*).

Nid terfynau ar y swm y benthyciadau darbodus y caniateir i awdurdod eu cymryd yw'r dangosyddion hyn; yn hytrach, maent y gosod nenfwd ar faint y

ddyled allanol y gall yr awdurdod ei goddef yn ddarbodus ar unrhyw adeg benodol. Mae'n ofynnol bod awdurdod yn gosod y ddau ddangosydd hyn ar gyfer cyfanswm ei ddyled allanol gan gynnwys buddsoddiadau a benthyca o rwymedigaethau hirdymor eraill.

Terfynedig yw'r adnoddau sydd ar gael i gyrff llywodraeth leol. Felly, er mwyn ymgymryd â benthyciad digymorth, bydd angen i gorff llywodraeth leol nodi:

- arbedion refeniw a fydd yn codi o'r gwariant cyfalaf;
- gostyngiadau mewn gwariant ar wasanaethau, i ariannu'r gwariant cyfalaf; a / neu
- ychwanegiadau at yr incwm o ffynonellau eraill, gan gynnwys derbyniadau a threth gyngor.

Byddai gofyn i'r gostyngiad mewn gwariant a / neu'r cynnydd mewn incwm fod yn ddigonol i wasanaethu'r ad-daliad o'r benthyciad yn ogystal a'r costau llog sy'n gysylltiedig.

Roedd ymholiadau a wnaed gan archwilwyr yn 2008 yn awgrymu bod cyrff llywodraeth leol yng Nghymru, ar y dechrau, yn ymddwyn yn bwylllog wrth arfer y rhyddid benthyca newydd a ddarparwyd gan DLIL 2003. Yn gyffredinol bryd hynny, roedd y benthyca digymorth wedi ei gyfyngu i gaffael asedau byrhoedlog a brydlesid cyn hynny ac i rai prosiectau "buddsoddi-i-arbed". I raddau helaeth, felly, roedd y benthyca digymorth yn cael ei ariannu gan y gostyngiadau mewn gwariant refeniw a wireddid gan y gwariant cyfalaf.

Roedd y Rhagolwg Cyfalaf Awdurdodau Lleol: 2011-12 (SDR 90/2011) a gyhoeddwyd gan Gyfarwyddiaeth Ystadegol Llywodraeth Cymru yn dynodi bod awdurdodau lleol yn bwriadu cynyddu eu defnydd o fenthyca digymorth i ariannu buddsoddiadau cyfalaf yn 2011-12.

Gwir lefel y benthyca digymorth a ddefnyddiwyd i ariannu buddsoddiadau cyfalaf yn 2009-10 oedd £106 miliwn, a chynyddodd hynny i £144 miliwn yn 2010-11. Rhagwelir y bydd hynny'n cynyddu ymhellach i £256 miliwn yn 2011-12. Os felly, byddai benthyca digymorth yn ariannu 24% o'r buddsoddiadau cyfalaf yn 2011-12, o gymharu ag 11% yn 2009-10. Mae'r benthyca darbodus ychwanegol hwn wedi galluogi cynghorau sir a chynghorau bwrdeistref sirol i gynyddu eu gwariant arfaethedig yn 2011-12 o gymharu â'r flwyddyn flaenorol.

Ar sail ffigurau'r rhagolwg, bydd awdurdodau lleol yn 2011-12 yn codi mwy o gyllid drwy fenthyca darbodus na thrwy unrhyw ffynhonnell gyllid unigol arall, gan gynnwys grantiau cyfalaf a benthyca â chymorth. Mae'r defnydd a wneir o fenthyca darbodus yn amrywio rhwng awdurdodau lleol.

Grantiau Cyfalaf

Fel yn achos cyllid refeniw, mae cyllid grant cyfalaf hefyd yn cynnwys grantiau anneilltuedig yn ogystal â grantiau penodol.

Dosberthir y cyllid anneilltuedig, a ddarperir drwy'r cyllid cyfalaf cyffredinol, gan gyfeirio at ddangosyddion o'r angen yn y gwahanol feysydd gwasanaeth, yn yr un modd ag y gwneir gyda'r setliad referniw anneilltuedig.

Cynllunnir a rheolir y grantiau cyfalaf penodol gan y maes polisi perthnasol, er mwyn cyflawni dibenion penodol.

Grantiau Cyfalaf yw 75% o'r cyllid cyfalaf sydd ar gael yn 2012-13; cefnogir y gweddill drwy ddarparu cyllid referniw ar gyfer benthyca.

Yn ddiweddar, daeth yn bosibl i'r awdurdodau lleol wneud cais am gyllid gwasanaethau cyhoeddus ehangach ar gyfer prosiectau cyfalaf, o'r Gronfa Buddsoddi Cyfalaf Strategol ac, yn ddiweddarach eto, o'r Gronfa Cyfalaf a Gedwir yn Ganolog.

Yr Adolygiad o Adnoddau Llywodraeth Leol

Mae Llywodraeth y DU wedi ymgymryd ag adolygu cyllid llywodraeth leol, gan ganolbwyntio'n benodol ar y cyfleoedd i ail-leoli ardrethi busnes.

Hyd yma, yr un system sydd wedi ei defnyddio yng Nghymru ac yn Lloegr ar gyfer casglu a dosbarthu ardrethi busnes. Roedd yr adolygiad hwn yn rhoi sylw i'r materion a fyddai'n codi pe caniateid i awdurdodau lleol gadw rhagor o'r ardrethi busnes a gesglir yn lleol.

Oherwydd natur y system gyllido yn Lloegr, nid oes modd lleoli ardrethi busnes yn gyfan gwbl heb achosi ansefydlogrwydd.

Y goblygiadau i Gymru

Mae dosbarthiad y manau lle cynhyrchir ardrethi busnes yng Nghymru yn fwy anwastad eto, o gymharu â'r dosbarthiad yn Lloegr. O ganlyniad, byddai angen cadw rhagor, hyd yn oed, o groes-noddi o fewn y system. Cyn newid y system yng Nghymru, byddai angen ystyried i ba raddau y byddai cymhlethdodau ychwanegol yn y system yn gorbwyso'r manteision posibl.

Mae'r Gweinidog Busnes, Menter, Technoleg a Gwyddoniaeth wedi sefydlu Grŵp Gorchwyl a Gorffen, gyda'r Athro Brian Morgan yn gadeirydd, i adolygu'r polisi ardrethi busnes yng Nghymru. Ei rôl fydd:

- ystyried pwysigrwydd cymharol y drefn ardrethi annomestig (busnes), fel trosol ar gyfer cefnogi twf economaidd;
- asesu goblygiadau polisiâu penodol mewn cysylltiad â rhyddhad ardrethi i fusnesau bach, rhyddhad ardrethi ar eiddo gwag, a rhyddhad ardrethi fel ymyriad polisi a dargedir i annog twf economaidd (gan gynnwys busnesau ynni adnewyddadwy yn ogystal â chymorth mewn ardaloedd difreintiedig);
- gwneud argymhellion ynglŷn â'r uchod, gan gymryd i ystyriaeth fod ardrethi annomestig (busnes) yn bodoli i godi cyllid ar gyfer

gwasanaethau lleol, a chan gydnabod bod ardrethi annomestig yn gymwys i bob math o eiddo annomestig, ac nid busnesau yn unig.

Byddai angen i unrhyw ystyriaeth o bolisiau penodol roi sylw i'r effaith ar refeniw cyhoeddus, ac effeithiau ariannol, deddfwriaethol, dosbarthiadol ac economaidd.

Disgwylir adroddiad ar ganfyddiadau'r Grŵp ym mis Mai.

Awdurdodau heddlu

Refeniw

Mae'r heddlu'n cael ei gyllid creiddiol o'r llywodraeth mewn dwy ffrwd. Un ffrwd yw'r Grant Heddlu a delir gan y Swyddfa Gartref, a'r llall yw'r Grant Cynnal Refeniw a chyfran yr heddlu o'r incwm o ailddosbarthu'r ardreth annomestig genedlaethol, a delir i'r heddlu gan yr Adran Cymunedau a Llywodraeth Leol yn Lloegr a chan Lywodraeth Cymru yng Nghymru.

Yn ychwanegol at y ddwy ffrwd hyn, mae yna grantiau penodol, y mae'r Swyddfa Gartref yn bennaf cyfrifol am eu dyrannu, ond y caiff heddluoedd Cymreig hefyd wneud cais amdanynt.

Cyfalaf

Y Swyddfa Gartref sy'n gyfrifol am gymeradwyo prosiectau cyfalaf yr awdurdodau heddlu. Fodd bynnag, mynnir bod Llywodraeth Cymru'n darparu'r cymorth refeniw. Yn achos prosiectau cyfalaf a gaffaelir drwy ddilyn y llwybr confensiynol (sector cyhoeddus), ac ar yr amod na fydd dyraniad cyfalaf y Swyddfa Gartref ar gyfer Cymru yn fwy na chyfran Cymru yn ôl fformiwla Barnett, rhagdybir bod yr adnodd refeniw yn gynwysedig yn y gyllideb ar gyfer y setliad grant cynnal refeniw llywodraeth leol yng Nghymru.

Mae'r trefniadau ar gyfer prosiectau Menter Cyllid Preifat (PFI) yr awdurdodau heddlu yn fwy cymhleth. Cyn belled nad yw'r credydau PFI tybiannol am brosiectau heddlu yng Nghymru yn mynd dros ben y gyfran yn ôl fformiwla Barnett, mae'r Swyddfa Gartref o'r farn mai Llywodraeth Cymru ddylai ddarparu'r cymorth refeniw priodol. Fodd bynnag, nid oes ffordd y gallwn ddarganfod, o setliad yr Adolygiad Gwariant, ym mha flynyddoedd yr ychwanegir adnoddau penodol i gynorthwyo cynlluniau PFI at y gyllideb Cymunedau a Llywodraeth Leol ar gyfer llywodraeth leol.

PFI

Mae Llywodraeth Cymru yn darparu oddeutu £35 miliwn y flwyddyn i awdurdodau lleol, gan gynnwys awdurdodau heddlu a thân yng Nghymru, ar gyfer gynnal canlyniadau refeniw y prosiectau PFI.

Cytunwyd y prosiectau hyn mewn egwyddor gan y gyntaf o'r Llywodraethau Cynulliad Cymru gyntaf, er bod rhai o'r prosiectau hynny wedi cymryd cryn amser i'w cwblhau.

Nid yw'r Llywodraethau Cymru dilynol wedi cymeradwyo cyllid ar gyfer unrhyw brosiectau PFI pellach gan awdurdodau lleol. Er bod PFI yn parhau'n ddull sy'n agored i'r awdurdodau, mae cyllido prosiect o'r fath yn fater i'r awdurdod unigol. Ar 15 Tachwedd 2011, cyhoeddodd Llywodraeth y DU y byddai'n cynnal adolygiad o'r trefniadau PFI. Bwriad Llywodraeth y DU yw dod â chynigion gerbron ar gyfer dull newydd o ddefnyddio'r sector preifat i gyflenwi asedau a gwasanaethau cyhoeddus. Daeth y cyfnod ymgynghori i ben ar 10 Chwefror.

Rhan 2

Datganoli Pwerau Benthycu

Crynodeb o safbwynt Llywodraeth Cymru

Mae gan Lywodraeth Cymru bwerau benthycu penodol eisoes ar gyfer ystod eang o weithgareddau, o dan delerau Deddf Awdurdod Datblygu Cymru 1975. Rhoddir crynodeb o'r pwerau hyn yn Atodiad 1. Ar hyn o bryd, mae rheolau'r Trysorlys yn gwahardd defnyddio'r pwerau hynny mewn ffordd ystyrion. Mae Llywodraeth Cymru yn credu'n gryf y dylid caniatáu iddi arfer ei phwerau benthycu presennol i gyllido buddsoddiadau cyfalaf.

Mae cyllideb Cymru ar gyfer buddsoddiadau cyfalaf wedi ei chwtogi 41% mewn termau real dros y pedair blynedd nesaf, ac y mae hynny wedi cyfyngu'n enbyd ar ein gallu i fuddsoddi yn seilwaith Cymru a chefnogi ei heconomi. Byddai cael pwerau benthycu yn fuan yn ein helpu i wrthbwysu effaith niweidiol y toriadau hyn.

Mae gan Weithrediaeth Gogledd Iwerddon eisoes bwerau benthycu i gyllido buddsoddiadau cyfalaf, ac y mae Bil yr Alban yn cynnig y dylid trosglwyddo pwerau cyffelyb i Lywodraeth yr Alban. Yn ychwanegol at hyn, wrth gwrs, ers amser maith, mae pob lefel o lywodraeth leol, gan gynnwys y Cynghorau Cymuned, wedi bod yn alluog i fenthycu. Mae pwerau o'r fath yn rhan o'r arfogaeth arferol llywodraethau etholedig ledled y DU, ar gyfer rheoli eu materion ariannol yn effeithiol. Mae sefyllfa bresennol Cymru, fel yr unig ran o'r DU y gwrthodir iddi'r hawl i ddefnyddio'r pŵer hwn, yn anghynaliadwy.

Rydym o'r farn y byddai'n gwneud synnwyr, yn y tymor canolig, rhoi pwerau benthycu datganoledig ar sylfaen gyfreithiol newydd ac ehangach, a'u gweithredu o fewn cyfres o reolau synhwyrol a gytunir gyda Llywodraeth y DU. Rydym yn cydnabod y dylai pwerau benthycu datganoledig weithredu o fewn fframwaith sy'n darparu hyblygrwydd ychwanegol i Gymru ond sydd hefyd yn parchu rôl Llywodraeth y DU, sef rheoli'r sefyllfa gyllidol y Deyrnas Unedig gyfan.

Trafodaethau rhynglywodraethol

Ar hyn y bryd mae Llywodraeth Cymru yn cynnal cyfres o drafodaethau gyda Thrysorlys EM ynglŷn â diwygio trefniadau ariannol, gan gynnwys y posibilrwydd o ganiatáu i Gymru arfer ei phwerau benthyca presennol. Yn y trafodaethau hynny, rydym yn pwysu am gael defnyddio'n pwerau presennol i ariannu mentrau seilwaith mawr, a fyddai'n anfforddiadwy fel arall. Er enghraifft, mae prosiectau seilwaith trafniadaeth helaeth, sydd â chostau dechreuol uchel a rhychwant oes hir, yn arbennig o addas ar gyfer eu cyllido drwy fenthyca.

Mae'r trafodaethau gyda Llywodraeth y DU yn parhau. Nid ein pwerau benthyca presennol yw'r unig faterion sydd dan sylw;. Trafodir hefyd yr achos o blaid cael trefniant ariannu gwaelodol neu fecanwaith cyffelyb, er mwyn mynd i'r afael â chydgyfeirio'r cyllid cymharol a roddir i Gymru. Disgwylir i'r trafodaethau derfynu gyda datganiad gan y ddwy lywodraeth, cyn cyhoeddi adroddiad Comisiwn Silk ar ddatganoli cyllidol, tua diwedd yr hydref.

Comisiwn Silk

Mae Comisiwn Silk yn ystyried yr achos dros ddatganoli pwerau cyllidol pellach i Gymru, gan gynnwys y posibilrwydd o ddatganoli pwerau benthyca ychwanegol.

Mae Llywodraeth Cymru wedi cyflwyno tystiolaeth ysgrifenedig i'r Comisiwn (Atodiad 2), ac y mae'n awyddus i gynorthwyo'r Comisiwn yn ei waith pan fo'n briodol.

Edrychwn ymlaen at gyhoeddi cynigion Comisiwn Silk tua diwedd y flwyddyn eleni. Byddwn yn ystyried yn ofalus unrhyw becyn o fesurau a fydd yn cynnig gwell bargaen o ran cyllid i Gymru.

Ffynonellau cyllid

Mae Comisiwn Holtham wedi dadlau'n gryf mai'r ffordd orau ymlaen i Gymru, yn ôl pob tebyg, fydd benthyca drwy Swyddfa Rheoli Dyledion (DMO) y Trysorlys. Yn y gorffennol, mae'r DMO wedi darparu telerau benthyca cymharol gystadleuol, sy'n debygol o fod yn well na dim a gynigid gan y banciau neu fondiau a ddyroddid gan Lywodraeth Cymru.

Ar ôl dweud hynny, mae Llywodraeth Cymru, mewn egwyddor, o blaid datganoli'r ystod ehangaf posibl o bwerau benthyca, sy'n gyson â buddiant cyfreithlon Llywodraeth y DU mewn rheoli benthyca ar y lefel facro-economaidd. Byddai hynny'n darparu'r hyblygrwydd gorau i Weinidogion Cymru i ymateb i amgylchiadau Cymru.

Nid ydym, felly, o blaid allgáu'r opsiwn y gallai Llywodraeth Cymru, rywdro yn y dyfodol ddyroddi ei bondiau ei hunan – ar yr amod y gellid gwneud hynny mewn ffordd sy'n gyson â buddiannau cyfreithlon Llywodraeth y DU.

Cyfyngiadau ar fenthyca

Mae gan Lywodraeth y DU fuddiant cyfreithlon mewn parhau'n alluog i reoli sefyllfa gyllidol y cyfan o'r Deyrnas Unedig. Am y rheswm hwnnw, byddai'n synhwyrol cytuno ar y cyd ar gyfres o gyfyngiadau ar allu Llywodraeth Cymru i fenthyca. Er enghraifft, mae Deddf yr Alban a basiwyd yn ddiweddar yn caniatáu i Lywodraeth yr Alban fenthyca hyd at 10% o'i therfyn gwariant cyfalaf adrannol bob blwyddyn, o dan nenfwd cyfanswm dyled o £2.7 biliwn ar gyfer yr Alban.

Er enghraifft, mae'n gwbl briodol mai ar gyfer buddsoddi mewn prosiectau cyfalaf yn unig y dylai Cymru fenthyca. Ni fyddai'n gynaliadwy dros y tymor canolig pe bai Cymru'n benthyca i gyllido unrhyw wariant rheolaidd, megis costau staffio.

Yn ogystal, hwyrach y byddai Llywodraeth Cymru a Llywodraeth y DU yn awyddus i gytuno ar nenfwd ar gyfanswm y dyled y caiff Llywodraeth Cymru ei dwyn ar unrhyw un adeg. Byddai hynny'n gyson â rheolaeth ariannol ddarbodus – ni ddylid caniatáu i unrhyw sefydliad fynd i ormod o ddyled.

Pwerau cyfreithiol

Mae'r sefyllfa gyfreithiol mewn perthynas â phwerau benthyca yn un gymhleth. Roedd Deddf Awdurdod Datblygu Cymru 1975 yn rhoi i'r WDA blaenorol bwerau cyfyngedig i fenthyca. Ar ôl yr uno â'r WDA, trosglwyddwyd y pwerau hynny i Lywodraeth Cymru. Fodd bynnag, pe baem yn benthyca, mae rheolau'r Trysorlys yn golygu y gostyngid ein grant fel na fyddai'r benthyca o unrhyw fudd inni.

Y cyfan sydd ei angen yw newid rheolau'r Trysorlys, ac yna byddai modd inni fenthyca at ddibenion swyddogaethau o dan y Ddeddf honno. Dylai'r broses honno fod yn un syml, a gallai ddigwydd heb unrhyw newid yn y gyfraith. Er na fyddai hynny'n gwneud y tro yn lle'r pwerau ehangach a geisiwn, byddai'n gam buddiol ymlaen.

Rhan 3

Cyllido Arloesol

Yn y Rhaglen Lywodraethu, ymrwymodd Llywodraeth Cymru i ymchwilio i ffyrdd arloesol o godi cyfalaf ar gyfer buddsoddi mewn seilwaith gwasanaethau cyhoeddus. Mae Gweinidogion o'r farn bod hyn yn anhepgorol, oherwydd enbydrwydd digynsail y toriadau yng nghyllideb cyfalaf Llywodraeth Cymru yn ystod cyfnod yr Adolygiad Gwariant. Bydd y toriadau hyn yn agos at 45% mewn termau real yn 2014-15, o gymharu â 2010-11.

Nid mater y dylid ei ystyried ar ei ben ei hunan yw arloesi cyllidol. Mae'n gysylltiedig â'r angen i wella effeithlonrwydd gwariant y Llywodraeth, cymhwyso'r disgyblaethau sicrwydd busnes yn well ac yn fwy cyson, ac amcan y Rhaglen Lywodraethu o ddatblygu Cynllun Seilwaith Cenedlaethol

10-mlynedd ar gyfer Cymru gyfan. Bydd y gwaith ar y ddogfen honno, a fydd yn nodi ac yn blaenoriaethu cynlluniau cyfalaf sydd ag arwyddocâd cenedlaethol, yn dechrau dwyn ffrwyth pan gyhoeddir y Cynllun Buddsoddi mewn Seilwaith i Gymru (CBSG) cyntaf ar 22 Mai.

Mae Llywodraeth Cymru eisoes yn ymateb i'r her, wrth i'r angen gynyddu am gyllid arloesol i gefnogi'r blaenoriaethau seilwaith strategol. Yn wir, llwyddodd y llywodraeth greu nifer o gynlluniau ariannol arloesol, sy'n defnyddio cyfuniad o gyfalaf cyhoeddus a phreifat i hyrwyddo economi Cymru. Mae'r rhain yn cynnwys:

Y Fenter Benthycia Llywodraeth Leol (LGBI)

Lansiwyd LGBI ar 31 Ionawr, fel ffordd o sicrhau buddsoddiad ychwanegol yn y priffyrdd yng Nghymru. Yn yr hinsawdd economaidd bresennol, mae'r gostyngiadau mewn cyllidebau cyfalaf, a'r pwysau cynyddol ar refeniw, yn effeithio ar yr awdurdodau lleol yn ogystal â'r llywodraethau cenedlaethol. Dyfeisiwyd LGBI fel menter a fyddai'n darparu tafell newydd o gymorth i'r awdurdodau lleol i ddiwallu diffygion refeniw, a thrwy hynny ryddhau rhywfaint o adnoddau ychwanegol y gellir eu defnyddio i fenthycia'n ddarvoudus. Ar draws y 22 awdurdod lleol, dros y 3 blynedd nesaf, bydd y trefniadau cyllido hyn yn galluogi buddsoddiad cyfalaf o hyd at £170 miliwn mewn gwella'r priffyrdd yng Nghymru. Heb y dull arloesol hwn, byddai'r gwelliannau hynny yn anfforddiadwy. Cyhoeddir manylion am y prosiectau llwyddiannus yn ystod yr wythnosau nesaf.

Partneriaeth Tai Cymru (PTC)

Sefydlwyd y PTC gan Lywodraeth Cymru yn Awst 2011. Partneriaeth yw'r PTC a gyfansoddir o Lywodraeth Cymru, Cymdeithas Adeiladu'r Principality a phedair o Gymdeithasau Tai Cymreig, sy'n cydweithio i ddarparu tai fforddiadwy o ansawdd uchel a osodir ar rent i bobl sy'n byw yng ngogledd a de Cymru. Disgwylir y bydd PTC yn prynu tua 150 o unedau eiddo ac yn eu prydlesu yn ôl i'r Cymdeithasau Tai am gyfnod o 10 mlynedd. Gwerth cyfalaf y PTC yw £16 miliwn – cyfuniad o £3 miliwn o gyllid grant gan Lywodraeth Cymru, benthyciad o £12 miliwn gan is-adran fasnachol Cymdeithas Adeiladu'r Principality a chyfanswm o £1 miliwn gan y pedair Cymdeithas Dai sydd yn y bartneriaeth.

Mae Llywodraeth Cymru yn gyrru ymlaen hefyd gyda nifer o gynlluniau arloesol eraill yn y sector tai, a fydd yn defnyddio asedau sector cyhoeddus i ddenu buddsoddiadau preifat. Drwy ddilyn model o'r fath, gellid darparu nifer sylweddol uwch o dai cymdeithasol a chartrefi fforddiadwy nag y gellid fel arall, o ystyried yr hinsawdd economaidd a'r cyfyngiadau ariannol presennol. Y mis diwethaf, er enghraifft, cyhoeddodd Llywodraeth Cymru a Chymdeithas Adeiladu'r Principality fod Cwmni Datblygu Pont Elái (EBDC) wedi ei sefydlu. Bydd EBDC yn arwain menter gymdeithasol newydd gan ddefnyddio model buddsoddi arloesol i ddatgloi cyllid cyfalaf ar gyfer adeiladu tai y mae mawr angen amdanynt. Bydd EBDC yn cyflenwi tua 700 o gartrefi, mwy na'u hanner yn dai fforddiadwy.

Menter

Yn y maes menter busnesau bach, mae Llywodraeth Cymru wedi sefydlu nifer o gronfeydd sydd wedi eu teilwra at ddibenion penodol. Y mwyaf o'r rhain yw'r gronfa Cyd-arnoddau Ewropeaidd ar gyfer Busnesau Micro i Ganolig (JEREMIE), sef y gyntaf i'w sefydlu yn y DU, gyda chyfalaf gwerth £150 miliwn, sy'n cynnwys £75 miliwn o gymorth o Fanc Buddsoddi Ewrop (EIB). Bydd y gronfa JEREMIE yn cynorthwyo mwy nag 800 o fusnesau i ehangu, gan greu hyd at 15,000 o swyddi ledled Cymru. Mae £80 miliwn eisoes wedi ei fuddsoddi mewn mwy na 390 o fusnesau o fewn ychydig dros ddwy flynedd. Hon bellach yw'r gronfa sy'n perfformio orau o'i math yn y DU.

Lansiwyd Cronfa Buddsoddi Cymru mewn Adfywio (RIFW), a adwaenir hefyd fel y JESSICA (Cyd-gymorth Ewropeaidd ar gyfer Buddsoddi Cynaliadwy mewn Ardaloedd Dinesig), yn 2010, gyda chyfalaf gwerth £55 miliwn, sy'n cynnwys £25 miliwn o fuddsoddiad Ewropeaidd. Nod y gronfa yw cynorthwyo ardaloedd trefol yng Nghymru drwy ddarparu cyllid cychwynnol ar gyfer prosiectau adfywio.

Ym Mawrth eleni yr agorwyd cronfa Llywodraeth Cymru ar gyfer buddsoddi mewn BBaChau, gyda chyfalaf £40 miliwn. Bydd y gronfa hon yn darparu mynediad at gyllid ar gyfer tyfu busnesau a chreu swyddi, i'r BBaChau hynny nad ydynt yn gymwys i gael cyllid o dan y fenter JEREMIE. Bydd y gronfa'n agored am 4 blynedd, a'i nod yw creu hyd at 4,000 o swyddi.

Hefyd ym mis Mawrth, cyhoeddodd Llywodraeth Cymru ei chynlluniau i sefydlu Cronfa Microfusnesau newydd, gyda chyfalaf gwerth £6 miliwn, a Chronfa Fuddsoddi Gwyddorau Bywyd, a fydd yn darparu cyllid ecwiti i fusnesau gwyddorau bywyd a leolir yng Nghymru. Mae Llywodraeth Cymru'n cyfrannu £25 miliwn i'r gronfa olaf, i'w galluogi i wneud ei buddsoddiadau cyntaf yn 2012.

Bydd pob un o'r offerynnau teilwra ariannol uchod yn creu gwaddol parhaol o gyllid, y gellir ei ailgylchu a'i ail-fuddsoddi dros dymor hir, er mwyn cynorthwyo nifer o brosiectau a fydd o fudd i ranbarthau a phobl Cymru. Mae'r posibilrwydd y parheir i ddefnyddio'r offerynnau hyn yn ystod cyfnod y rhaglen UE nesaf (2014 - 2019) yn fater sydd dan ystyriaeth ar hyn o bryd.

Y Rhaglen Seilwaith Gwastraff

Mae Llywodraeth Cymru wedi datblygu rhaglen arloesol ar gyfer caffael seilwaith gwastraff, sef rhaglen fuddsoddi a fydd yn cyflenwi galluedd trin gwastraff ledled Cymru, er mwyn cyrraedd y targedau dargyfeirio tirlenwi a bennir yng Nghyfarwyddeb Tirlenwi yr UE 1999 a Rheoliadau'r Cynllun Lwfansau Tirlenwi (Cymru) 2004. Mae'r Llywodraeth yn gweithio mewn partneriaeth ag awdurdodau lleol a rhanddeiliaid eraill i sicrhau bod cyfleusterau trin gwastraff yn y dyfodol yn gynaliadwy, yn cynnig gwerth da am arian ac yn bodloni'r amcanion polisi (sef ailgylchu 70%). Mae Swyddfa'r Rhaglen Caffael Gwastraff (WPPO) yn darparu cyngor a chyllid i awdurdodau lleol, ac yn rheoli dwy is-raglen: y rhaglen trin gwastraff bwyd a gwastraff organig, a'r rhaglen trin gwastraff gweddilliol. O dan y ddwy raglen, mae awdurdodau lleol wedi uno â'i gilydd mewn consortia caffael. Mae'r

ddarpariaeth hirdymor o ffioedd mynediad yn gymhelliad i'r sector preifat gyflenwi'r seilwaith angenrheidiol. Cyfanswm gwerth cyfalaf y prosiectau hyn yw oddeutu £780 miliwn.

Gyda'i gilydd, bydd y mentrau ariannol arloesol hyn yn cynhyrchu buddsoddiad cyfalaf o fwy nag £1bn yng Nghymru

Ariannu Preifat

Mae sicrhau cyllid preifat yn rhan ganolog o nod Llywodraeth Cymru o gynyddu'r buddsoddi mewn seilwaith. Yn wir, mae nifer o'r cynlluniau uchod yn dibynnu i raddau mwy neu lai ar ddarparu cyfalaf preifat.

Er hynny, mae Llywodraeth Cymru wedi gwneud yn eglur nad yw o blaid defnyddio Mentrau Cyllid Preifat (PFI), ac wedi croesawu'r bwriad, a gyhoeddwyd y llynedd, o gynnal adolygiad sylfaenol o'r drefn PFI, yn dilyn adroddiadau anffafriol gan Bwyllgor Dethol y Trysorlys yn ogystal â'r Pwyllgor Cyfrifon Cyhoeddus. O ganlyniad i safiad Llywodraeth Cymru ar PFI, nid yw cyllidebau Cymreig wedi eu llethu gan rwymedigaethau referniw mawr. Er enghraifft, mae'r rhwymedigaeth i gynlluniau PFI yng Nghymru oddeutu degfed rhan o'r rhwymedigaeth yn yr Alban – £100 miliwn y flwyddyn yng Nghymru, o gymharu ag £1 biliwn y flwyddyn yn yr Alban.

Mae ei rhyddid cymharol rhag y math hwn o ddyledrwydd yn rhoi cyfle i Lywodraeth Cymru fabwysiadau polisi sy'n ystyried y lefel fwyaf buddiol o gymorth referniw ar gyfer buddsoddi. Gyda hynny mewn golwg, mae Llywodraeth Cymru yn awyddus, yn ystod y blynyddoedd nesaf i barhau i ddatblygu mecanweithiau newydd ac arloesol, a fydd yn denu buddsoddiadau preifat mewn seilwaith cyhoeddus.

Finance Committee

FIN(4) 07-12 – Paper 1 – Annex 1

Borrowing powers of the Welsh Ministers under the Welsh Development Agency Act 1975, and the background to them

1. This note summarises the background and legal position with regard to the borrowing powers of the Welsh Ministers under the Welsh Development Agency Act 1975 ("the 1975 Act").
2. The Welsh Development Agency ("the Agency") was established under the 1975 Act. The Secretary of State and the Treasury had various functions under the 1975 Act. These included:
 - a function for the Secretary of State to give consent to borrowing by the Agency from persons other than the Secretary of State and the Agency's wholly owned subsidiaries;
 - a function for the Treasury to approve the same;
 - a function for the Secretary of State to set the limit on the aggregate outstanding amount of:
 - general external borrowing by the Agency and its subsidiaries;
 - sums issued by the Treasury fulfilling guarantees given by it¹ in respect of Agency borrowing;
 - sums paid to the Agency by the Secretary of State; and
 - loan guarantees given by the Agency.
3. The Government of Wales Act 1998 set up the National Assembly for Wales and provided for Orders in Council to transfer functions from Ministers of the Crown to the National Assembly for Wales.
4. In 1999 an Order in Council (the National Assembly for Wales (Transfer of Functions) Order 1999²) duly transferred most of the *Minister of the Crown* functions under the 1975 Act to the National Assembly for Wales. This transfer included the three functions mentioned in the three bullet points in paragraph 2 above, save that the function of approving borrowing which was not in sterling remained with the Treasury.
5. The Government of Wales Act 1998 also gave power to the National Assembly for Wales to (by order) abolish the Agency, transfer its functions to itself and to make any appropriate consequential, incidental, supplementary etc provisions (including amending or repealing enactments).
6. The Agency was duly abolished and its functions transferred to the National Assembly for Wales in April 2006, by the Welsh Development Agency (Transfer of Functions to the National Assembly for Wales and Abolition) Order 2005.³
7. This had the effect of uniting in one body (i.e. the National Assembly for Wales) the functions of the Agency and those Minister of the Crown functions under the 1975 Act which had been transferred to the National Assembly for Wales by the 1999 Order in Council.

¹ The Treasury has power to give guarantees under paragraph 6 of Schedule 3 to the 1975 Act.

² S.I. 1999/672.

³ S.I. 2005/3226.

8. Accordingly, by way of making consequential etc provision, S.I. 2005/ 3226 also removed from the 1975 Act the former Minister of the Crown functions, including those three mentioned in paragraph 2 above, because they were now otiose.
9. For example, the National Assembly for Wales had acquired in 1999 the Secretary of State's function of consenting to borrowing by the Agency; in 2006 it acquired the Agency's borrowing power. As it made no sense for the Assembly to have to consent to its own borrowing, the consent function was otiose.
10. Similarly, the National Assembly for Wales had acquired in 1999 the Secretary of State's function of setting a limit on the aggregate outstanding amount of general external borrowing by the Agency and other items. It made no sense for the Assembly to set a limit on its own borrowing and therefore that function was otiose.
11. The Government of Wales Act 2006 established the Welsh Government (of which the Welsh Ministers are the main legal part) as an executive, and reconstituted the National Assembly for Wales as a legislature and body to scrutinise the Welsh Government.
12. The Government of Wales Act 2006 also transferred to the Welsh Ministers most of the functions of the "old" National Assembly for Wales, including those functions which the National Assembly for Wales had acquired from the Agency in 2006. This included the borrowing powers.
13. Accordingly, as a result of the sequence of legislation described above, there is no legal limit on the amount the Welsh Ministers may borrow under the 1975 Act.
14. Equally, there is no legal requirement for the Welsh Ministers to obtain Minister of the Crown consent to the exercise of their borrowing powers under the 1975 Act, save that Treasury approval is required if the Welsh Ministers borrow other than in sterling (because that Treasury approval function was not transferred to the "old" Assembly in 1999, and therefore could not be said to be otiose when the ex-Minister of the Crown functions and the ex-Agency functions were united in the body of the National Assembly for Wales in 2006).

Summary of the borrowing powers of the Welsh Ministers under the Welsh Development Agency Act 1975

15. The legal power to borrow for the purposes of the Welsh Ministers' functions under the 1975 Act is in Schedule 3 to that Act, which is operative by virtue of section 18. Paragraph 3 provides that:

For the purpose of exercising their functions under the 1975 Act, the Welsh Ministers may borrow money from any person (including their wholly owned subsidiaries), but any borrowing in a currency other than sterling requires the approval of the Treasury.

16. The majority of the main functions of the Welsh Ministers under the 1975 Act are set out in section 1(3) and are:
 - (a) to promote Wales as a location for businesses⁴, or assist or concert its

⁴ "business" is defined as including any industrial, commercial or professional activities (whether or not with a view to profit) and the activities of any government department or any local or other public authority.

promotion as such a location;

- (b) to provide finance for persons carrying on or intending to carry on businesses;
 - (c) to carry on businesses and to establish and carry on new businesses;⁵
 - (d) otherwise to promote or assist the establishment, growth, modernisation or development of businesses, or a particular business or particular businesses;
 - (da) to make land available for development;
 - (f) to provide sites, premises, services and facilities for businesses;
 - (g) to manage sites and premises for businesses;
 - (h) to bring derelict land into use or improve its appearance;
 - (i) to undertake the development and redevelopment of the environment;
 - (j) to promote the private ownership of interests in businesses by the disposal of securities and other property held by the Welsh Ministers or any of their subsidiaries.
17. The Welsh Ministers' functions under the 1975 Act may be exercised for any of the purposes set out in section 1(2), which are:
- (a) to further the economic and social development of Wales or any part of Wales, and in that connection to provide, maintain or safeguard employment;
 - (b) to promote efficiency in business and international competitiveness in Wales;
 - (d) to further the improvement of the environment in Wales (having regard to existing amenity).
18. Therefore, the purposes for which the Welsh Ministers may exercise their functions under the 1975 Act are wide, encompassing both the economic and social development of Wales, and improving the environment in Wales.
19. Section 1.(6) gives the Welsh Ministers a power to do anything, whether in Wales or elsewhere, which is calculated to facilitate the discharge of their functions set out in section 1(3) above, or is incidental or conducive to their discharge.
20. Section 1(7) provides that the Welsh Ministers have power in connection with their functions under the 1975 Act:
- (a) to acquire, hold and dispose of securities;
 - (b) to form bodies corporate;
 - (c) to form partnerships with other persons;
 - (d) to make loans;
 - (e) to guarantee obligations (arising out of loans or otherwise) incurred by other persons;
 - (f) to make grants;
 - (g) to act as agent for other persons;

⁵ The Welsh Ministers can only exercise this function through subsidiaries.

- (h) to acquire and dispose of land, plant, machinery and equipment and other property (land may be acquired by agreement or compulsorily);
- (i) to manage land, and to develop land and carry out works on land, and to maintain works or assist in their maintenance;
- (k) to make land, plant, machinery and equipment and other property available for use by other persons;
- (l) to provide advisory or other services or facilities in relation to any of their functions, or assist in their provision; and
- (m) to promote or assist in the promotion of publicity relating to any of the functions of the Welsh Ministers under the 1975 Act.

21. Section 9 of the 1975 Act clarifies that the powers of the Welsh Ministers under section 1(3) to provide and manage sites and premises for businesses, to provide related facilities, and to make land available for development, includes the power to modernise, adapt or reconstruct buildings. The Welsh Ministers may also acquire and provide temporary sites for the business occupants of buildings which are being modernised etc under this power.
22. Section 9 also allows the Welsh Ministers to provide business premises rent free for such time as they consider appropriate, if they consider that there are circumstances which justify the giving of special assistance.
23. Section 10 gives the Welsh Ministers the power to undertake or assist in the provision of means of access or other services or facilities in or for an area, where this appears expedient to contribute to or support the development of businesses in that area.
24. The Welsh Ministers have a duty under section 1(14) of the Act to publish from time to time programmes for the performance of their functions under the 1975 Act. Such programmes can be implemented by the Welsh Ministers themselves, jointly with others or through others acting on the Welsh Ministers' behalf, for the improvement, development or redevelopment of the environment in Wales.
25. Section 15(2) allows the Welsh Ministers to make payments to any authority or person of such amount and in such manner as it may determine, for carrying out work which the Welsh Ministers consider will contribute to the purposes of such a programme.
26. Section 16 gives the Welsh Ministers powers in relation to derelict, neglected, or unsightly land where they are satisfied steps should be taken for bringing it into use or improving its appearance. They can acquire or carry out works on the land, or give a grant to the local authority for the area to do the same.
27. There is a duty on the Welsh Ministers to secure that none of their wholly owned subsidiaries formed under the 1975 Act borrow money otherwise than from them or another of their wholly owned subsidiaries, except with their (the Welsh Ministers) consent.⁶

⁶ Paragraph 5 of Schedule 3 to the 1975 Act.

28. In summary, legally, Welsh Ministers have extensive borrowing powers following the transfer of powers outlined in the Welsh Development Agency Act 1975. The purposes for which the Welsh Ministers may exercise their functions under the 1975 Act are wide, encompassing both the economic and social development of Wales, and improving the environment in Wales.

The Welsh Government's response to the call for evidence by the Commission on Devolution in Wales

Summary

Approach

- Financial reform is an important priority for the Welsh Government. We strongly believe that this issue requires a comprehensive approach that addresses not just tax devolution and borrowing powers, but also includes a new and fairer method for determining the Welsh block grant. We see the work of the Silk Commission, and our ongoing talks with the UK Government about a funding floor and access to existing borrowing powers, as being inextricably linked. If progress can be achieved on these lines, we feel this would add to public confidence in the process and would be a good outcome for devolution.
- The submission is based on the assumption that consideration of tax devolution is part of a wider package of measures that includes, at least initially, a funding floor and also borrowing powers. If that were not to be the case, the Welsh Government's approach to tax devolution would change.

Tax devolution

- In general, the Welsh Government is open-minded on the case for tax devolution. The case for or against devolution of any specific tax is highly dependent on the precise details of any proposal; in particular the interaction of devolved tax revenue with the block grant would be of great importance in determining whether devolution was of benefit to Wales.
- In the Welsh Government's view, the case for tax devolution appears strongest in areas where there is a substantial degree of devolved responsibility and where devolution would provide an additional lever for Welsh Ministers to deliver their policy objectives.
- The Welsh Government has not sought devolution of powers to vary income tax rates. We believe that, given the Scottish precedent in 1997, and the fact that the Welsh referendum in 2011 was expressly stated not to be relevant to taxation issues, there would need to be another referendum before such powers could be transferred to Wales. We are also mindful of the need to ensure that any proposals on income tax must take account of Welsh socio-economic circumstances. That said, we are not ruling out income tax as a potential source of revenue for Wales over the longer term and we will consider proposals from the Commission on this issue as on all others.

Borrowing powers

- We believe that the Welsh Government should be able to borrow to fund capital investment, irrespective of whether or not significant tax devolution takes place. The Welsh Government already has borrowing powers in law, but at present Treasury rules prevent us from exercising these powers in a way that would benefit Welsh citizens.

- At present, the Welsh Government's capital budget is set in a way that is driven by capital spending needs in England and Welsh Ministers lack the ability to smooth the costs of large capital projects over time. Access to borrowing powers would provide an important additional flexibility to the Welsh Government to manage its capital spending and implementing a prudent additional investment programme in a way that better meets the needs of Wales.
- In the event of significant tax devolution, the resulting budgetary volatility might well require further borrowing powers that could be used to finance recurrent spending as well as capital investment.

Introduction

1. The Welsh Government's total Departmental Expenditure Limit in 2011-12 is £14.6 billion, of which a little under 10 per cent or £1.3 billion is for capital expenditure. If the Holtham Commission recommendations for tax devolution were implemented in full, around a sixth of the block grant would be replaced by revenue receipts. This would still leave over £12 billion of spending on public services in Wales funded via the block grant mechanism.
2. Financial reform is an important priority for the Welsh Government. We strongly believe that this issue requires a comprehensive approach that addresses not just tax devolution and borrowing powers, but also includes a new and fairer method for determining the Welsh block grant.
3. We recognise that the current funding arrangements - whereby tax receipts are pooled at the UK level and the Welsh Government is almost wholly reliant on a block grant drawn from that pool - is very unusual in an international context. Furthermore, in principle there is a good case for believing that a more direct link between Welsh tax receipts and the funding of the Welsh Government could strengthen democratic engagement. However, it is also the case that the method used to determine the block grant is seriously flawed, since it has an inbuilt tendency over time to drive Welsh relative spending per head ever-closer to the all-England average, with no account taken of Welsh needs. We believe that the Welsh Government is already significantly under-funded, having regard to those needs; and any move towards significant tax devolution would bring with it additional risks to the Welsh Government's budget.
4. Specifically, tax devolution may impose the following budgetary risks:
 - i) **volatility:** tax receipts are likely to be more variable and less predictable than block grant funds, which are drawn from a UK-wide pooling of tax receipts;
 - ii) **cyclicality:** many taxes are strongly tied to the economic cycle, resulting in a sharp downturn in receipts at times of economic stress, when the pressure on other aspects of the Welsh budget is likely to be particularly acute;

- iii) **policy risk:** if a tax base is shared between the Welsh and UK Governments, policy decisions at the UK level may result in large and sudden changes in Welsh tax receipts;
 - iv) **differential tax base growth:** if over time a tax grows less rapidly in Wales than in the rest of the UK, then devolution of that tax will tend to impose a financial penalty on the devolved budget.
5. In considering the feasibility of devolving a tax to Wales, the Holtham Commission¹ usefully set out the criteria which they considered should be used:
- accountability;
 - economic efficiency;
 - administrative efficiency;
 - policy relevance;
 - legal constraints; and
 - the impact on the UK tax base.

We believe that those criteria would also be very useful for the Commission's deliberations.

6. Those risks do not necessarily make tax devolution unworkable; the Holtham Commission provided useful analysis of how they could be managed. Nonetheless, it is clear that tax devolution would result in additional risks to Wales. We believe it would be wrong to accept those risks without agreement to put the block grant on a fairer and more sustainable basis.
7. Moreover, we believe that failure to ensure the stability of the block grant would undermine a key goal of tax devolution, which is to strengthen the accountability of the devolved institutions to Welsh citizens. A devolved power is only meaningful if it could be exercised in practice, and it would become ever-harder to lower tax rates - if that was what Ministers and citizens wished to do - in a world where the block grant was declining remorselessly in relative terms.
8. The Welsh Government is currently in discussion with the UK Government about the case for introducing a funding floor for Wales and enabling Welsh Ministers to exercise their existing borrowing powers to assist in their infrastructure investment plan. The outcome of those discussions will determine whether or not a comprehensive set of financial reforms can be developed. It is likely that we will have a clearer idea of the outcome of the inter-governmental talks in the spring.
9. This submission is therefore conditional; it assumes that tax devolution is part of a wider package of measures that includes at least a funding floor and also borrowing powers. If that were not to be the case, the Welsh Government's approach to tax devolution would change.
10. The submission focuses on the Commission's three core questions posed in the call for evidence and addresses each in turn. The Welsh Government would be happy to provide further evidence, and to respond in detail to the Commission's supplementary

¹ 'Fairness and accountability: a new funding settlement for Wales' (page 45), Independent Commission on Fairness and Funding for Wales.

questions, once the UK Government's approach to the issues being considered in the intergovernmental talks has become clearer.

Response to the Commission's core questions

1. *What, if any, tax powers including new possible new taxes and levies should be transferred to Wales?*
11. In certain areas, Wales already has significant powers over tax. The Welsh Government plays an important role in council tax, which is levied by Welsh local authorities. In addition, non-domestic rates are pooled at the all-Wales level and Welsh Ministers have powers to determine levels of business rate relief. In aggregate, these two taxes raise over £2 billion in Wales.
12. Many taxes that are currently levied at a UK level are not suitable candidates for devolution to Wales for a variety of reasons: administrative complexity, legal barriers, likely economic distortion and/or risks to the integrity of the tax base of the UK. The Holtham Commission conducted a thorough review of existing UK taxes and considered whether or not each was suitable for devolution. In broad terms, the Welsh Government believes that the Holtham Commission did a good job in identifying taxes that could potentially be devolved, but we will of course give serious consideration to any alternative proposals from the Silk Commission.
13. Of the taxes identified by Holtham as potentially suitable for devolution, the case for or against devolution in any particular case is highly dependent on the precise details of any proposal; in particular the interaction of devolved tax revenue with the block grant would be of great importance in determining whether devolution was of benefit to Wales. We would encourage the Commission to build on the work of the Holtham Commission on this matter, so that individual proposals for tax devolution can be assessed with a good understanding of the likely budgetary consequences.
14. In the Welsh Government's view, the case for tax devolution appears strongest in areas where there is a substantial degree of devolved responsibility and where devolution would provide an additional lever for Welsh Ministers to deliver their policy objectives. The Holtham Commission saw no major barriers in principle to the devolution of stamp duty land tax, air passenger duty, aggregates levy and landfill tax and we agree that all of them could be good candidates for devolution.
15. Where taxes could be used as policy levers, there is a case for consistent treatment of the devolved administrations. For instance, we note that the UK Government has announced its intention to devolve air passenger duty to the Northern Ireland Executive and we favour the devolution of that tax to Wales as part of a package of reforms.
16. The Welsh Government would support proposals to allow the introduction of new taxes in Wales that would help deliver the policy aims of Welsh Ministers, but as is the case with existing taxes the details of any proposal would be crucial in determining whether or not this power would be of benefit to the people of Wales. In particular, it would be essential to ensure that any revenue raised through additional tax effort by Welsh citizens or businesses resulted in additional resources being

retained in Wales. It would not be acceptable for the revenue from a new tax levied in Wales to be 'netted off' the overall budget.

17. Devolution of corporation tax could offer the Welsh Government a powerful tool to promote economic development, but this is a volatile tax which is strongly tied to the economic cycle. There would therefore be significant budgetary risks to Wales that would need to be mitigated in any proposal for devolution. If corporation tax were to be devolved to Wales and other devolved administrations there would also be a clear risk of a 'race to the bottom' in tax rates, resulting in reduced revenue but with little net impact on the location of business activity. In addition, there would be significant legal and administrative challenges to be addressed before any proposal could be implemented. We believe that any scheme to devolve corporation tax would have to address each of these issues. We are aware that the UK Government and the Northern Ireland Executive are currently considering devolving corporation tax to Northern Ireland. If that were to happen we would expect Wales to be made an equivalent offer, but the Welsh Government's view on its appropriateness would be dependent on the details of the proposal.
18. Income tax is primarily, though not exclusively, a means of raising revenue as opposed to being a lever to achieve a specific policy goal. The value of income tax receipts in Wales - around £5 billion or so - means that devolution of this tax would have substantial risks and challenges. The Welsh Government has not sought devolution of powers to vary income tax rates. We believe that, given the Scottish precedent in 1997, and the fact that the Welsh referendum in 2011 was expressly stated not to be relevant to taxation issues, there would need to be another referendum before such powers could be transferred to Wales. We are also mindful of the need to ensure that any proposals on income tax must take account of Welsh socio-economic circumstances, particularly the integrated nature of the Welsh and English economies. That said, we are not ruling out income tax as a potential source of revenue for Wales over the longer term and we will consider proposals from the Commission on this issue as on all others. The First Minister's speech to the Institute of Welsh Politics on 14 November 2011 discussed one way in which income tax might over time come to play a part in the financing of devolved government in Wales in a way that leaves the final decision on rate-varying powers with the people of Wales.
19. In general, we do not see a strong case for tax assignment (i.e. allocating revenues from a particular tax to Wales, but without devolving rate-varying powers over that tax). Under the current funding regime, most tax receipts are pooled at the UK level and as a consequence the Welsh budget is insulated from region-specific revenue shocks. Over the longer term, UK-wide pooling of tax receipts also ensures that the benefits of economic growth in the UK's most affluent regions are shared by all. While tax assignment may have merit as a staging post to full devolution in certain circumstances, assignment without rate-varying powers seems unattractive as a goal in itself; it is likely to reduce risk pooling and increase the volatility of the Welsh budget but without the compensating benefits of strengthened devolved policy levers or enhanced accountability. However, if the Commission develops proposals for tax assignment that limit these disadvantages, we would of course be willing to consider them.

II. What, if any, borrowing powers should be transferred to Wales?

20. The Welsh Government already has certain borrowing powers in law that are drawn from the Welsh Development Agency Act (1975) - see the Annex to this submission for a summary of those powers. However, Treasury rules mean that if we were to exercise those powers there would be no net benefit to the Welsh budget. This issue is currently under discussion in the inter-governmental talks on funding reform.
21. The Welsh Government should be able to borrow to fund capital investment, irrespective of whether or not significant tax devolution occurs. At present, the Welsh Government's capital budget is set in a way that is driven by capital spending needs in England and Welsh Ministers lack the ability to smooth the costs of large capital projects over time. Access to borrowing powers would provide an important additional flexibility to the Welsh Government to manage its capital spending and implementing a prudent additional investment programme in a way that better meets the needs of Wales.
22. While we believe that devolution of borrowing powers should not be dependent on tax devolution, we are aware that the UK Government takes the opposite view. If a number of smaller taxes were devolved to Wales, then that would - we presume - overcome the UK Government's objections and enable Welsh Ministers to borrow in order to fund capital investment. For example, if stamp duty land tax, air passenger duty, aggregates levy and landfill tax were devolved to Wales (as the Holtham Commission proposed), they could provide an annual revenue stream of around £200 million. On current interest rates, that would be sufficient to support a borrowing-funded investment programme of over £3 billion.
23. We are in favour of Welsh Ministers having the maximum flexibility to borrow that is consistent with the UK Government's legitimate role in protecting the fiscal position of the UK. That means that borrowing powers would need to operate in a well-defined framework that included limits to ensure the sustainability of any debt repayments.
24. It is likely that the most straightforward method of borrowing would be via the Debt Management Office, but we would welcome the Commission's views on whether borrowing from other sources, including bond issuance, would be advantageous to Wales and whether it could be made to operate effectively within a UK framework.
25. In the event of significant tax devolution, the resulting budgetary volatility might well require further borrowing powers that could be used to finance recurrent spending as well as capital investment. The extent of this volatility - and the resulting need for borrowing powers - would very much depend on which taxes were proposed for devolution and on the offset mechanism used to link tax revenues with the block grant. We encourage the Commission to consider this issue in the course of its work.

III. Do you have any other proposals for improving the financial accountability and empowerment of the Welsh Government?

26. Taken as a whole, the Welsh Government's financial reform objectives - a fairer and more stable block grant, borrowing powers to finance investment and perhaps also strengthened accountability through tax devolution - are substantial and ambitious. If achieved, they would greatly strengthen the devolution settlement, which would be of benefit not just to Wales but to the UK as a whole. Of course, successful reform

cannot be delivered by the Welsh Government acting in isolation, but nor can it be imposed from outside; it requires the active co-operation of both Governments and the support of the people of Wales.

27. The Welsh Government further believes that there are a number of detailed changes to the funding system that would improve its transparency and enable Welsh Ministers to better allocate resources in line with Welsh circumstances. In particular:
- i) Welsh Ministers should have freedom to move funds between capital and resource budgets without the need for Treasury approval;
 - ii) the Welsh Government should have unrestricted ability to save unspent resources and to spend those funds in future years without requiring Treasury consent - the current 'Budget Exchange' scheme is inadequate in this regard;
 - iii) the Statement of Funding Policy - the rule book that governs the financing of devolved administrations - should as far as possible become a jointly-owned document of the UK Government and the devolved administrations. At present, it is wholly under the control of the UK Government and the Secretary of State for Wales agrees the document on behalf of Wales. In the event that joint agreement is not possible in certain matters, we accept that the UK Government would have the right to impose its decisions, but we would want this to be done in a transparent way;
 - iv) technical aspects of the funding regime should be administered by an independent body that operates at arm's length from both the Welsh Government and the UK Government. The UK Government should be able over-rule the decisions of the independent body, but would have to make public its reasons for doing so.
28. In addition, the Welsh Government would welcome the Commission examining the UK's public spending framework and budgetary and accounting regime as they apply to Wales, and considering whether there are any aspects which are inappropriate to a devolved administration.
-

Annex:

Summary of the borrowing powers of the Welsh Ministers under the Welsh Development Agency Act 1975

1. The legal power to borrow for the purposes of the Welsh Ministers' functions under the 1975 Act is in Schedule 3 to that Act, which is operative by virtue of section 18. Paragraph 3 provides that:

For the purpose of exercising their functions under the 1975 Act, the Welsh Ministers may borrow money from any person (including their wholly owned subsidiaries), but any borrowing in a currency other than sterling requires the approval of the Treasury.

2. The majority of the main functions of the Welsh Ministers under the 1975 Act are set out in section 1(3) and are:
 - (a) to promote Wales as a location for businesses², or assist or concert its promotion as such a location;
 - (b) to provide finance for persons carrying on or intending to carry on businesses;
 - (c) to carry on businesses and to establish and carry on new businesses;³
 - (d) otherwise to promote or assist the establishment, growth, modernisation or development of businesses, or a particular business or particular businesses;
 - (da) to make land available for development;
 - (f) to provide sites, premises, services and facilities for businesses;
 - (g) to manage sites and premises for businesses;
 - (h) to bring derelict land into use or improve its appearance;
 - (i) to undertake the development and redevelopment of the environment;
 - (j) to promote the private ownership of interests in businesses by the disposal of securities and other property held by the Welsh Ministers or any of their subsidiaries.
3. The Welsh Ministers' functions under the 1975 Act may be exercised for any of the purposes set out in section 1(2), which are:
 - (a) to further the economic and social development of Wales or any part of Wales, and in that connection to provide, maintain or safeguard employment;
 - (b) to promote efficiency in business and international competitiveness in Wales;
 - (d) to further the improvement of the environment in Wales (having regard to

² "business" is defined as including any industrial, commercial or professional activities (whether or not with a view to profit) and the activities of any government department or any local or other public authority;

³ The Welsh Ministers can only exercise this function through subsidiaries.

existing amenity).

4. Therefore, the purposes for which the Welsh Ministers may exercise their functions under the 1975 Act are wide, encompassing both the economic and social development of Wales, and improving the environment in Wales.
5. Section 1.(6) gives the Welsh Ministers a power to do anything, whether in Wales or elsewhere, which is calculated to facilitate the discharge of their functions set out in section 1(3) above, or is incidental or conducive to their discharge:
6. Section 1(7) provides that the Welsh Ministers have power in connection with their functions under the 1975 Act—
 - (a) to acquire, hold and dispose of securities;
 - (b) to form bodies corporate;
 - (c) to form partnerships with other persons;
 - (d) to make loans;
 - (e) to guarantee obligations (arising out of loans or otherwise) incurred by other persons;
 - (f) to make grants;
 - (g) to act as agent for other persons;
 - (h) to acquire and dispose of land, plant, machinery and equipment and other property (land may be acquired by agreement or compulsorily) ;
 - (i) to manage land, and to develop land and carry out works on land, and to maintain works or assist in their maintenance;
 - (k) to make land, plant, machinery and equipment and other property available for use by other persons;
 - (l) to provide advisory or other services or facilities in relation to any of their functions, or assist in their provision; and
 - (m) to promote or assist in the promotion of publicity relating to any of the functions of the Welsh Ministers under the 1975 Act.
7. Section 9 of the 1975 Act clarifies that the powers of the Welsh Ministers under section 1(3) to provide and manage sites and premises for businesses, to provide related facilities, and to make land available for development, includes the power to modernise, adapt or reconstruct buildings. The Welsh Ministers may also acquire and provide temporary sites for the business occupants of buildings which are being modernised etc under this power.
8. Section 9 also allows the Welsh Ministers to provide business premises rent free for such time as they consider appropriate, if they consider that there are circumstances

which justify the giving of special assistance.

9. Section 10 gives the Welsh Ministers the power to undertake or assist in the provision of means of access or other services or facilities in or for an area, where this appears expedient to contribute to or support the development of businesses in that area.
 10. The Welsh Ministers have a duty under section 1(14) of the Act to publish from time to time programmes for the performance of their functions under the 1975 Act. Such programmes can be implemented by the Welsh Ministers themselves, jointly with others or through others acting on the Welsh Ministers' behalf, for the improvement, development or redevelopment of the environment in Wales.
 11. Section 15(2) allows the Welsh Ministers to make payments to any authority or person of such amount and in such manner as it may determine, for carrying out work which the Welsh Ministers consider will contribute to the purposes of such a programme.
 12. Section 16 gives the Welsh Ministers powers in relation to derelict, neglected, or unsightly land where they are satisfied steps should be taken for bringing it into use or improving its appearance. They can acquire or carry out works on the land, or give a grant to the local authority for the area to do the same.
 13. There is a duty on the Welsh Ministers to secure that none of their wholly owned subsidiaries formed under the 1975 Act borrow money otherwise than from them or another of their wholly owned subsidiaries, except with their (the Welsh Ministers) consent.⁴
-

⁴ Paragraph 5 of Schedule 3 to the 1975 Act.

Eitem 3

Finance Committee

FIN(4) 07-12 - Paper 2

Devolved Funding: Borrowing Powers and Capital

Evidence from the Local Government Association

Introduction

The Local Government Association (LGA) was formed in 1997 to be the voice of local government on the national stage. Over the past 15 years we have lobbied and campaigned on behalf of local authorities in England and Wales, both in Westminster and in Brussels.

The LGA's mission is to support, promote and improve local government. We work with councils to achieve our shared vision for local government by focusing our efforts where we can have real impact, being bold and ambitious, and supporting councils to make a difference, deliver and be trusted.

Almost all English Local Authorities are members of the LGA and all Welsh Local Authorities are in membership through the Welsh Local Government Association, which has corporate membership of the LGA.

1. Local authorities and prudential borrowing

Prudential Borrowing - overview

On 1 April 2004 the provisions of the Local Government Act 2003 came into force, introducing a new regulatory framework (the Prudential Code) which enabled councils to borrow in sterling for capital expenditure from any source so long as the borrowing is prudent, affordable and sustainable. This replaced a more prescriptive system of credit approvals and borrowing limits specified by central government.

Local Authority use of prudential borrowing

Local authorities have managed the prudential borrowing system with care. Table 1 shows how borrowing by UK local authorities has increased over the past six years.

						£ million	% Change
As at 31st March:	2006	2007	2008	2009	2010	2011	2010-11
Total borrowing	58,117	61,415	65,886	66,775	67,862	70,563	4%

¹ Source: Department for Communities & Local Government
<http://www.communities.gov.uk/documents/statistics/pdf/2041385.pdf>

(£m)							
------	--	--	--	--	--	--	--

The level of borrowing can be compared with the value of local authorities' capital assets. As at 31 March 2011, the value of English local authorities' capital assets was £232,776m². Assets held include council houses (£66,928m), schools (£60,240m) and infrastructure assets (£30,779m).

As at 31 March 2011, the overwhelming majority of UK local authorities' borrowing (£69,782m) was long term. £52,701m of outstanding borrowing (76%) was owed to the Public Works Loans Board, with £11,802m owed to banks³. The proportion of borrowing owed to the Public Works Loans Board has remained in the 75% - 80% range over the last five years. There has been almost no use of bonds as a source of finance until a recent issue by Transport for London.

The use of prudential borrowing has been both cautious and gradual. While councils have increased the amount of borrowing undertaken since the introduction of the Prudential Code in 2004, this should be seen in the context of a general increase in total levels of capital expenditure and a period of rising budgets. The trend in England is now for reducing capital expenditure. This is partly because funding from central government is set to reduce (both in terms of capital grant and in terms of revenue support for borrowing) and partly because local authorities are themselves reducing funding of capital expenditure. Chart 1 overleaf shows the sources of financing of English local authorities' capital expenditure expressed in real terms at 2010-11 prices.

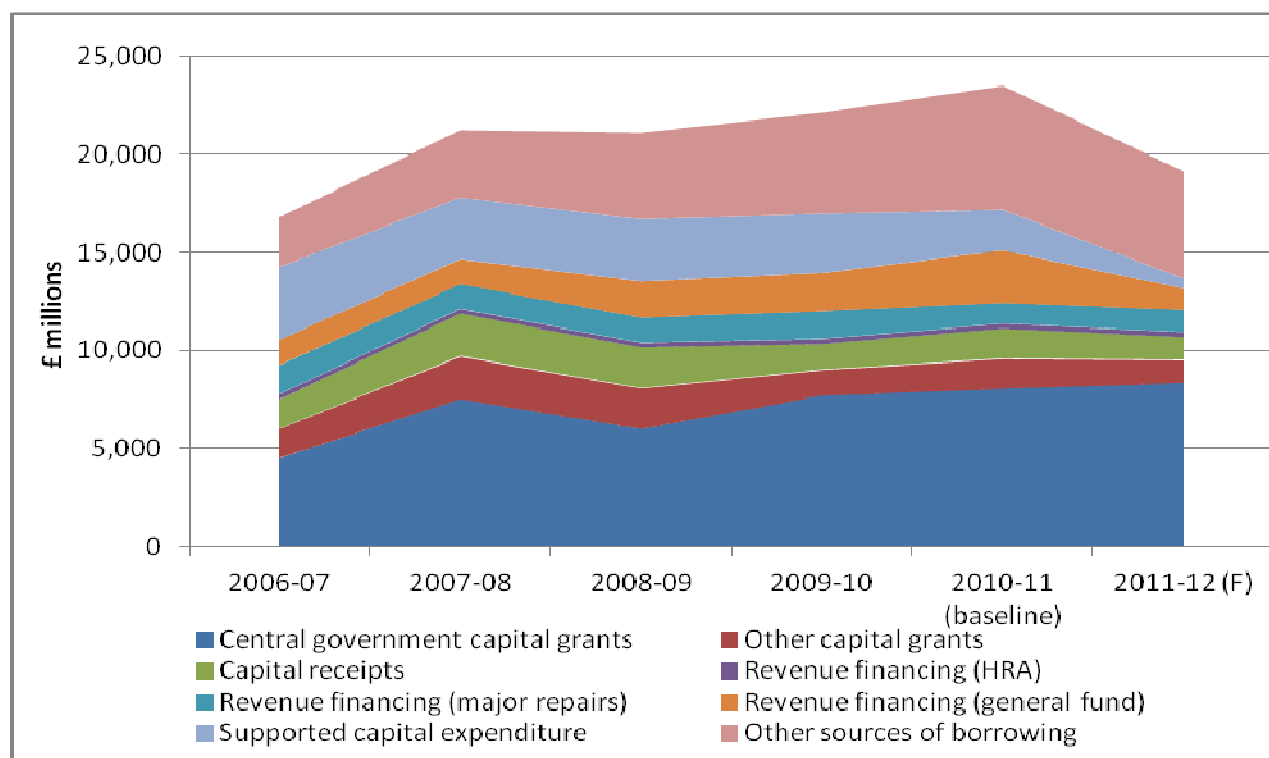
For English local authorities, the use of prudential borrowing increased in real terms between 2006 and 2011. In 2006-07, prudential borrowing was £5,655m, but borrowing rose to £8,399m by 2010-11. However, the proportion of capital expenditure financed by borrowing remained relatively constant at just over one-third⁴. 2011-12 forecasts indicate that borrowing has fallen back sharply in 2011-12.

² Source: Department for Communities & Local Government, <http://www.communities.gov.uk/documents/statistics/pdf/20132511.pdf> Annex E(2)

³ Source: Department for Communities & Local Government, <http://www.communities.gov.uk/documents/statistics/pdf/2041385.pdf>, Table 4

⁴ Source: Department for Communities & Local Government, <http://www.communities.gov.uk/documents/statistics/pdf/20132511.pdf>, Table 5

Chart 1: Financing of English local authority capital expenditure, 2006-07 to 2011-12⁵



2. Benefits of the prudential borrowing code

The Code provides a framework enabling authorities to determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Code supports local strategic planning, local asset management planning and proper option appraisal.

The key benefits of the Code are as follows:

Integration into the corporate planning process – The Code integrates revenue and capital budgeting which were previously driven by separate processes, with the capital elements mainly driven by the government constrained limits on borrowing.

More effective asset management – The enhanced links to the corporate planning process are designed to ensure that a local authority's assets are managed in accordance with their strategic objectives. The Code also allows flexibility in capital financing, for example a local authority may initially finance their capital expenditure from internal resources rather than taking out external borrowing, as demonstrated by external

⁵ Source: LGA analysis of DCLG, *Local authority capital expenditure and receipts, England: 2011-12 forecast revision* (Oct 2011), Table 5

borrowings being less than the underlying need to borrow. This enables resources to be used effectively in line with local circumstances.

Prudent medium term financial planning – the Code promotes effective financial planning which considers the range of options for revenue funding and capital investment by:

- Establishing whether the local authority considers it affordable and prudent to bear additional future revenue costs associated with additional investment, ie financing and running costs
- Establishing whether the use of existing or new revenue resources to finance capital investment should have precedent over other competing needs for revenue expenditure
- Establishing the scope for capital investment to generate future revenue savings or income, taking into account the risks associated with such proposals.

More rigorous option appraisal – Given the pressures on revenue resources many local authorities appraise schemes on an “invest to save” basis which allows individual schemes to be appraised.

Governance Arrangements

Local authorities in England and Wales are required to have regard to the Code under Section 3(5) of the Local Government Act 2003.

The Local Government Act 2003 also requires local authorities in England and Wales to determine and keep under review the amount of money that they can afford to borrow for capital investment. In addition the Local Government Finance Act 1992 requires local authorities to set council tax at a level sufficient to meet planned revenue expenditure after taking into account other sources of income. This is known as the “balanced budget requirement”. These statutory requirements further ensure that local authorities act prudently and can afford to repay any borrowing undertaken.

The governance arrangements within the Code ensure that decision making is open and transparent, decisions are taken at key times and that there are early warning signs to indicate potential problems. The Code includes a range of Prudential Indicators which are designed to ensure that capital investment plans are prudent, affordable and sustainable. These are monitored and reported on a regular basis and procedures should be put in place for instances where there are likely to be potential breaches in the Indicators.

The Code places specific responsibilities on the Chief Finance Officer (CFO) within a local authority who is responsible for ensuring that all matters that must be taken into account are reported to the budget decision making body for consideration and for establishing procedures to monitor performance.

If a CFO forms the view that the authorised limit on borrowing is about to be exceeded a report must be made to the decision making body that originally set the limit. It will then be for the decision making body, taking into account the advice of the CFO, to determine if it would be prudent to raise the current limit or instigate procedures to ensure that the limit is

not breached. In order to be able to respond to unforeseen and extraordinary events, local authorities in England and Wales may make use of the provision in Section 5 of the Local Government Act, which permits temporary borrowing, but reliance on this section to borrow above the authorised limit should be reported to the next meeting of the body that set the budget for the local authority.

The government has the power to intervene and set an individual borrowing limit for a local authority if, for example, it was considered that the Code was not being followed and that expenditure was being incurred which was unaffordable, imprudent and unsustainable. It is indicative of the success of the Code that these powers have not been used.

The prudential indicators are approved by the same body that approves the budget, reflecting the inherent link between the two processes.

3. Recent Developments

Spending Review 2010 PWLB Increase

The 2010 Spending Review included a decision to increase the rate of interest charged to local authorities by the Public Works Loans Board (PWLB). Historically, rates had been set at gilts +13-20 basis points (1 basis point = 0.01%). The new arrangements are that rates are set at gilts + 100 basis points. The government's stated rationale for this decision was that it wished to impose both a degree of downward pressure on local authority borrowing and tougher discipline, in the context of the difficult spending decisions being made in other parts of the public sector. The result of this decision, and the spending reductions imposed by the Spending Review, has been to reduce significantly the amount of borrowing local authorities are undertaking from the PWLB. Between January 2009 and September 2010 (the month before the rate increase), local authorities across the UK borrowed on average £554m a month from the PWLB. Since October 2010 local authorities across the UK have borrowed on average £228m a month from the PWLB⁶. However, the PWLB remains the main source of borrowing and has continued to fund some 76-77% of total borrowing.

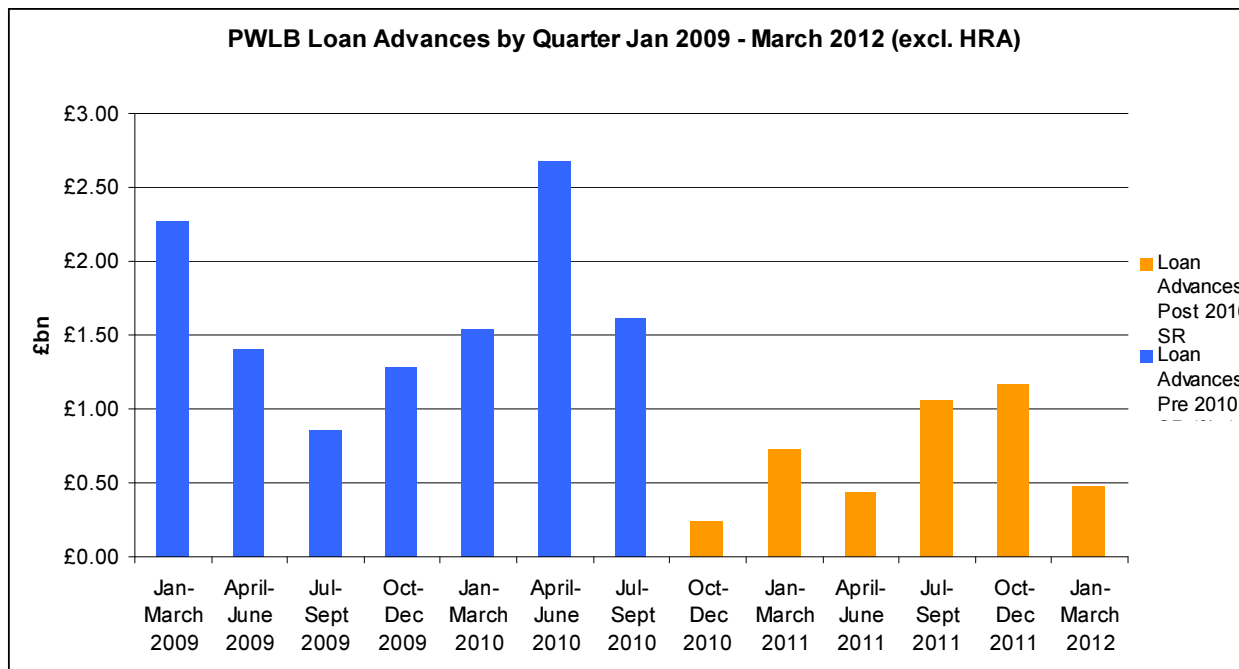
Chart 2 overleaf shows changes in the levels of quarterly loan advances by the PWLB in periods before and after the announcement of the 2010 Spending Review decisions. These figures exclude the exceptional borrowing in March 2012 undertaken to finance the buyout of the Housing Revenue Account.

The Spending Review decision pushed PWLB rates higher than likely market rates for lending to local authorities. In consequence, the LGA has explored the possibility of establishing arrangements that would facilitate its member authorities drawing finance from the bond markets.

⁶ Source: PWLB monthly lending data published at http://www.dmo.gov.uk/index.aspx?page=PWLB/PWLB_Monthly_Loans_Report

In its 2012 Budget, the government indicated that it would introduce new arrangements to reduce PWLB rates by 20 basis points in return for increased provision of information by local authorities about their borrowing, and that it would consider possible arrangements for further reductions in rates.

Chart 2 – Quarterly loan advances by the PWLB



The Housing Revenue Account Buy-out

In March 2012 the Housing Revenue Account Subsidy System was reformed, with local authorities taking on the historic debt that was previously financed by central government through national pooling of housing rents. This reform applies in England, but not in Wales. The reform was significant for prudential borrowing for two reasons. Firstly, it involved a series of borrowing transactions of unprecedented scale in local government. In total £13.4bn was borrowed, £12.9bn of it from the PWLB, to finance the transaction. Shortly before the transactions took place, the government announced that rates on borrowing for this purpose only would return to their historic level of gilts +13-20bps. Prior to that announcement a number of councils had been considering accessing Debt Capital Markets to finance the transaction.

The reform of the HRA Subsidy System also has implications for prudential borrowing, as it enables local authorities to borrow against housing rental income for the first time since the creation of the Subsidy System. It is estimated by the Office of Budgetary Responsibility that the reform will create a 'borrowing headroom' of £3.5bn over the period 2012-2017. At present it is unclear how much of the borrowing headroom councils will utilise, as some councils may choose to use this to pay down their debt faster.

The Local Government Finance Bill and prudential borrowing

The Local Government Finance Bill 2012 will enable English local authorities to retain a proportion of increases in business rates locally. This reform does not apply to Wales. The current proposals would enable councils to retain this business rates growth up to 10-yearly resets, at which point each authority's baseline would be recalculated. This is significant for prudential borrowing because it opens up the possibility for local authorities to borrow against money to be raised from future business rates income representing the increased business rates income generated by new development.

This kind of borrowing is known as Tax Increment Finance (TIF) and the government envisages that it might happen in one of two ways. The first, TIF1, would be entirely at the discretion of local authorities within the Prudential Code. Councils would be free to borrow against all retained growth for a period of up to 10 years between resets. However, it is understood that many local authorities (and potential lenders) regard a 10 year period as too short to provide the requisite security of revenue. The alternative TIF2 would enable councils to borrow against ring-fenced business rates growth for a period of up to 25 years in a manner regulated by central government. At present the government has allocated £150m to funding TIF2 between 2013 and 2019. The government has also introduced Enterprise Zones, which enable councils to retain all business rates within designated areas for a period of 25 years. This potentially overcomes the barrier to TIF1 schemes for borrowing in these areas. The OBR forecasts that the net impact to the Exchequer of lost business rates income will be £205m between 2012 and 2015.

Local Government Association
May 2012

ANNEX

Case Studies – Councils using prudential borrowing innovatively

Newcastle City Council - Northern Rock Tower

Newcastle City Council used prudential borrowing to purchase the newly built Northern Rock Tower, which was then leased out to a private company on the day of purchase. The aim was to increase jobs by providing a headquarters for a growing local company, providing a boost to the local property market, as well as enhancing the Council's property investment portfolio. The initial rental stream more than covers the financing costs and after future rent reviews the rental income is estimated to be twice that of financing costs, creating a new revenue stream. Without prudential borrowing freedoms, Newcastle would have been unable to provide new office space to a local business and gain a valuable, revenue generating asset.

Northamptonshire County Council Road Maintenance Scheme

In April 2010 Northamptonshire used prudential borrowing to fund a preventative approach roads maintenance. The borrowing has enabled the council to address the short-term pressures of dealing with the increasing numbers of potholes on the network, caused by a deteriorating network and a succession of severe winters. A preventative maintenance strategy can reduce overall costs by up to five times compared with the reconstruction costs required if roads are left to deteriorate. It can also reduce the need for large-scale reconstruction schemes. In order to implement this approach the council required £10m in prudential borrowing to complement £20m of grant funding. As a result of this funding:

- The percentage of permanent & semi-permanent repairs against all repairs has increased by 50 per cent compared to the previous 12 month average
- The initial investment has freed up £1.7m per annum in revenue funding
- The number of customer reports of potholes has fallen by 23 percent - representing 2,579 less reported defects
- Initial figures indicate that the numbers of insurance claims made against the Council originating from poor road surfaces have reduced by 48 per cent on the previous 12 months. This equates to a reduction of 419 claims received



Clerk of the Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

4th January 2012

Dear Sir/Madam,

**The Effectiveness of European Structural Funding in Wales
Evidence from Tidal Energy Limited**

Further to the call for evidence on the above received on 28th October 2011, Tidal Energy Limited (TEL) is pleased to provide this letter outlining the impact ERDF funding has had on our business and the effectiveness of the spend against the objectives of our project and the value for money.

TEL is a privately owned micro-SME established to develop an innovative tidal stream energy converter called “DeltaStream”. TEL is based in Cardiff and the technology was founded by a marine engineer in Pembrokeshire.

Our project to demonstrate a full scale device and a test site off the coast of Pembrokeshire is currently being supported by ERDF funding. Stage 1 of the project, consisting of the initial design and planning work, has been completed successfully and Stage 2, which is progressing well, is due to be completed in December 2013. This latter stage consists of the final design, manufacturing and testing of the device for 12 months and includes supplying tidal stream generated electricity into the local electricity distribution network.

The project is a Collaborative Research and Development project with Cranfield University who is a Joint Sponsor. Match funding is provided by the shareholders of Eco2 Limited, a Welsh renewable energy development company who is also a Joint Sponsor in the project.

The benefits of the ERDF project are extremely important to TEL and include the following:

1. It enables TEL to test DeltaStream technology with a view to generating significant investment and business opportunities in the future.

**SIMPLE,
SUSTAINABLE,
INVISIBLE ENERGY**

Tudalen 38





2. It will provide a source of renewable energy to St Davids in Pembrokeshire and provide an opportunity to generate significant levels of predictable renewable energy in the future.
3. It provides an opportunity for the industry and regulators to understand the environmental impact aspects of tidal steam generation.

From a Welsh Government perspective the project aligns well with the Ministerial Policy Statement on Marine Energy in Wales (July 2009) including the following:

- Prototype demonstration in Pembrokeshire
- Co-operation between private sector enterprise and public sector
- WEF0 finance
- Opportunity to examine environmental impact – co-operation with CCW and other stakeholders
- Seeking to establish regional economic benefit and create embryonic marine energy industrial sector
- Expansion of R&D excellence; collaboration with Universities. Test efficacy of the consenting process

This is the only European Structural Funding project that TEL is involved with and we would like to provide comments on our experience to the following specific questions identified in the call for evidence:

1. *To what extent do you consider the Convergence and Regional Competitiveness and Employment programmes in Wales for the 2007-13 period, to have achieved—or to be achieving—their intended objective.*

Selection of the DeltaStream project to benefit from ERDF funding has made an important contribution to the objectives of the Strategic Framework for Climate Change, Energy. Our project meets the objective of supporting the development of clean and renewable energy or other significant activities to reduce greenhouse gas emissions relating to energy generation and use.

The project also satisfies the aim of Priority 4 – Creating an Attractive Business Environment which is to promote sustainable business growth and new business opportunities in relation to future environmental challenges and opportunities.

More specifically the project also contributes to the Theme 1 – Energy, the aim of which is to support the development of clean and renewable energy which is to be achieved by:

- Supporting clean energy developments and energy infrastructure improvements to increase supply;
- Strengthen the energy R&D base and links between businesses and academia including the demonstration of future technologies.

**SIMPLE,
SUSTAINABLE,
INVISIBLE ENERGY**

Tudalen 39





The Welsh Government has set targets with regard to the development of marine renewable energy and has a strong aspiration to generate electricity from its marine resources. TEL is very pleased to be able to work towards supporting these targets and aspirations.

The project also provides regeneration and employment benefits, however these are not formally measured and reported as part of the project.

2. Do you consider the various projects funded by European Structural funds in Wales to be delivering value for money?

We cannot comment on other projects funded by European Structural Funds in Wales but provide the following comments on whether the DeltaStream project is providing value for money.

As a small, private business we have found the strict WEF0 procurement requirements difficult to operate for some of the requirements of our project. It would seem that the procurement rules are aimed at organisations with dedicated procurement and legal resource, operating in the public domain and contracting in the main for large projects. The DeltaStream project is a relatively small, innovative project which involves a number of specialist contractors. In our experience the rules can inhibit innovation and stifle cost-effective delivery.

On planning the project, we underestimated the amount of internal management required to operate in accordance with the procurement guidance. Technical development and project management resource has been tied up in carrying out cumbersome and restrictive procurement activities. As a result, we have suffered delay in the project, with associated impact on cost.

Our early experience in Stage 1 of our project was quite salutary, in that from an original grant offer of c.£750k, we lost £250k in grant as some costs were deemed ineligible for works which had not been procured strictly in accordance with the procurement rules.

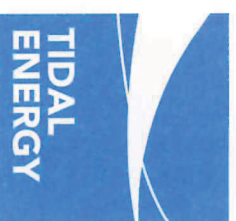
In order to reduce the risk of claw back of costs for private companies and to provide small companies with the flexibility to provide value for money for innovative projects we would specifically suggest the following amendments be made to the procurement guidance and rules:

- relax the requirements for lower value contracts,
- provide clear guidance on how single source procurement can be qualified (especially relevant in our case where innovation and invention have in some cases precluded commercial style competitive procurement)
- review whether or to what extent private companies need to comply explicitly with the Public Procurement Regulations
- Enable project sponsors to liaise directly with WEF0 procurement department (for efficiency in seeking advice and guidance)

**SIMPLE,
SUSTAINABLE,
INVISIBLE ENERGY**

Tudalen 40





We consider that the DeltaStream project has provided added value to the marine renewable industry in Wales providing wider R&D opportunities. As part of the project we have had the opportunity to support and work with a number of Welsh academic grant initiatives including SEACAMS, LCRI and Marlin project. We promote the opportunity for Welsh academic institutes in Pembrokeshire, Cardiff, Swansea, Bangor to benefit from the learning opportunities provided by Wales's first tidal energy deployment.

5. *Do you have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current rounds of Structural Funds?*

TEL's objective is to create a sustainable technology business in Wales, for DeltaStream to make a significant contribute to the Welsh Government's renewable energy targets and in doing so provide significant regeneration and investment opportunities. We believe this effort will be sustainable beyond 2013 as we look to build on the outputs of the current project.

The current project is the first stage of technology development and future investment is required to develop the technology and the business to be commercially viable. The next stage of business development will require additional funding which at present is not available to the company. TEL will submit a further application to WEF0 for further funding for the next stage of the business development to underpin the commercialisation of the technology.

6. *What is your own experience of accessing European Structural Funding?*

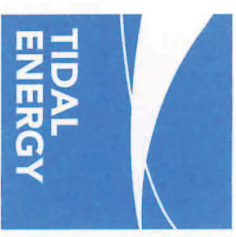
Tidal stream conversion technology is in a state of infancy and it is difficult to obtain funding for such innovative projects in a very challenging economic environment. Prior to applying for ERDF funding TEL has spent significant effort seeking both private and public funding for the project. It is clear that without ERDF support we would not be in a position to progress this project and development of the technology would be risk.

Although we are very pleased to have the support of this funding we found the application process arduous and protracted. As an SME without the support of internal legal, human resources, procurement and other support services it is difficult to meet the requirements of the WEF0.

**SIMPLE,
SUSTAINABLE,
INVISIBLE ENERGY**

Tudalen 41





7. *Is the private sector in Wales sufficiently engaged in accessing European Structural Funding?*

It is disappointing that there is such little take up of European Structural Funding by the private sector in Wales as it can provide a great opportunity to generate technology, employment and investment. For the reasons identified above it is difficult for private companies, particularly small companies, to meet the requirements of the regulations, provide the resources and manage the risks associated with such a project.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "C Williams".

Chris Williams
Development Director

**SIMPLE,
SUSTAINABLE,
INVISIBLE ENERGY**

Tudalen 42



Finance Committee

FIN(4) 07-12 – Paper 4

EVIDENCE ON THE EFFECTIVENESS OF STRUCTURAL FUNDS FURNACE FARM, BODNANT, CONWY

Background

1 Furnace Farm was the home farm of the Bodnant Estate, Conwy, North Wales. It is adjacent both to the A470 and to the world-famous Bodnant Garden (National Trust).

2 The mainly 18th century buildings have now been turned into a centre for the production, sale and enjoyment of local and Welsh food. We believe it is unique in the UK in combining an extensive farm shop (with butchery and bakery), cookery school, dairy production, tea-room and restaurant on a single site. The new National Beekeeping Centre for Wales will also have a home at Furnace.

3 The main construction contract has been let to a local North Wales company, K&C Construction, and work on site started in October 2010. The centre will open at the beginning of June 2012.

4 Furnace Farm Ltd is a private company set up specifically to manage the development.

Value for Money

5 Without funding support from ERDF and TMF the project could not have gone ahead. The total cost of the ERDF-funded project is £6.44m. Furnace Farm has received £1.97m Convergence ERDF (Theme 4.3) and £1.1m Targeted Match Funding. The match funding is from the Bodnant Estate.

- 6 The direct outputs are 43 FTE jobs (48 in 2015) and 405,000 visitors in the first three years. The indirect outputs will include:
- an increase in tourist numbers and spend generally in the Conwy Valley;
 - a sales outlet and more sustainable future for local growers and producers;
 - increased awareness of how food is produced; and
 - general promotion of food from North and the whole of Wales.

Monitoring by WEFO

7 FFL has started to make regular reports to WEFO on the direct outputs of the project and is making arrangements to work with an external consultant to undertake an evaluation.

Sustainability

8 The business plan envisages steady growth and expansion of the business which will enable Furnace Farm to make an increasing contribution to the local economy.

Experience of Structural Funds

9 FFL's experience has been mainly positive. We were an early direct applicant to the Convergence Programme; an expression of interest for funding was submitted in January 2008. The appraisal process proceeded fairly smoothly and a conditional offer letter was issued in June 2008. WEFO have been sympathetic to increased costs and the risks that the economic recession has brought and we have been given two increases in grant.

10 Payment of ERDF claims by WEFO has been prompt and efficient, which has been a help to our cashflow.

Furnace Farm Ltd
April 2012

Alun Davies AC / AM
Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a
Rhaglenni Ewropeaidd
Deputy Minister for Agriculture, Food, Fisheries and
European Programmes



Llywodraeth Cymru
Welsh Government

Jocelyn Davies AM
Chair of the Finance Committee
Cardiff Bay
CF99 1NA

24th April 2012

Dear Jocelyn,

EUROPEAN STRUCTURAL FUNDS PROGRAMMES 2007–2013: JESSICA

I am writing to you as Chair of the Finance Committee regarding a comment I made at a Plenary on 24 January 2012, which you subsequently raised during my attendance at the Finance Committee on 29 February.

During my opening remarks for the Plenary Debate on European Programmes, I noted that 'we understand that the JEREMIE and JESSICA schemes have already been delivering for businesses and investments in Wales.'

For example, JEREMIE has already committed over £80m to 380 SMEs, and has leveraged £122m of private sector investment. The purpose of my remark in Plenary was to inform Members that both schemes have (at that time) the financial instrument structures in place and that the process of evaluating and reviewing Expressions of Interest had begun. My intention was to reassure Members that these processes would be pursued as a matter of priority. This is something that I would like to repeat.

In respect of JESSICA, I wish to inform you that investment managers are currently reviewing 11 Expressions of Interest (EOIs), requesting some £78m and worth around £108m. Expressions of interest include schemes in Neath Port Talbot; Tenby; Caernarfon; Mumbles; Swansea; Wrexham; Port Talbot, Porthcawl, Cynmael, Newport and Pontypridd. An announcement of the first JESSICA investment is scheduled for May.

Best wishes
Alun

Alun Davies AC / AM
Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd
Deputy Minister for Agriculture, Food, Fisheries and European Programmes

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)

English Enquiry Line 0845 010 3300
Llinell Ymholiadau Cymraeg 0845 010 4400
Correspondence: Alun.Davies@wales.gsi.gov.uk
Printed on 100% recycled paper

Y Pwyllgor Cyllid

Lleoliad: **Ystafell Bwyllgora 2 – y Senedd**

Dyddiad: **Dydd Mercher, 2 Mai 2012**

Amser: **09: – 11:00**

Gellir gwyllo'r cyfarfod ar Senedd TV yn:
http://www.senedd.tv/archiveplayer.jsf?v=cy_500000_02_05_2012&t=0&l=cy

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



Cofnodion Cryno:

Aelodau'r Cynulliad:

Jocelyn Davies (Cadeirydd)
Peter Black
Christine Chapman
Paul Davies
Mike Hedges
Ann Jones
Julie Morgan
Ieuan Wyn Jones

Tystion:

Peter Reekie, Director of Finance, Scottish Futures Trust

Staff y Pwyllgor:

Helen Finlayson (Clerc)
Daniel Collier (Dirprwy Glerc)
Martin Jennings (Ymchwilydd)
Eleanor Roy (Ymchwilydd)

1. Cyflwyniad, ymddiheuriadau a dirprwyon

1.1 Croesawodd y Cadeirydd yr Aelodau a'r cyhoedd i'r cyfarfod.

2. Cyllid Datganoledig: Pwerau Benthg a Dulliau Arloesol o Ddefnyddio Arian Cyfalaf

- 3.
- 4.
- 5.

2.1 Croesawodd y Cadeirydd Peter Reekie, Cyfarwyddwr Cyllid, Scottish Futures Trust (drwy gynhadledd fideo) i'r cyfarfod.

2.2 Bu'r Pwyllgor yn holi'r tyst.

6. Papurau i'w nodi

3.1 Nododd y Pwyllgor y dystiolaeth ychwanegol a ddarparwyd gan Gyngor Gweithredu Gwirfoddol Cymru mewn perthynas â'i ymchwiliad i Effeithiolrwydd y cronfeydd strwythurol Ewropeaidd yng Nghymru.

3.2 Cadarnhaodd y Pwyllgor gofnodion y cyfarfod a gynhaliwyd ar 14 Mawrth 2012.

7. Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer y canlynol:

Eitem 5 a 6

8. Trafod y dystiolaeth – Cyllid Datganoledig: Pwerau Benthg a dulliau arloesol o ddefnyddio arian cyfalaf

5.1 Trafododd y Pwyllgor y dystiolaeth a gasglwyd fel rhan o'i ymchwiliad i Gyllid Datganoledig: Pwerau Benthg a dulliau arloesol o ddefnyddio arian cyfalaf.

9. Penderfyniad ar fusnes y Pwyllgor yn y dyfodol

6.1 Bu'r Pwyllgor yn trafod busnes y Pwyllgor ar gyfer y dyfodol.