

**Grwp yr Economi, Sgiliau a Chyfoeth Naturiol/
Economy, Skills and Natural Resources Group**

Cyfarwyddwr Cyffredinol/Director General



**Llywodraeth Cymru
Welsh Government**

Chair
Public Accounts Committee

5 February 2021

Dear Chair

Ahead of my session with you and the Committee on Monday, my team and I have prepared a short note (attached) to provide background, supporting your reflections on the fifth Assembly/Senedd and the work of Economy, Skills and Natural Resources Group.

Alongside delivering the important priorities of the Welsh Government, the challenges presented in recent years by the combination of responding to Covid-19, managing the impacts of EU transition, and dealing with emergencies such as flooding and animal disease, have placed significant demands on teams and individuals and on the resources at our collective disposal. As Additional Accounting Officer, I would like to put on record my thanks to colleagues across my Group, wider Welsh Government, and our partner organisations across Wales for the hard work, dedication to public service, flexibility and determination they have shown in continuing to overcome the unprecedented and sustained nature of these challenges.

In addition to a number of overview points, this note also provides an update to the Committee on the financial support to businesses that Group has provided or coordinated as part of our Covid response (Annex 1), and a promised update on the International Conference Centre Wales (Annex 2).

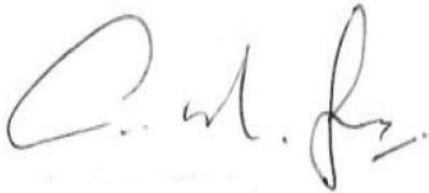
I am grateful to you and Committee colleagues for the constructively challenging way you have held me as AAO and my Group to account over this recent period, and for what I feel has been

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a frank and productive working relationship. I hope that our input to your various enquiries has been of value, and that the approach we have developed in terms of briefing the Committee has also been of benefit.

With my thanks and best wishes to you, Committee colleagues, and your team.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. Slade', written in a cursive style.

Andrew Slade
Director General
Economy, Skills and Natural Resources

Public Accounts Committee – 8 February 2021

Reflections on the Fifth Assembly/Senedd: Welsh Government – Economy, Skills and Natural Resources

Summary Paper

Covid-19 and Recovery

In the earliest days of the pandemic, ESNR's focus was on supporting the cross-government immediate emergency response, including in respect of supply chains for food and fast-moving consumer goods, critical national infrastructure, and addressing immediate economic shocks. We have remained on an emergency footing throughout, ready to address issues as they arise, with twice-weekly Group stocktakes and out-of-hours rotas, feeding into the central Welsh Government Covid and contingency monitoring and response machinery.

Over the months, several hundred staff across the Group have been deployed to address Covid-related issues, and many colleagues have seen their day jobs increasingly shift to address consequences of the pandemic. In addition we have directly supported the work of other WG teams, including with provision of advice on e.g. veterinary scientific matters.

Alongside emergency measures and addressing the impacts of restrictions, dealing with Covid has become an additional 'temporary normal', necessitating a wider look at the consequences of the pandemic and at strategic planning (with the information and scenarios available) across a range of business areas.

In relation to ESNR Group's remit, above all Covid-19 has affected the economy and labour market on an unprecedented scale, bringing significant disruption (including across supply chains), and led to sharp falls in the number of people employed, the number of hours they work and the number of job vacancies on offer.

Economic impacts have been particularly felt in the sectors that have faced the longest and toughest restrictions. This is most evident in the hospitality, tourism, creative/cultural, events and non-essential retail sectors, which have all seen a substantial fall in activity. We have worked closely throughout the pandemic with all sectors, including on workplace safety and operating guidance.

Similar issues have affected ESNR Group directly, with the closure of the Cadw estate and ongoing issues for some of our major Arm's Length Bodies such as the National Museum for Wales and the National Library for Wales. We are working closely with the management teams in these organisations to understand the impact of associated loss of revenues.

The labour market in Wales has deteriorated since the start of the pandemic. The number of paid employees has generally increased in recent years, but has fallen during the pandemic. Early estimates for December 2020 indicate that the number of paid employees in Wales was 1.23 million. This was a decrease of 30,300 (2.4%) on February 2020, but a slight increase of 3,000 (0.2%) compared with the lowest point in November 2020.

Young people are at particular risk of a lifetime of scarring from impacts of lost learning and the acute challenge of trying to enter the labour market during a recession. The effects of the current recession are also hitting those nearing the end of their working lives, those with lower qualification levels, those in low-paid employment, those in more fragile areas of employment and the otherwise disadvantaged, including minority groups.

We know that in responding to the Covid-19 crisis and the end of EU transition there will be opportunities and a necessity to consider what sort of economy is needed for Wales, responding to the changed circumstances, new working environment and the future of work.

As the First Minister and Cabinet have made clear, supporting the economy through, and then ultimately out of the pandemic has the fundamental goal of achieving sustainable well-being with dignity and fairness for people. Improving the well-being of everyone in Wales is the mission which drives our approach to the economy. Our long-term goal is a resilient economy which has the well-being of people and the environment at its heart.

This economic recovery must be one that tackles the serious environmental issues we face and improves our resilience, whilst tackling social inequality by ensuring that our aim for a greener and socially just Wales is at its heart.

The well-being of all Welsh citizens has framed our response to the pandemic and it will be the fundamental principle which frames our economic recovery and reconstruction effort. Specific support to help businesses through, and to recover from, the pandemic has included:

- our multi-million pound, Wales-only Economic Resilience Fund aimed at addressing gaps in the UK national support schemes that the UK Government has put in place. In total, the ERF has now made over 13,700 offers and committed over £240m. See Annex 1.
- we provided further support in partnership with Local Authorities for £1,021m rates relief to business across Wales. See Annex 1 for breakdown.
- £100m of financial transaction loan finance was provided through the Development Bank of Wales (DBW).
- following the principles of providing enhanced support for business development, on 28 September we announced an additional £140m available to businesses to help them deal with the economic challenges of Covid-19, the UK's impending exit from the EU transition period and to support businesses through the recent firebreak period and pre-Christmas restrictions. We announced a further £20m of support in January 2021 as the lockdown restrictions continue in Wales.
- The principles of the Economic Contract sit at the heart of our Economic Resilience Fund, and our commitment to driving investment with a social purpose has seen an increase in commitment from businesses to the principles of the Contract – with over 13,000 now committing to the principles.

- In particular we want to have a focus on helping businesses, particularly those in the low carbon economy to safeguard and create good quality jobs, rooted in local communities. We are working in social partnership with trade unions and employers to put a stronger emphasis on our economic contract – a ‘something for something’ approach, with social justice at its heart.

For the economy to emerge stronger and more productive than before, both individuals and businesses need support to navigate the crisis. The new Welsh Government employability offer will be central to our economic recovery and ambitions - for a green, just, digital recovery, and crucial in supporting those most likely to be negatively impacted in the Welsh labour market.

The Covid-19 commitment is for skills and jobs: we have committed to offer advice and support to people 16+ to find work, pursue self-employment or find a place in education or training, with hiring incentives for employers to recruit individuals most affected by Covid-19. Young people 16-24, disabled people, people from Black, Asian and Minority Ethnic backgrounds, women and others most affected by the Covid-19 pandemic will be prioritised.

We have supported Higher Education Institutions throughout the crisis with a further £40m announced in January 2021 to support Welsh students.

We worked closely with Welsh business to help Wales address PPE shortages. This was co-ordinated through CERET, the Critical Equipment Requirements Engineering Team (CERET) led by Welsh Government and Industry Wales supported by Life Sciences Hub and the Surgical Material Testing Laboratory (SMTL) in Bridgend. There was a very positive response from Welsh Industry which combined with UK procurement and exchange of PPE and NWSSP own procurement meant that Wales never ran out of PPE. Examples of the adaptability of Welsh Industry include c.50 companies producing visors, hand sanitiser, gowns, face masks and face coverings.

As a result of Covid-19 and the subsequent movement and business restrictions, there was an unprecedentedly sharp and severe drop in bus passenger numbers (by around 90%) across public transport services last spring which in turn saw the loss of almost all ticket revenues. Throughout the pandemic, the Welsh Government has made additional funding available to support public transport services, firstly maintaining a skeleton network to support essential journeys during the first national lockdown, and then to ramp up services to support the re-opening of schools and the wider economy.

We are working closely with the management in team in Cardiff Airport to understand the medium term impacts on air travel and freight will be given the drop in passenger numbers arising from international as well as national travel restrictions. As discussed with the Committee last autumn, this is, of course, not just a Wales issue but a world-wide industry concern.

In addition to additional funding, we have also reformed the way that public transport services are delivered to reflect the new commercial realities and maximise the benefits and outcomes from our increased funding. From February 2021, the delivery of day to day rail services will be the responsibility of a new publicly-owned subsidiary of Transport for Wales, allowing government to have an even greater role in the delivery of rail services in Wales and the borders. The agreement underpinning funding through the bus emergency scheme (BES) will deliver a lasting

partnership between operators and public bodies giving more control in return for our funding to enable a reshaping of Wales' bus network, supporting the management and interaction across transport modes including smart ticketing, a reference network that meets wider objectives, and coordinated timetabling across modes.

Dealing with the consequences of Covid-19 looks set to dominate much of the rest of 2021.

EU Transition

The Welsh Government's response to EU Transition is shared across several Welsh Government groups and is not the sole responsibility of ESNR. Nevertheless, EU Transition is a key consideration for ESNR; the volume of work falling to the Group is significant given the breadth of its policy and operational coverage.

In headline terms, the Group is directly engaged in EU Exit emergency control arrangements; addressing borders operational and infrastructure issues (including design and development of new Border Control Posts for North West and South West Wales); continuing to work to ensure that necessary legislation is in place across relevant subject matter areas; building new post-Exit processes and systems; addressing the design and delivery of over 4,000 new policy and operational functions that have flowed to Welsh Government from the EU institutions, including significant new areas of 'right of policy initiative'; working with other parts of the UK to operationalise new 'common frameworks' across a range of subject matter areas where responsibilities lie at both the UK and devolved administration level; feeding into the development of new trade agreements; and addressing significant short and longer term economic issues arising from EU Transition.

In financial terms, we have some assurance that the UK will continue to participate in EU programmes funded through the 2014-2020 Multiannual Financial Framework under the terms of the Withdrawal Agreement, meaning we will be able to continue to deliver most of our investment programmes through to December 2023. Future funding and scheme management is much less clear. Colleagues have been working with stakeholders across Wales on a new regional investment policy which would put us in a strong position to hit the ground running when the EU Structural and Investment funds begin to tail off towards the end of this year. The Framework for Regional Investment in Wales, published 18 November 2020, sets out our high-level strategy for achieving prosperity and an inclusive economy to which local, regional and national (i.e. Wales-wide) interventions will contribute. Discussions with UK Government continue.

Much planning went into contingency planning for the end of EU Transition. Whilst many of the initial worse case scenarios did not materialise on 1 January, significant work continues to manage the consequences, with a slight sense of hiatus. Volumes of traffic through Welsh ports have yet to return to pre-transition levels and while 'turn-back' levels at ports are now relatively low (5-10%), it is clear that many businesses and sectors are reporting significant issues (including added costs, complexity and time) with both exports and imports. The extent to which these constitute so-called 'teething troubles' remains to be seen. There are currently reports of significant numbers of lorries returning to the Continent empty.

Our preparation work with business in Wales prior to the end of EU Transition was comprehensive. Recent surveys across all industries suggest of businesses currently trading, 22% were fully prepared for the end of the EU transition period, 38% were somewhat prepared for the end of the EU transition period and 1% were not prepared for the end of the EU transition period.

As indicated above, there are many number of longer-term policy and operational capacity issues we need to address as a consequence of EU Transition. The Welsh Government will receive over 4,000 additional powers/ functions arising from EU transition many of which may be described as technical, and of limited political/ policy-making significance. In a number of areas we will assume significant and substantive powers and responsibilities and need to carefully consider how we can best exploit these powers and delivery obligations to achieve outcomes in line with Welsh Government ambitions.

There are more near-term implications such as what our Border Operating Model should be and managing Intergovernmental engagement and relations across the UK which impact in 2021. We continue to emphasise the value of designing the new border regime on the basis of constructive pan-UK co-operation, which appropriately respects devolved and non-devolved responsibilities, and also takes account of the Northern Ireland Protocol.

Effective border arrangements will be the result of a complex mix of responsibilities between various parties working collaboratively. We are engaging with Welsh Port Authorities, relevant Port Health Authorities, County Councils, the Animal and Plant Health Agency and the Food Standards Agency on issues of readiness at Points of Entry (POEs) in Wales. On the basis of these discussions, we are working to ensure that any new border infrastructure appropriately reflects the nature of trade flows and resultant sanitary and phytosanitary requirements at relevant Welsh ports

Programme for Government Activity

The Group continues to deliver on the Government's priorities in the remaining weeks of the current Senedd period. Aligned to Prosperity for All and the Well Being and Future Generations Act, the Economic Action Plan (EAP) is the guiding policy and strategy document for all of Welsh Government's economic activities. The 2021-22 plan builds on the considerable progress in implementing and embedding key elements of the plan, involving engagement with a range of stakeholders, particularly the business community and social partners.

The pathway to Welsh economic recovery from the Covid-19 pandemic builds on the foundations of Prosperity for All: The Economic Action Plan. This shaped an economic development programme which invests in people and businesses – driving prosperity and reducing inequality across all of Wales. The mission builds on the early progress we have made in raising the profile and challenges in the Foundational Economy, recognising there is more to be done to spread and scale the approach.

Other key programmes include A Low Carbon Wales, Cymraeg 2050, the Employability Plan and our Fair Work agenda run through all interventions. The Well-being of Future Generations Act and its wider framework continue to provide a

uniquely Welsh way of tackling the long-term challenges that our people and our planet face. It has guided our approach to reconstruction ensuring a values-based recovery, delivering a prosperous, green and equal economic recovery that recognises the utmost importance of investing in people and place.

Group Governance and Lessons Learned

Throughout these unprecedented times, we have worked hard as a team and with colleagues across WG to put in place appropriate, responsive and agile governance and control arrangements that help ensure appropriate oversight of Group activities. This has included rapid lessons-identified sessions, 'in-flight' reviews of programmes in train, use of Gateway reviews for major programmes, guidance and regular aide-memoires for team leaders and staff, and use of challenge teams to test concepts, policy design and operational interventions, along with usual ex-post checks and reviews. These complement the important ongoing work of colleagues in Internal Audit and Audit Wales.

As the pandemic has progressed we have developed and iterated our Group central co-ordination mechanisms and our senior leadership team gatherings to meet the demands of the times. We have placed emphasis on strong communications up, down and across ESNR to keep colleagues updated on developments and stay closely in touch with one another (for wellbeing reasons as much as organisational ones). As part of our 'ESNR For The Future' internal programme, we have a cross-cutting team drawn from all parts and all levels within the organisation, including trades union colleagues, helping us learn lessons from our remote working, and, in turn, with co-designing our Group and wider Welsh Government operating model for the future.

With our Ministers, the Group has delivered a huge amount across the range of its subject areas throughout an intense period. Notwithstanding the difficult circumstances, and inevitable levels of fatigue across many parts of the Group, the sense of common purpose and team spirit across ESNR has been superb throughout.

Covid-19 Economic Resilience Fund - Update

BAS - ERF 1	Micro	SME	Large	TOTAL
No. applications received	8,143	1,311	28	9,482
Amount £m (received)	£106.0	£56.1	£11.8	£173.9
No. applications approved	5,850	1,124	24	6,998
Amount £m (approved)	£78.8	£48.6	£10.5	£137.9
Jobs safeguarded	20,820	27,135	47	48,002

BAS - ERF 2	Micro	SME	Large	TOTAL
No. applications received	4,827	358	5	5,185
Amount £m (received)	£50.2	£13.7	£1.3	£65.2
No. applications approved	4,473	320	4	4,797
Amount £m (approved)	£46.7	£12.7	£1.3	£60.7
Jobs safeguarded	4,340	7,234	0	11,574

DBW - CWBLS	TOTAL
No. applications approved	1,132
Amount £m (approved)	£92.0
Jobs safeguarded	16,000

NDR grants					
Grant 1 : 25k (march)		Grant 2: 10k (march)		Grant 3: 2.5k (Local0	
No. payments	Value payments	No. payments	Value payments	No. payments	Value payments
8,502	£212,303,060	56,079	£561,281,046	1,648	£4,120,000

Grant 4: 5K (Firebreak)			Grant 5: 1-4K (Firebreak)		
No. payments	Value payments	No. employees	No. payments	Value payments	No. employees
4,963	£24,811,000	58,655	37,523	£94,371,000	152,502
Grant 6: 1.5K/2k					
No. payments	Value payments	No. employees			
10,686	£18,253,647	28,086			

Christmas Restrictions and Extensions to date							
Grant 7: 3K		Grant 8: 5K RV 21-50		Grant 9: 5k RV 51+		Grant 10: 2k Disc	
No. payments	Value payments	No. payments	Value payments	No. payments	Value payments	No. payments	Value payments
23,583	£70,727,500	4,600	£23,345,000	425	£2,257,000	4,744	£9,606,000

ERF – Business Development Grant and the Sector Specific Fund:

Business Development Grants (BDG):

BDG	Micro	SME / Large	TOTAL
No. applications received	4,393 @41.88m	1,456	5,849
Applications rejected	3,208 @ £30.4m	639	3,847
Offers made	1,186 @ £11.5m	817 @ £34.7m	2,003
Offers accepted	1,185 @ £11.5m	809 @ £34.6m	1,994 @£46m

(Information as at January 2021)

International Conference Centre Wales

When I attended Committee with the Permanent Secretary during the autumn, I promised to provide a supplementary commentary regarding the additional funding agreed for the International Convention Centre Wales.

As the Committee is aware, the International Convention Centre Wales (ICCW) Ltd is a world-class convention facility completed in 2019 via a 50:50 Joint Venture between the Welsh Ministers and The Celtic Manor Resort Ltd. The investment by the Welsh Ministers is a response to a strategic ambition to grow business tourism and enhance the reputation which Wales has as a host for globally significant events.

The nature of the business demanded its closure under the measures imposed to address the spread of Covid-19 from March 2020 onwards. The facility has remained closed since then due to the exceptional lead times for large events and the uncertainty which has persisted with regards to necessary ongoing Covid-19 restrictions.

Additional investment from the company's shareholders was requested as part of a financial recovery package which is predominantly funded by the company's private sector lender. The funding requested reflects the company's projections of a limited return to trading early in 2021 and normal trading in 2022. This package was approved by all parties in October 2020.

The impact of Covid-19 measures on ICCW is particularly acute, given that the convention centre had only recently opened. The response of the company has been encouraging though – ensuring that sales and customer services have been retained throughout 2020 and that the business stands ready to reopen as soon as conditions allow.

It was deemed to be both appropriate and prudent to respond positively to ICCW's request for investment. The financial package agreed by the shareholders and the primary lender reflect confidence in the company to recover from the impact of Covid-19, whilst projecting confidence in the ability of the wider economy to do likewise.

We remain confident that the medium to long term prospects for ICCW are strong and that the Centre will both deliver our policy objectives whilst also returning financial value on our investment