

Edwina Hart MBE OStJ AC / AM  
Y Gweinidog Busnes, Menter, Technoleg a Gwyddoniaeth  
Minister for Business, Enterprise, Technology and Science



Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
Ein cyf/Our ref SF-EH-6063-11

Nick Ramsey AM

Nick.ramsey@wales.gov.uk

2 November 2011

Dear Nick,

## **BETS FURTHER INFORMATION FOR THE DRAFT BUDGET REQUESTED BY THE COMMITTEE**

In response to your letter of 26<sup>th</sup> October 2011, following the Committee's Budget Scrutiny meeting on 12 October, I am providing additional information to support the draft budget covering your points as follows:

### **1. Presentation of Budget Transfers**

I have provided a further breakdown of the budget transfers and other movements which will help the Committee to better understand the changes. I will ensure this level of detail will be included in future years and will provide the information at least one week in advance of future budget scrutiny sessions. At Annex A I have provided a note which summarises the changes.

### **2. Detailed breakdown of specific spending areas**

The table at Annex B gives a breakdown of Sectors budget. For the six sectors an equal allocation has been made available for over the financial years 2012-13 to 2014-15. Inward Investment is integral to the sector delivery and an allocation of £1.5m is available for each sector to draw on as required. As discussed at the Committee for tourism and food and farming there is already

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.edwina.Hart@Wales.gsi.gov.uk](mailto:Correspondence.edwina.Hart@Wales.gsi.gov.uk)

*Printed on 100% recycled paper*

existing budget to manage the policy development. Due to the technical development required in the construction sector I do not anticipate significant additional budget requirements. There are also legacy commitments to fulfil and as these are released this funding will be available for reallocation. Clearly moving forward overall sector priorities will inform future budget allocations.

The Micro-Business strategy is in development and therefore no budget has been specifically allocated. I have set up a task and finish group to develop a Micro Business Strategy for Wales to advise on the support that is appropriate for micro-business and how any barriers to growth should be addressed. The Group will establish benchmarks; identify cost effective options for support and provide direction to the work by gathering evidence from key individuals and organisations by the end of the year before I make a formal decision on the allocation.

Similarly work on finalising the specific detail and implementing the Enterprise Zone policy is in development.

### **3. Alignment of Priorities and Budget**

The plans will not be finalised and reflected in the final budget for a number of reasons:

- a) The budget will need to be realigned to reflect the final contract price of the 21st Century Access project which will not be known before the end of the calendar year.
- b) The budgets will need to be realigned to reflect the reallocation of funds to sectors following the review of sector plans and the impact of and allocation of budgets to align with the new Enterprise Zones. The detailed allocations will not be known until the detailed work is completed.

I am content to meet with the Committee to provide regular updates on progress being achieved for the alignment of priorities and budgets within my portfolio.

### **4. Performance Measurement**

As well as establishing the strategic direction, the Programme for Government sets out how we will measure progress on the manifesto outcomes, the key actions we will take to drive that progress and how we will judge whether our actions are on track.

The first annual report on the Programme for Government will contain all the available data on the indicators, including baseline information and analysis.

## **5. Repayable Finance**

A paper is provided at Annex C to outline the repayable finance scheme.

## **6. Inward Investment**

We are developing a more coherent approach to inward investment. The main target is to exceed Wales' market share on inward investment into the UK as formally recorded by UKT&I. The benefits of investment when companies locate in Wales are measured by jobs created, jobs safeguarded and investment induced.

## **7. New Generation Broadband Project**

Due to the scale and importance of the project I will ensure the committee are kept fully up to date on developments throughout its implementation. I confirm I am taking account of funding needs of this important project for 2012/13 and will advise you of the final position for this and future years when contractual obligations have been concluded.

## **8. Sustainable Development**

Consideration of the impact on sustainable development has been mainstreamed into all aspects of the budget planning process, rather than being assessed as a discrete exercise. It underpins the process for collecting evidence to support our decisions and consequently it will be part of our published budget as I realign the priorities in my portfolio.

The Welsh Government (WG) expects any business seeking WG support, including public procurement contracts, to sign up to our principles of corporate social responsibility, with a commitment to sustainable development, training and good employment practice.

I am currently considering a range of options to support Corporate Social Responsibility (CSR) activities targeted at Small and Medium Enterprises to enable SMEs to learn more about the benefit of CSR and how to become a more responsible business.

## **9. Additional Resources**

I will inform the Committee in the New Year of additional resources my Department may have secured within the context of an update on the alignment of priorities and budgets.

#### **10. Details of Invest to Save and Efficiency Programme**

At Annex D I have described the impact of the successful Public Sector Broadband Aggregation (PSBA) initiative.

A handwritten signature in black ink, appearing to be 'L. M.', located below the text of the PSBA initiative.

## Annex A

### A. Summary of the Portfolio Budget Transfers

Following the Comprehensive Spending Review, the impact on the MEG was a decrease of £8.908m, from £321.636m in 2011/12 to £312.728m in 2012/13. There is a net reduction in Revenue of £2.776m and a net Capital reduction of £6.132m.

The table below shows the overall effect on the DEL baseline budget.

	2011/12 Supplementary Budget £'000	Changes	2012/13 Proposed Budget £'000	2013/14 Indicative Plans £'000	2014/15 Indicative Plans £'000
Revenue	184,095	(2,776)	181,319	182,877	182,877
Capital	94,588	(6,132)	88,456	79,370	79,370
Non Cash	1,551	0	1,551	1,551	1,551
AME	41,402	0	41,402	41,402	41,402
DEL	321,636	(8,908)	312,728	305,200	305,200

The Department's budget reductions have been met through efficiency savings of £2.005m and other changes of £6.903m which are mainly reduced contractual obligations for the legacy Single Investment Fund and de-commitment for St Athan. There is a budget reduction of £1.506m for Rural Affairs which was subject to scrutiny at the Environment and Sustainability Committee.

The following tables explain by action how the transfers within the portfolio, the efficiency savings and other budget reductions support the changes in the Revenue budget of £2.776m and the Capital budget of £6.132m:

## 1) Transfers

Action	Revenue £'000	Capital £'000	Impact of Change
<b>Transfers Out</b> Sectors	(2,656) (286)		Transfer to Encouraging Innovation Programmes. Transfer to Stakeholder Engagement.
Legacy SIF	(2,664) (1,891)	(2,583) (4,281)	Transfer to Sectors arising from reducing commitments for legacy SIF. Transfers to ICT Infrastructure.
Infrastructure - Property	(224)		Reallocation of budgets to support ICT Infrastructure.
<b>Transfers In</b> Encouraging Innovation	2,656		Transfer from Sectors. Aligns revenue budgets for Technology Transfer, Business Innovation, Micro Nano Technology and Commercialisation to Innovation delivery.
Corporate & Strategy Programmes	286		Transfer from Sectors. Supports commitments to our business community and social partners.
Sectors	2,664	2,583	Reallocation of budgets from Legacy SIF to Sectors.
Infrastructure - ICT	1,891 224	4,281	The transfer of funding from Legacy SIF and Property Infrastructure in line with reducing commitments for legacy business support schemes.
<b>Net Impact</b>	nil	nil	

## 2) Efficiencies

Action	Revenue £'000	Capital £'000	Total £'000	Impact of Change
Entrepreneurship & Business Information	(212)		(212)	This decrease represents efficiency savings in Enterprise contractual arrangements and delivery.
Encouraging Innovation	(33)	(76)	(109)	The savings will be achieved through rationalisation and focussing support.
Finance Wales	(300)		(300)	The reduction represents efficiency savings in the operating costs and will not adversely impact the operational delivery to SMEs.
Tourism	(24)	(195)	(219)	The efficiency savings are being met for reprioritising tourism delivery.
Marketing	(44)		(44)	Efficiency savings will be realised through focussed campaigns and rationalisation of procurement and supporting activities.
Major Events	(60)		(60)	The budget reduction will be managed in line with strategic event priorities.
Property Infrastructure	(946)		(946)	The revenue decrease represents efficiency savings from annual running costs for the estate following re-tendering of the facilities and property maintenance contracts.
Corporate & Strategy Programmes	(83)	(32)	(115)	There are efficiency savings of £115k from the completion of Customer Relationship Management (CRM) project – a central business database.
<b>TOTAL</b>	<b>(1,702)</b>	<b>(303)</b>	<b>(2,005)</b>	

### 3) Other Budget Reductions

Action	Revenue £'000	Capital £'000	Total £'000	Impact of Change
Legacy SIF		(4,856)	(4,856)	Reducing legacy commitments for SIF which fund budget reductions.
Infrastructure		(541)	(541)	The change in MOD plans for St Athan has reduced the need for early capital investment plans and resulted in a decrease in capital.
Rural Affairs	(1,074)	(432)	(1,506)	Discussed at the Environment & Sustainability Committee on 12 October 2011.
<b>TOTAL</b>	<b>(1,074)</b>	<b>(5,829)</b>	<b>(6,903)</b>	
<b>TOTAL CHANGES</b>	<b>(2,776)</b>	<b>(6,132)</b>	<b>(8,908)</b>	



## BUSINESS, ENTERPRISE, TECHNOLOGY AND SCIENCE

DRAFT BUDGET ALLOCATIONS - SECTORS

Sector / Activity	2012/13			2013/14			2014/15		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
ICT	1,111	2,437	3,548	1,434	3,696	5,130	1,434	3,696	5,130
Life Sciences	1,111	2,437	3,548	1,434	3,696	5,130	1,434	3,696	5,130
Financial & Professional Services	1,111	2,437	3,548	1,434	3,696	5,130	1,434	3,696	5,130
Creative Industries	1,111	2,437	3,548	1,434	3,696	5,130	1,434	3,696	5,130
Advanced Materials & Manufacture	1,111	2,437	3,548	1,434	3,696	5,130	1,434	3,696	5,130
Energy & Environment	1,111	2,437	3,548	1,434	3,696	5,130	1,434	3,696	5,130
Inward Investment	1,553		1,553	1,553		1,553	1,553		1,553
Academia & Business Collaboration	7,352	840	8,192	7,350	835	8,185	7,350	835	8,185
Legacy Commitments	9,466		9,466	9,466		9,466	9,466		9,466
<b>Draft Budget - Sectors</b>	<b>25,037</b>	<b>15,462</b>	<b>40,499</b>	<b>26,973</b>	<b>23,011</b>	<b>49,984</b>	<b>26,973</b>	<b>23,011</b>	<b>49,984</b>



### Repayable Finance

#### Overview of the Scheme

1. Repayable Business Finance (RBF) offers discretionary financial support to eligible businesses within the six key sectors, "anchor" businesses within Wales which are strategically important global or international players and strategically important projects such as compelling Research, Development or Innovation (RD&I) projects.
2. The six sectors are Advanced Materials and Manufacturing, Creative Industries, Information and Communications Technology, Energy and Environment, Life Sciences and Financial and Professional Services. RBF aims to encourage new investment which increases investment and productivity, especially within the assisted areas of Wales, in particular funding capital investment, job creation and RD&I.
3. At 30 September 2011 20 offers of business support have been made under the repayable finance scheme with a total value of £5.7m. The repayment profiles are not available as each offer has unique terms and conditions dependent on the mechanism for repayment, timing and the fulfilment of specific conditions. Due to commercial confidentiality details of individual companies are not provided.
4. Applications must demonstrate that they meet one or more of these objectives:
  - to encourage new investment which increases competitiveness and productivity, especially within the Assisted Areas;
  - to help create, safeguard or maintain better skilled jobs;
  - to encourage innovative research and technological development with commercial potential;
  - to encourage industrial collaborations to carry out industrial research and pre-competitive development;
  - to increase entrepreneurship and the development of SMEs;
  - to increase and improve the modern commercial building stock in Wales;
  - to develop the key sectors in Wales
5. Support is offered under EU State aid rules and in line with the policy direction set out in Economic Renewal: a new direction. The first means

that support has to comply with certain rules and restrictions and the second means that it must be targeted at high quality projects which deliver value for money and sustainable outcomes.

6. The level of support offered is negotiable but is always be within state aid ceilings and no more than is necessary to enable the project to go ahead. Any funding support made is potentially fully repayable in certain circumstances. Mobile projects, for example, may also be eligible for repayable finance, becoming repayable if key targets are not met such as number and quality of jobs.

### **Capital Projects**

7. To be eligible for support capital projects must involve some of these activities:
  - **Investment in tangible and/or intangible assets** relating to the setting up of a new establishment, the extension of an existing establishment, diversification into new additional products or a fundamental change in the overall production process of an existing establishment; or
  - **The acquisition by an independent investor of the capital assets** directly linked to an establishment, where the establishment has closed or would have closed had it not been purchased. This can include management buy-outs or buy-ins. Where the acquisition is accompanied by other investment, the costs relating to the latter shall be added to the cost of the purchase.
  - The **research and development** of new, technically innovative, products and processes with good commercial potential. Businesses (including startups) can be funded to take an innovative product or process idea through the various stages of development from a technical and commercial feasibility study all the way through to commercial exploitation. Any applications which offset capital costs or wage costs, or any jobs created, must be as a direct result of the project.

### **Job Creation**

8. When a project has capital investment and job creation, but the capital expenditure is low compared to salary costs, e.g. certain knowledge-based industries, RBF can provide support against revenue costs instead of capital costs. The eligible expenditure in these cases is the basic salaries of the new employees, plus employer's national insurance contributions over two years. Basic salaries exclude overtime and bonuses, but can include shift allowances.

9. These projects must have new job creation, and support is not available for job safeguarding or maintenance. The eligible jobs figure is the net increase in employment at an establishment compared to the average for the previous twelve months. In order to be eligible for support, jobs created directly by a project shall fulfil the following conditions:
- they will be created within 3 years of completion of the investment;
  - they will be maintained for a minimum of 5 years, or 3 years for an SM

### **Research and Development**

10. There is an integrated package of support for Research and Development and Innovation (RD&I) in sector-aligned Welsh businesses. The Fund will support technologically innovative businesses in the development of new products, processes and technologies to meet the first objective of the Innovation and R&D Strategic Framework. To maximise the participation of appropriate businesses in the Welsh economy the financial support is not repayable. The grant support provided will be used as an incentive.
11. The European Commission have recently proposed amendments to the structural fund regulations which should give assurance of the legality of supporting repayable assistance other than Financial Engineering Instruments with structural funds; this would include the repayable grant activity currently run by BETS. Member States are supportive of the proposed amendments.

### **Other Sector Support**

12. As part of the scheme there are other packages of support which are not repayable:

#### One-to-Many

- Supplier development activities
- Workshops in topics such as International Trade, Responsible Business Practices, Financing your Business
- Trade missions and exhibitions

#### One-to-One

- International trade support such as capability building, opportunity identification and help to win new export orders
- Business Innovation support provided through contractors for example efficiency savings.
- E-Business diagnostics and support provided through contracted specialists

## Repayment Mechanisms

13. There are currently four mechanisms that have been agreed for use when making offers of funding under the new ERP model. The table below analyses the value of offers to date:

Mechanism	Definition	Value £m
1	Repayment only in the event of default or exceptional performance	4.836
2	Regular defined repayments	0.849
3	Share in whole business sales growth	
4	Share in project-related revenues	
<b>TOTAL</b>		<b>5.685</b>

14. Under Mechanism 1 repayments would be dependent on the trigger described above. For all offers made under Mechanism 2 the repayments will be made typically over 4 years but are dependent on the terms of the offer.

## Summary of Repayment Principles

15. In all of these cases the maximum amount recoverable by the Welsh Assembly Government is fixed at 100% of the original funding provided plus any penalty interest levied in the event of breach of the repayment terms.

16. A possible exception to this 100% cap may be some of the product development funding deployed in the Creative Sector where a share of profits by all of the funders of a particular project occurs in the ordinary course of business. If this represents the simplest mechanism for the Welsh Assembly Government getting money back then the 100% cap should not serve as a barrier to this.

17. It also has the advantage of capturing "replacement" sales where a newer product version developed with our help replaces existing sales of earlier product versions.

## **Invest to Save – Successful Projects**

### **Public Sector Broadband Aggregation (PSBA)**

Invest to Save funding has assisted several phases of the Public Sector Broadband Aggregation (PSBA) initiative with the benefits of being delivered sooner and in greater volume. The aim of the project is to implement fast, secure and reliable public sector telecommunications broadband network across Wales that provides value for money. The initiative is cross collaborative enabling partner organisations across the Welsh public service, from higher and further education to health services and local government to share the same secure broadband. The network provides better communications network for around 20% less revenue cost and gives access to further savings of buying collectively as the public sector in Wales and spreading fixed costs. Over 2000 public sector sites in Wales are already connected to the network with a further 2000 sites planned.

The Minister for Finance and Leader of the House announced the Round IV projects under the Invest-to-Save fund in June 2011. It included PSBA projects for accelerating the benefits of broadband in North Wales and other designated with a total investment value from the Fund of £5m.

For 2011-12 £4m will allocated in the next Supplementary Budget and a further £1m will be made available in 2012-13. To note that in 2010-11 the project was awarded £8.160m to accelerate the PSBA Initiatives.

### **Examples of Initiatives**

#### **1. North Wales**

The Fund is supporting the first phase of a consortium consisting of 6 partners (three unitary authorities, North Wales Police, North Wales Fire and Rescue Services and Betsi Cadwaladr University Health Board) to join the network.

#### **2. Gwent**

Support for seven organisations (four unitary authorities, Gwent Police, Coleg Gwent and Aneurin Bevan Health Board) to collectively join the network.

#### **3. “VOICE”**

The service is a hosted telephony service across the PSBA and an example of improved services resulting in significant savings to partner organisations and facilitating joint public service working i.e. Face to Face Centre.

The financial benefits are summarised in the following table :

<b>Benefits</b>	<b>Realised at July 2011 £m</b>	<b>2011-12 Savings £m</b>
Cashable	8.5	3.4
Non Cashable	3.9	2.4
<b>Total</b>	<b>12.4</b>	<b>5.8</b>

By 2014 every public sector site in Wales will be encouraged to use PSBA services. Further benefits are anticipated from collaboration with Next Generation Broadband.

Also to note that the former Efficiency and Innovation Programme focussed specifically on the benefits of taking a cross public sector approach. PSBA pre-dated the establishment of the programme and was only a part of the ICT strategic landscape for Wales.