Agenda - Y Pwyllgor Menter a Busnes

Lleoliad:

Ystafell Bwyllgora 1 - Y Senedd

Dyddiad: Dydd Iau, 3 Mawrth 2016

Amser: 09.15

I gael rhagor o wybodaeth cysylltwch â:

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Rhag-gyfarfod preifat

(09:15-09:30)

1 Cyflwyniadau, ymddiheuriadau a dirprwyon

2 Cynrychiolwyr diwydiant - Pwysau sy'n wynebu'r diwydiant dur yng Nghymru

(09.30-10.30) (Tudalennau 1 - 51)

Tim Morris, Pennaeth Materion Allanol, Tata Steel Europe

Chris Hagg, Pennaeth Materion Allanol, Celsa Steel

Dominic King, Pennaeth Polisi a Chynrychiolaeth, UK Steel

Sanjay Tohani, Cyfarwyddwr, Liberty Steel Newport Ltd, Liberty House UK

Dogfennau atodol:

Y Briff Ymchwil - Pwysau sy'n wynebu'r diwydiant dur yng Nghymru

EBC(4)-07-16 (p1) Tystiolaeth gan Tata Steel Europe (Saesneg yn unig)

EBC(4)-07-16 (p2) Tystiolaeth gan Celsa Steel (Saesneg yn unig)

EBC(4)-07-16 (p3) Tystiolaeth gan UK Steel (Saesneg yn unig)

Egwyl (10.30-10.45)

3 Cynrychiolwyr undebau - Pwysau sy'n wynebu'r diwydiant dur yng Nghymru

(10.45-11.45) (Tudalennau 52 - 67)

Jeff Beck, Trefnydd, GMB

Steve McCool, Swyddog Cenedlaethol ar gyfer Steel, Cymuned

Tony Brady, Swyddog Cydlynu Rhanbarthol, Unite

Carl Lucas, Swyddog Rhanbarthol, Unite

Dogfennau atodol:

EBC(4)-07-16 (p4) Tystiolaeth gan GMB (Saesneg yn unig)

EBC(4)-07-16 (p5) Tystiolaeth gan Cymuned (Saesneg yn unig)

EBC(4)-07-16 (p6) Tystiolaeth gan Unite (Saesneg yn unig)

4 Papur i'w nodi

4.1 Tystiolaeth gan Ysgrifennydd Gwladol Cymru - Pwysau sy'n wynebu'r diwydiant dur yng Nghymru

(Tudalennau 68 - 75)

Dogfennau atodol:

EBC(4)-07-16 (p7) Tystiolaeth gan Ysgrifennydd Gwladol Cymru (Saesneg yn unig)

5 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd o'r cyfarfod ar gyfer eitemau 6, 7 a 8

6 Memorandwm Cydsyniad Deddfwriaethol Atodol ar gyfer y Bil Menter: Cod Rheoleiddwyr ac Awdurdod Sylfaenol

(11.45-11.55)

(Tudalennau 76 - 81)

Dogfennau atodol:

Memorandwm Cydsyniad Deddfwriaethol Atodol ar gyfer y Bil Menter: Cod Rheoleiddwyr ac Awdurdod Sylfaenol (Saesneg yn unig)

7 Trafod yr Adroddiad Drafft ar Etifeddiaeth y Pwyllgor

(11.55-12.05) (Tudalennau 82 - 96)

Dogfennau atodol:

Adroddiad Drafft ar Etifeddiaeth y Pwyllgor (Saesneg yn unig am y tro)

8 Trafod yr Adroddiad Drafft ar Wasanaethau Bysiau a Thrafnidiaeth Gymunedol yng Nghymru

(12.05-12:30) (Tudalennau 97 - 145)

Dogfennau atodol:

Adroddiad Drafft ar Wasanaethau Bysiau a Thrafnidiaeth Gymunedol yng Nghymru (Saesneg yn unig am y tro)

Egwyl (12.30-13.15)

9 Cyllido Addysg Uwch

(13.15-14.00) (Tudalennau 146 - 175)

David Blaney, Prif Weithredwr, Cyngor Cyllido Addysg Uwch Cymru

Celia Hunt, Cyfarwyddwr Datblygu Strategol, Cyngor Cyllido Addysg Uwch Cymru

Bethan Owen, Cyfarwyddwr Ymgysylltu Sefydliadol, Cyngor Cyllido Addysg Uwch Cymru

Dogfennau atodol:

Y Briff Ymchwil - Cyngor Cyllido Addysg Uwch Cymru

EBC(4)-07-16 (p8) Gwybodaeth gefndir gan Gyngor Cyllido Addysg Uwch Cymru (Saesneg yn unig)

10 Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth – Pwysau sy'n wynebu'r diwydiant dur yng Nghymru

(14.00–15.00) (Tudalennau 176 – 181)

Edwina Hart AC, Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth

Yr Athro Ron Loveland, Ymgynghorydd Ynni i Lywodraeth Cymru

Dogfennau atodol:

EBC(4)-07-16 (p9) – Tystiolaeth gan Weinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth

Ôl-drafodaeth breifat (15:00-15:10)

Mae cyfyngiadau ar y ddogfen hon

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Mae cyfyngiadau ar y ddogfen hon

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Written evidence submitted by UK Steel

National Assembly for Wales' Enterprise and Business Committee

Submitted: 22nd February 2016

UK Steel is the trade association for the UK steel industry and represents the sector's interests to government and the public. Membership is open to all UK-based companies and organisations involved in the production of steel and our members include Tata and Celsa.

The UK steel sector is vital to the success of manufacturing in Britain. It employs 30,000 well-paid and highly skilled people, often in areas with higher-than-average unemployment. The sector is the foundation of many of the country's most important manufacturing supply chains, including aerospace, defence, automotive and construction. It innovates here in the UK, is committed to sustainability and is a significant provider of high quality apprenticeships. Its success is inextricably linked to ambitions to rebalance the UK economy.

UK Steel has played a central role in coordinating and focussing the stakeholder reaction, providing a coherent voice to achieve positive outcomes from government. The progress made in the UK and Europe, has largely been due to working together with unions and companies, who all share a common goal of saving a sector in crisis.

The steel crisis

The steel industry is in crisis - battling low demand, a rise in often unfairly-traded steel imports, a strong pound and uncompetitive policy costs. The scale of the crisis was clearly demonstrated by the liquidation of the SSI operation in Redcar last year.

UK Steel urgently called on the Government during the steel crisis summit on 16th October 2015 to take short-term steps to keep the crucial industry alive. The steps included fully implementing the Energy Intensive Industry Compensation Package, backing EU-level action on anti-dumping measures, bringing business rates for capital intensive firms in line with their competitors, and supporting local content in major construction projects.

Our 5 key asks were the actions we called on government to take immediately to stem further job losses. We have long said that there is no 'golden bullet' to save the industry, but if these actions were taken, then this would be a positive start.

Despite some good progress, we still face the real prospect of further significant reductions in steel jobs and steel production in the UK. We are not asking for handouts, but for Government to ensure a level playing field to all the steel industry to survive. We have therefore called for further short-term steps in both the UK and in Brussels to keep this crucial industry alive.

- **EU-level action on Market Economy Status (MES) for China:** the EU is currently considering whether to formally recognise China as a market economy. If China receives MES the anti-dumping measures that safeguard hundreds of thousands of EU jobs against China's unfair competition across a range of strategic EU industries would become ineffective. The EU's other trade defence measures are simply insufficient to defend against the rising tide of dumped Chinese products, particularly steel.

- **Lift the Lesser Duty Rule:** anti-dumping measures cannot currently counter the massive blow caused by Chinese steel import surges. Lifting the Lesser Duty Rule would remove the cap on anti-dumping and anti-subsidy duty levels, and bring EU practice into line with everyone else, notably the US. However, the UK Government has played a leading role in blocking these changes. It now urgently needs to send a clear signal that it is doing all it can to support the steel industry by supporting the lifting of the Lesser Duty Rule.

- **Bring Business Rates for capital intensive firms in line with their competitors in France and Germany, by removing plant and machinery from business rate calculations:** this decision has been put on hold, but job losses here in the UK show that it can no longer wait. This action is entirely in the hands of the UK Government and needs to be taken now. Business rates in the UK are up to ten times higher than those paid by competitors in France and Germany.

- **Support local content in major construction projects:** the Government cannot afford to let up on ensuring that all major procurement projects, from rail to tidal barrages and airports, all use British steel to give this vital UK industry confidence for the long-term.

- **Direct funding assistance for the sector on R&D and environmental improvements:** if the Government recognises the strategic importance of the steel industry and manufacturing in the UK, then it needs to invest in industry to keep vital skills that will otherwise be lost.

- **Recognise that the flawed EU ETS proposal is a major threat to the steel industry:** the Commission's proposal on the EU ETS post-2020 (phase four) is likely to result in €34 billion in direct and indirect carbon costs for the sector in the period 2021-30. We urge policy makers to shield sectors most at-risk of carbon and investment leakage, such as the EU steel industry, to ensure that their global competitiveness will be preserved.

Key areas where the Welsh Government can make a difference:

Business Rates

Rates are now fully devolved and as such should be a key area of focus. As in England, business rates are up to ten times higher than those paid by competitors in France and Germany. The Welsh Government can take a lead here, by removing plant and machinery from business rate calculations.

Procurement

It is imperative that steel manufactured in the UK has every opportunity to be at the heart of government procurement. The publication of guidance to ensure social issues are properly taken into account when procuring large amounts of steel is encouraging, however it is vital that all parts of the UK take notice of this guidance. Far too often guidance is overlooked, and the Welsh Government should work with Westminster to ensure a joined up approach, that has real impact to manufactures of steel and the wider supply chain.

Europe

Whilst, a number of decisions around the flooding of the UK market with under-priced, state subsidised Chinese steel will be made in Brussels, it is vital that the Welsh Government and MEPs in

Wales put pressure on all levels to ensure that the speeding up of anti-dumping measures and the dropping of the Lesser Duty Rule take place.

Energy Efficiency Schemes

Energy costs in the UK, are some of the highest in Europe. It is well known that steel plants needs large amounts of investment to keep energy use down, improve efficiency and productivity. With traditional funding options proving to be difficult to impossible to achieve, the Welsh Government should be prepared to support investment in energy efficiency schemes (through grants and loans).

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Waste to Energy Plants

There are currently existing or planned projects within Local Authorities for the Construction of Waste to Energy Plants. The GMB would like to see the Welsh Government and the wider Welsh Public Sector amend their procurement policy to demand that such projects are built under the NAECI Agreement, which is the National Agreement between employers and Trade Unions in the Engineering and Construction Industry in the UK. The effect of this would make it more likely that contracts would be awarded to indigenous companies using local labour and offering greater support to the use of domestic steel in such projects. Currently, Local Authorities are awarding contracts to non-indigenous companies employing foreign labour who are often exploited and in some cases, do not have the necessary skills. Additionally, these projects are more likely to be built using non-domestic steel.

Europe's Steel Industry is in deep crisis. The UK Government has insisted that it is unable to intervene to support UK Steel as a result of EU Rules. However, other European countries support their foundation industries within the rules because they believe they are so strategically important to their general manufacturing base. If a complaint is launched against National or Regional Action, EU State Aid Rules are restrictive but not prohibitive. It is possible to gain approval. This may be qualified for a specific reason beyond simply supporting the Industry, relating to environmental or Public Health concerns, the investment in research and development or training, which would be lost with the closure of the works. Labour MEP's all currently calling for a review of state aid rules to allow Regional cohesion and employment to factor in the Commission's criteria.

Below you will find examples of the ways that other EU Governments have intervened to support their domestic Steel Industries, and other Energy Intensive Industries. There are examples of Regional Governments taking initiatives in Germany and Spain.

Temporary Renationalisation

In early 2015, the Italian Government temporarily renationalised the IIva Steel works in Taranto, Southern Italy. The Italian Government cited the unabated toxic emissions and very poor environmental standards, which had led to unusually high rates of cancer in the area around the plant. It is estimated that it will cost €1.8 bn to make IIva complaint with the Industrial Emissions Directive's standards. This decision is currently subject to a complaint from EUROFER (European steel industry association) under state aid rules.

Investment in Strategic R&D Facilities

The French Government are providing state-aid to the ArcelorMittal plant at Florange, in France to support their on-going R&D work, this follows on from a long running industrial dispute over the closing of two blast furnaces. This public support comes to a total of €20-50 million over 4 years with a further 33 million been raised in public-private investment.

Support for Energy Efficiency/Environmental Technologies

In 2010, the European commission accepted German state aid of €19.1 million for an energy-saving steel production project run by Salzgitter Flachstahl GmbH, a subsidiary of the Salzgitter AG Group. The aid will allow Salzgitter to produce steel through an innovative production process, Direct Strip

Casting (DSC), which consumes less energy than alternative processes. The aid is in line with EU guidelines on State aid for environmental objectives, because of balance, the positive effects for the environment largely outweigh potential distortions of competition.

Loan Guarantees

In 2010, before the May elections (which saw a change in Government), the UK Labour Government was willing to provide Sheffield Steel producer Foragemasters with an £80m loan to develop new technologies as part of a supply chain for nuclear reactors. While ultimately the new Government withdrew this offer, the reasoning for a change of heart was ideological and not related to European State-Aid rules.

Taking a Public Stake in a Steel Company

Following the sale of 20.5% of shares in 'NLMK Belgium Sogepa Holding SA' for 91.1 million euros (€123 million), the Belgian Public Authorities have a Shareholding in a new company producing steel which owns steel plants in Belgium, France and Italy. NBH employs about 1,000 people in Belgium, while the European division employs 2,530 people in total. The engagement of the Belgian Public Authorities has helped strengthen the commitment of the Russian Group, and transformed the company carrying the steel business in Public Private joint venture with the financial support of the Walloon Region.

Compensation for Energy Costs

A range of German Government Industry Policy interventions provide German Industry as a whole, including its energy intensive industries, with a range of long established reliefs from energy and climate change-related duties, levies and taxes:

- Over the period 2010-2012 Germany's support for its Ells were worth 26bn euros, or some 8bn euros (£6.4bn) a year.
- Support covers thousands of firms. Unlike the UK package, support is not confined to specific sectors.
- At company level, in Germany compensation is available for 90% (or in the case of larger and energy intense consumers, 100%) of electricity taxes.

In Sweden, the PFE programme aims to encourage, through incentives (reductions in the amount of energy taxes), energy-intensive industries to improve their energy efficiency. This is a long-term agreement involving the Swedish Government, the energy-intensive industries and Trade unions. The duration of this program is 5 years. 117 Industrial Companies are involved in this project (i.e. 250 plants). The Swedish Energy Agency monitors and controls the programme. The Programme Board, established in 2005 brings together representatives from Government, Business, Trade Unions and Employers, as well as research centres. Both with an advisory and regulatory purpose, the Board meets four times a year. After only two years of existence, more than 900 measures were implemented or underway. These measures cost the companies €100 million but benefited from a rapid return on investment (two years on average). They have saved about 1 TWh per year of electricity, i.e. from 500 kT to 1 million tons of CO_2, and a total of €55 million. In 2010, it doubled its objectives.

Using the Powers of the Official Receiver to Support Employment & Attracting Buyers for Troubled Plants

In November 2014, the Italian Government agreed to sell Italy's second-largest steelmaker Lucchini's Piombino complex to family-owned Algerian conglomerate Cevital. Lucchini was previously owned by Russia's Severstal but was declared insolvent in 2012 and placed into special administration. The company received two offers for its core assets in Piombino, one from Cevital and the other from India's JSW Steel. The Government administrator said the Cevital offer was more attractive as it foresaw full employment at Piombino. The Piombino complex employs about 2,000 people and can produce up to 2.5 million tonnes of steel a year.

A key concern in the UK Steel Industry is about the loss of skills and the consequent loss of industrial capacity in the case of an upturn in the cyclical market. Statutory labour market instruments to support shortened working time at companies hit by the crisis, often interacting with collective agreement, have proved to be an effective instrument to cushion the employment impact of the crisis in a number of European countries. In the case of closure, EU funds are available for the workforce. Here is a short overview of some measures used:-

"Kurzabeit" (short time working)

When flexibility through sectoral agreements and plant agreements are exhausted, many EU countries have short-time working, which as a statutory labour market instrument comes to the fore. As an example in Germany, it guarantees employment by stipulating hours that fall short of the regular working hours regulated in collective agreements, while compensating for losses in income due to temporary inactivity for certain groups of employees such as construction or seasonal workers. Losses of income due to a decrease in working time are compensated by state subsidies issued by the Federal Agency for Labour (Bundesagentur fur Arbeit). In the case of complete temporary inactivity, 60 or 70 per cent – according to family status – of the last net wage is borne by the state, while the rest is paid by the employer. The employee retains all social security entitlements such as health, accident, pension and nursing care insurance. Conditions for the deployment of short-time work include economic difficulties, such as sharp declines in demand.

Solidarity Contracts

In Italy, solidarity contracts are agreements between the company and the Trade Unions which aim to reduce working hours in order to maintain company employment levels during a crisis. The 2013 IIva solidarity contract led to a reduction in the overall number of workers considered 'redundant' as a consequence of the restructuring process: 3,749 workers compared with the 6,417 affected originally. The maximum reduction in monthly working hours has been 34% (equivalent to the work of 3,749 'redundant' workers) and was distributed between all 11,000 employees at the Taranto plant starting from March 2013. Furthermore, the solidarity agreement foresees the setting up of an inter-ministerial table, including the Ministries of Welfare, Environment and Economic Development, in order to monitor the progress of the authorisation's instruction at the Taranto Plant and the surrounding areas. The Trade Unions, the Region of Puglia, the local bodies and the agencies that monitor the reclamation process participate in the meetings, which were originally planned to occur every six months, or when requested by one of the parties.

European Globalisation Adjustment Fund

EGAF provides support to people losing their jobs as a result of major structural changes in world trade patterns due to globalisation e.g. where a large company shuts down or production is moved outside the EU, or as a result of the global economic and financial crisis. The EGAF has a maximum annual budget of EUR 150 million for 2014-2020 and can fund up to 60% of the cost of projects designed to help workers made redundant find another job or set up their own business. As a general rule, the EGAF can be used only where over 500 workers are made redundant by a single company (including its suppliers and downstream producers), or if a large number of workers are laid off in a particular sector in one or more neighbouring regions. EGAF cases are managed and implemented by National or Regional Authorities and projects can run for up to 2 years. Individual workers made redundant can benefit from EGAF projects. Over 2014-2020, this can include the self-employed, temporary workers and fixed-term workers. The UK has never applied to use EGAF funding because of the UK rebate. Here are some steel and sectoral examples:-

- In 2011, when the sector was hit by harsh economic conditions, the Dutch printing sector made a sectorial application to this fund - €5.8m helped 1,764 workers made redundant by 101 enterprises.
- In mid-2014, Romania asked for €3.6 million from the European Globalisation Adjustment Fund (EGF) to help 1,000 former workers of the steel products manufacturer SC Mechel Campia Turzil SA and the downstream producer SC Mechel Reparatii Targoviste SRL to find new jobs.
- In late 2014, Belgium asked for €911,934 from the European Globalisation Adjustment Fund (EGF) to help 752 former workers of steel producer Carsid S.A. to find new jobs. The redundant workers are mostly in the area of Charleroi in the Walloon Region.

The GMB would encourage the Welsh Assembly Government to support action for anti-dumping of non-domestic steel:-

- Current framework for anti-dumping action

An industry or a member state can request an investigation into an alleged case of dumping. The Commission may correct any damage to EU companies by imposing anti-dumping measures in the form of duties on imports of the product from the country in question. The duties can be fixed, variable or a percentage of the total value (ad-valorem). They can last up to 6 months (provisional measures) and, if the EU Council decides to make them definitive, 5 years. EU anti-dumping follows the 'lesser duty' rule: duties cannot exceed the limit of what is strictly necessary to prevent an injury for an EU industry, meaning that it can be lower than the actual dumping margin.

Before imposing any anti-dumping measure, the Commission must first carry out an investigation to determine if dumping is taking place from the country/countries concerned, if a material injury has been suffered by the EU industry, if it is the dumping that is causing the injury, and if it would be against the economic interests of the EU to impose measures. Investigation must not last more than 15 months.

- <u>Legislative Reform</u>

  The Commission proposed in 2013 a set of amendments to TDI Regulations, most importantly creating an exemption to the 'lesser duty' rule in imposing higher duties on imports from countries which use unfair subsidies and create structural distortions in their raw material markets.

  The European Parliament adopted the Commission proposal with several amendments, notably limiting the maximum duration of investigations for both anti-dumping and anti-subsidy to 9 months, granting Trade unions the possibility to request an investigation, and adding a further exemption to the lesser duty rules to cover cases of social and environmental dumping.

  Informal negotiations between the European parliament, Council and Commission were stopped by the Council in November 2014, as member states were unable to adopt a common position. The rotating Presidency of the Council, at the time Italy, asked the commission to "reflect on the way forward". Negotiations have not yet resumed.

  A group of 14 countries led by the UK and supported by the Scandinavian countries, Baltic countries and Germany (intermittently), succeeded in forming a blocking minority over the issue of the 'lesser duty' rule. This group is opposed to anti-dumping in principle, and could only agree to it in the first place provided that any EU instrument would be tightly limited by the 'lesser duty' rule.

  As the European Parliament adopted its first reading position, the only way to revive this process would be for the Council to adopt its own first reading position, with mind to reaching a second reading agreement with the Parliament. This objective is not mentioned in the Commission's most recent "Trade Strategy" (October 2015). The Competitiveness Council on the European Steel Industry of 9 November 2015 did call for taking a "constructive approach" to the modernisation of TDI, but only the Foreign Affairs/Trade Council is competent over this matter (i.e. foreign affairs and trade ministers).

There is evidence of good practice amongst Governments of other European countries that the GMB feel could be implemented by the Welsh Assembly Government in order to protect the continuation of the Steel Industry in Wales and secure the skills and the livelihoods of the Welsh Steel Workers.

JG/RG
15.02.2016

February 2016

Submission to the National Assembly for Wales' Enterprise and Business Committee

1.1 Community is the largest and leading trade union in Tata Steel UK, in the Welsh steel industry and in the UK steel industry, and our General Secretary Roy Rickhuss is Chair of the National Trade Union Steel Coordinating Committee. We have represented steelworkers for more than a hundred years and we act as a responsible and pragmatic stakeholder prepared to confront the serious challenges facing the industry.

1.2 Community is leading the campaign to Save our Steel and secure a sustainable future for the UK steel industry. We believe there is an urgent need for action in a number of areas including Chinese dumping, energy costs, business rates, procurement and skills retention.

2. Steel industry in Wales

2.1 The importance of the steel industry to Wales, economically certainly, but also culturally, historically, and in terms of regional and national identity, cannot be overstated.

2.2 In 2012 Cardiff University carried out a study which found that Tata Steel supported 1.22 additional jobs in its supply chain for each of its 8,000 direct employees in Wales; in effect Tata Steel supported nearly 18,000 jobs in the Welsh economy. The study also showed that Tata supported £3.2bn of output and £1.6bn of value added in Wales and paid a minimum of £14 per hour to permanent staff.

2.3 It should be noted that while Tata Steel is the largest it is by no means the only employer in the Welsh steel industry. There are other significant employers including Celsa Manufacturing based in Cardiff, Liberty Steel Newport (formerly Mir Steel), Liberty Tubes in Tredegar (formerly Caparo Tubes), and a number of independent steel stockholders and processors.

3. The Steel Crisis

3.1 Since the steel crisis came to national attention, after SSI UK went into liquidation at the start of October, in excess of 6,000 job cuts have been announced across the UK.

3.2 On 18 January Tata Steel announced their intention to cut 1,050 jobs from its UK business including 750 jobs at its Port Talbot-based Strip Products UK business, 200 jobs in support functions and a further 100 jobs at steel mills in Trostre, Corby and Hartlepool.

3.3 Community representatives have attended meetings of the WAG Task Force established following the announcement of 18 January. We welcome the Task Force and will play a full and active role to represent our members' interests, however it should be recognised that the unions and Tata Steel are in a consultation process over the proposed restructuring and we will be challenging the company's plans.

3.4 Tata Steel have now announced approximately 3,000 job cuts over the past 6 months, and that is why Community is demanding that government secure a firm commitment from Tata that they are committed to maintaining steelmaking in the UK long-term.

3.5 There are many factors contributing to the ongoing UK steel crisis but two stand out: the uncompetitive regulatory environment perpetuated by the UK government, and the unfair dumping of Chinese steel products in contravention of WTO rules.

3.6 It has become increasingly clear that Chinese dumping poses an existential threat to the UK and European steel industry. Despite this fact the UK government continues to act as a cheerleader for China in Europe regarding their bid for Market Economy Status. MES for China would be a complete disaster as it would make it even harder for European producers to gain protection from unfairly traded Chinese imports. We believe that if China does achieve Market Economy Status it will be a catastrophe for our industry and most likely the final nail in the coffin for UK steelmaking.

3.7 The situation is critical; devolved and central government must act now and do everything in the power to safeguard the future of this vital strategic foundation industry of fundamental importance to UK manufacturing and industrial supply chains.

4. Key areas where the Welsh Government can make a difference:

Business Rates

4.1 Rates are now fully devolved to WAG and as such should be a key area of focus. Our business rates are up to ten times higher than those paid by competitors in France and Germany. We want to see government level the playing field by removing plant and machinery from business rate calculations. Including plant and machinery in the calculations is anti-investment and anti-industry.

4.2 Tata Steel recently invested £185 million in the construction of a new blast furnace in their Port Talbot steelworks and in return for that investment received a £400,000 increase in business rates; this is patently uncompetitive and ridiculous.

Procurement

4.3 WAG has a better record than Westminster of using procurement to support domestic industry and local communities, but there is still plenty of room for improvement. Industry needs a renewed focus on capturing value for Welsh and UK supply chains in major projects e.g. transport and energy infrastructure. Over 55% of procurement spend is now within Wales but steel industry supply chains don't stop at the border which is why WAG and Westminster must work together to ensure their procurement policies support the UK steel industry as a whole.

4.4 There is no doubt that industry needs support from government but steel companies must also be prepared to help themselves e.g. how can it be at a time when Tata Steel UK is on its knees and crying out for orders that only around 30% of the steel used by Jaguar Land Rover comes from their UK plants?

5. Community's calls for UK Government action

5.1 Community endorses the position of UK Steel, as articulated in their brief prepared for the Steel Summit of 16 October 'The future of UK steel – a sector in crisis'. We fully support UK Steel's five demands for immediate government action:

1. Fully implement the Energy Intensive Industry Compensation Package ahead of April 2016 (steel companies are still waiting to receive payments)
2. Continue to back EU-level action on anti-dumping measures
3. Bring Business Rates for capital intensive firms in line with their competitors
4. Don't gold plate regulations unfairly and deliver pragmatic implementation of regulatory frameworks
5. Support local content in major construction projects

5.2 Community was pleased to play an active role in the national Steel Summit but we participated on the basis it would not be a talking shop and that tangible immediate action would follow. However, we are increasingly disappointed at the lack of urgency from government; after an initial flurry of activity and plenty of rhetoric very little meaningful support has been delivered to date.

5.3 Community would like to stress that, while we support the demands of industry, as articulated above, we consider these actions to be necessary but not sufficient. The stability and financial security of our steel companies is of course critically important, but our industry is about so much more than company profits. Steel companies, and indeed governments, will come and go, but the workers and their communities will remain just as they have for a century and more. This is our industry and we are its guardians; the stakeholder that takes the long term view and will never give up on our future.

The town of Port Talbot has for more than 60 years been synonymous with steel.

In its heyday in the 1960s, nearly 20,000 people worked there. The town grew up around it. Numbers may have dwindled but even with a 4,000-strong workforce, it still has an imposing presence in the Welsh economy. It is still Tata Steel's biggest UK operation and one of Wales' economic crown jewels. Another 3,000 work at Port Talbot's sister plant in Llanwern and at Shotton and Trostre.

It might be the car we drive, the tin cans for our food or the washing machine in our kitchen, but the chances are we have a piece of Port Talbot close to hand if not one of the other steel plants based in Wales. The Port Talbot steel plant has benefited from some significant investments in recent years, including £185m on rebuilding one of its blast furnaces. In total the industry has had £1.5billion invested across the UK

But Tata has faced difficulties from different directions.

Port Talbot: The problems

Steelworks use huge amounts of energy. The Port Talbot plant uses as much electricity, for example, as the whole of the city of Swansea a few miles along the motorway.

That bill when it hits the metaphorical mat is a whopping £60m a year - 50% more than other plants in Europe. No wonder, looking long term, Tata recently secured the go-ahead to build a new power plant so it can generate more of its own power to save money. This is where the Welsh government along with the UK Government could some assistance.

Then there are problems in the market. Because of overproduction, the Chinese are now exporting twice as much steel to the UK than they did in 2013 and at less than the cost price of UK steel, so desperately needs for Tariffs to be put onto not only Chinese imports but also Russia material also being imported at almost the same rates.

Tata is also unhappy about the level of business rates it pays, compared to European competitors, which is an area that needs real examination as how can investing in new equipment like the Blast Furnace end up costing over £500 million extra per year especially when more efficient and gives off less emissions than the one it replaced??!!

In all, the plant is said to be losing up to 1 million pounds a day.

Why is steel still so important?

Port Talbot steelworks is a big employer with not only direct employment but indirect not just on the sites it operates plus the businesses in the communities that are used by these employees

It puts £200m a year into the economy just in salaries.

Economist Prof Calvin Jones of Cardiff University has studied the impact of Tata and called it "the most economically important private sector company in Wales".

The economic value of Tata - including the supply chain - was estimated at £3.2bn of output and £1.6bn of value added in Wales in 2010.

But it also supports an estimated 10,000 full-time equivalent jobs off-site.

"These are important [industries] because they are high value added and important because they're iconic," he said. "If we do see continued declines in these industries in terms of employment and output then you start to wonder what Wales is for."

Fox Photos

STEEL TIMELINE

1902: The first steelworks at Port Talbot is founded

1923: A second Margam works is finished

1947-1953: The third Port Talbot plant is built and becomes part of Steel Company of Wales. The works employ around 18,000. By this period, the rolling mill at Ebb Vale has become the biggest of its kind in Europe.

1962: The Queen opens the £150m Spencer works in Newport, later known as Llanwern.

1967: British Steel is formed from 14 different firms as the industry is nationalized

1988: British Steel is privatized and becomes part of Dutch-owned Corus in 1999.

1990: More than 1,100 jobs are lost at Brymbo steelworks in Wrexham.

1980: More than 6,500 jobs are lost at Shotton Steel Works with the closure of the Steel Making Facility

It was the biggest industrial redundancy on a single day in Western Europe and the region has taken the next three decades to right itself.

2001: Corus announces 6,000 UK job losses - a fifth of its workforce. They include 1,340 at Llanwern in Newport, and 90 at **Bryngwyn** in Swansea. **The Shotton cold strip mill closes** with 400 redundancies.

2002: The **Ebbw Vale steelworks shuts with 850 job losses**, although 300 workers move to other plants.

2007: Corus bought by Tata Steel of India

2014: Tata blames high business rates and "uncompetitive" energy costs for **400 job losses at Port Talbot.**

2015: Tata Steel reported a "turbulent year" due to Chinese exports and high energy costs but Port Talbot produced an all-time record of 4.19m tonnes of hot metal while the hot strip mill hit speed-of-work records.

In August, it **mothballs part of its Llanwern plant** for the third time in six years, with 250 job losses.

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The Economic Impact of Tata Steel in Wales

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Introduction

In Summer 2011, the Welsh Economy Research Unit undertook an assessment of the economic and social impact of the operations of Tata Steel in Wales. Tata is the second largest steel producer in Europe and in the global top ten, and remains probably the most significant private sector employer in Wales–in terms of direct employment, indirect and supply chain impacts, and in the importance of its outputs in other UK manufactures. Despite significant employment decline since the 1970s, steel remains a key industrial sector in Wales, with the largest facility in Port Talbot, and with significant Tata facilities at Shotton on Deeside, Trostre and Llanwern (to this can be added the Celsa arc steel plant in Cardiff).

This report quantifies Tata's impact in Wales. The Input-Output Tables for Wales were used to examine the direct and 'multiplier' impacts of Tata Steel activities; that is to say the on-site employment, output and gross value-added (GVA) plus that generated across the Welsh economy as Tata buys goods and services from Welsh supply chains, and as Tata employees spend money in the region. This then is a timely update to earlier WERU work examining the economic significance of steel in Wales, using the same methodology and analytical tools[1].

Whilst steel in Wales brings many benefits, Tata plants emit significant levels of greenhouse gases. These carbon emissions are contextualised as highlighting the need for regional and national policymakers to work with Tata within an appropriate framework to continue to reduce environmental impact, and thus protect the viability of its plants in Wales.

Economic Impact Methodology & Data

The regional economic impacts of a single facility do not stop at the factory gates. The onsite employment and economic output are certainly important, typically the largest part of any regional impact, but there are important offsite benefits.

Traditional economic impact methodologies classify and measure these in two major streams. Firstly, there is the employment; output and value-added that is created in the supply chain to the facility. Here, then, there will be thousands of employees and many millions of value-added created in firms supplying Tata – including at subcontractors used during the industrial processes and in transporting final products, as well as more generally in business services. These impacts travel back along supply chains as Tata's direct contractors themselves purchase inputs from other Welsh companies. Added to the above are economic impacts related to the re-spending of wages by Tata employees *and* employees in the Tata supply chain, again comprising additional economic demand and hence employment and value added in Wales. The sum of these two impact 'avenues' then comprise total offsite effects. These can be added to the onsite impacts to provide an indicative overall estimate of economic impact in terms of full-time equivalent employment and GVA.

Wales benefits from having a longstanding and well-developed modelling system that can value the multiplier benefits detailed above. The *Input Output Tables for Wales*[2] have been published by WERU for over a decade. They have been used to examine the economic impact of many Welsh sectors and economic activities, including coal, ports and (relevant here) steel, as well as non-traditional economic activities such as tourism and stadia.

Input-Output modelling has a number of limitations and restrictions. However, their continuous publication and improvement in Wales provides a way of measuring and assessing the importance of Welsh industries and activities that is consistent between different industries, and to some extent over time.

The modelling is 'data hungry', requiring good information on the purchases, wages and other business metrics of the facility or company in question. This information was gathered from Tata over Summer 2011 during a number of face-to-face interviews and other correspondence, and relates to the entirety of Tata operations across Wales – a novel analysis for the company itself. With the exception of some data on subcontractors, necessarily limited by third-party privacy considerations, we have therefore fully up-to-date, detailed and high quality information with which to inform the economic impact estimates presented below.

The Economic Impact of Tata Steel on Wales

Direct Impacts

Table 1 shows that overall some 8,000+ people are employed by Tata in Wales. These jobs are relatively highly paid. Tata pays a minimum of £14 per hour and employees are overwhelmingly full-time: less than 3% are part-time, compared with a Welsh average of 35% in 2010[3]. The quality of employment is no doubt causally linked to an average length of service of 16 years[4].

These employees created around £2.5bn of industrial output in 2010, comprising around 8% of all industrial and extractive output in Wales and highlighting the importance of the firm in the Welsh industrial landscape.

Onsite GVA at Tata plants totals around £1.28bn[5]. This equates to roughly 3% of total Welsh GVA, almost certainly the largest direct GVA contribution of any private sector employer.

Indirect Impacts

To these above impacts can be added those in the supply chain, and through wage effects, as detailed in Section 2 above. Use of the Input-Output Tables for Wales suggests that a further £670m of economic output and £320m of GVA is created across Wales as a result of Tata activities (Table 2). Thus, the total economic impact of Tata stands at £3.2bn in Wales, with a supported GVA of £1.6bn.

Whilst these figures are significant, the extent to which Tata supports off-site employment is more significant still. The Input-Output modelling suggests that almost 10,000 full-time equivalent jobs are supported off-site in the Tata supply chain, and as those employed at Tata and in the supply chain spend their wages in Wales.

The 'employment multiplier' is thus 2.22, suggesting that every job at Tata supports another 1.22 employees throughout the Welsh economy. This employment multiplier is, along with oil refining, electricity generation and some food production, amongst the highest of all Welsh sectors, and with this number similar to those reported in earlier WERU steel reports.

The largest portion of the off-site impacts arise in private services in Wales (these including transport and engineering). Interestingly, there are few supply links to other *manufacturers* in Wales, highlighting both the vertical integration of the company in Wales and the global nature of steel logistics operations. This position (and the overall level of economic impact) might change somewhat if the company is successful in once again sourcing its coal from Wales (rather than Australia) with the Margam Coal Development Project.

Depending on how one treats intra-company sales and intermediate products, Tata exports between 80%-95% of its output to markets outside Wales, thus earning inter-regional export revenues of between £2bn - £2.2bn for Wales.

Table 1 Tata Operations in Wales

Business	Locations	Nature of Business	Approx Direct Employees
Tata Steel Strip Products UK	Port Talbot Llanwern	Production of Hot Rolled Coil used in the construction, automotive, electrical / household appliances packaging and other industries	5,500
Tata Steel Colors	Shotton Tafarnaubach	Production of coated & organic coated products for the construction, electrical appliance and other industries. NB: Shotton hosts the Sustainable Buildings Envelope Centre (SBEC) and the Photovoltaic (PV) research project	650
Tata Steel Packaging	Trostre, Llanelli	Steel for packaging applications – cans, boxes, trays, etc. Some other specialised markets	850
Cogent – shortly Tata Steel Electrical Steels	Orb, Newport, South Wales	Specialised grain-orientated steel for electrical applications including wind turbines	450
Colorsteels	Cross Keys	Coated strip steels for manufactured goods and the construction sector	120
Tata Steel Building Systems (Catnic)	Caerphilly	Steel lintels for building construction	100
Tata Steel Building Systems	Shotton	Profiled steel composite panels for walls and floors for commercial construction	100
Tata Steel Living Solutions	Shotton	Modular steel units for construction – currently not operating	100
**SPECIFIC*	*Baglan Innovation Centre*	*R&D into functional coatings for steel. A partnership project under the legal aegis of Swansea University*	*(50)*
			~8,000

** Sustainable Product Engineering Centre for Innovative Functional Industrial Coatings*

Tata and Sustainable Development

The Tata plants in Wales, particularly the integrated Port Talbot mill, occupy a complex position within Wales' wider commitment to sustainable development and climate change mitigation. It is clear that the company is one of the largest sources of climate emissions in Wales. Despite significant and successful efforts to reduce these emissions – including the £60m investment in 2010 which saves 250,000 tonnes of CO_2 per annum – this position will likely remain unchanged for as long as the *current* plant operates in Wales.

The complexity arrives, first, in the form of the regulations under which Tata operates with regard to climate emissions. As a large emitter, these are governed by the European Union Emissions Trading System, with neither Westminster or the Welsh Government having a proactive remit. The second complexity arrives in the form of Welsh Government climate policy. As an EU-ETS signatory, Tata's emissions are not considered 'devolved': That is to say they do not count towards the Welsh Government's measure of the emissions for which it is responsible (more widely, the Welsh Government and Tata collaborate regularly on sustainability matters of course, for example in the area of land remediation and treatment of wastes).

This is not to say regional or UK government does not or cannot influence Tata operations. For example Tata in Wales spends around £150m on electricity, gas and water for Welsh operations. Here, the provision of lower carbon inputs – particularly electricity – might in the long run result in lower cost, more diverse and reliable supplies for Tata, improving the viability and longevity of plants in the UK[6].

Turning to the specifically Welsh context, it is worth remembering that the Government seeks to measure and reduce our environmental 'footprint' on a consumption, rather than production basis. This means that (through the Ecological Footprint) the government strives to reduce the global impact of all the resources we use, irrespective of whether they are Welsh or imported. From this perspective, the emissions of Tata should be considered in the light of the overwhelming proportion that comprises *exports* from Wales. On a consumption basis plant emissions might be considered after discounting those related to exported commodities – but with the corollary of course that we count the manufacturing and transport related emissions of all goods consumed by the people of Wales, irrespective of origin.

Leaving aside complex measurement issues, it is clear that steel production in Wales; indeed the UK and Europe; is under increasing pressure as a result of climate regulation and electricity costs currently unique to Europe. This position may not change for a number of years. Meanwhile, the carbon content of steel is chemically determined; unalterable by policy intervention or incremental technical development. Steel makers in Europe have made huge strides with current technology to reduce emissions per tonne of product, but these improvements have largely run their course. A fundamental shift in steel technology is needed,; as recognised by the Europe-wide *Ultra Low Carbon Steel Consortium* of manufacturers (www.ulcos.org). Without losing sight of the short term, policymakers might consider how to best ensure Tata's first ultra low carbon steel mill in Europe is in the UK – indeed in Wales.

Summary

This project report has illustrated Tata's position as the most economically important private sector company in Wales. For every employee within Tata, another 1.2 jobs are supported throughout Wales, together totalling almost 18,000 full time equivalent jobs. The company supports £3.2bn of output and £1.6bn of value added in Wales, as well as contributing to the development of much needed innovation and R&D activities in the region.

Climate regulation and resource constraints bear down harder on steel makers in Europe than elsewhere. Whilst the Welsh Government does not have direct responsibility for regulating Tata in this regard, actions on sustainable development and in energy supply (as far as is relevant) will have a potential impact – as will encouraging an appropriate, sophisticated and holistic debate on understanding climate emissions' impacts and responsibilities.

Wales has been lucky in retaining its major industrial actors through the 2007/8 Credit Crunch and subsequent recessions and volatility. As long as Tata plant and operations in Wales have the possibility of profitable use, they will remain. Encouraging a new, more sustainable generation of plants to be located here is the longer; more difficult, yet potentially far more lucrative challenge.

Notes

1 WERU (1994) The Economic Impact of Steel Production in South Wales, Welsh Economy Research Unit.
WERU (2001) The Economic Effects of Corus Restructuring in Wales. In Fairbrother, P. and Morgan, K. (eds) Steel Communities Study (Volume II), Cardiff University.

2. available from www.weru.org.uk

3. http://www.wiserd.ac.uk/wp-content/uploads/2011/05/WISERD_RRS_002.pdf

4. Tata Steel, 2011

5. Albeit with some uncertainty in this estimate as relevant taxes cannot be estimated at Wales level.

6. See Jones (2009) *Wales in the Energy Crunch* http://www.lulu.com/product/ebook/wales-in-the-energy-crunch/17544084

Table 2: The Regional Economic Impact of Tata Steel

	Output (£m)	GVA (£m)	Jobs (FTE)
On-site	2,520	1,280	8,000
Off-site (Supply chain & wages effects)			
Manufacturing & Energy	91.1	23	370
Construction & Maintenance	109.2	40.8	1,680
Private Services	288.6	148.8	4,160
Public & Other Services	180.1	104.7	3,520
All Off-site	669	317.3	9,730
TOTAL ECONOMIC IMPACT	3,189	1,597	17,730
Regional Multiplier	*1.27*	*1.25*	*2.22*

The Economic Impact of NHS Procurement: A Study of the Aneurin Bevan Health Board

Kevin Morgan[1], Max Munday[2] and Annette Roberts[2], Cardiff University.
[1]School of City and Regional Planning and BRASS Centre.
[2]Welsh Economy Research Unit, Cardiff Business School and BRASS Centre.

Introduction
The School of City and Regional Planning at Cardiff University and the Welsh Economy Research Unit of Cardiff Business School were commissioned by Caerphilly County Borough Council and Newport City Council to undertake an analysis of the local and all-Wales procurement of the Aneurin Bevan Health Board (ABHB).

ABHB is responsible for the delivery of health care services to more than 600,000 people living in the Gwent area. Health services are delivered across the local authority areas of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. The Health Board came into being on the 1st October 2009.

One context of the report is a paucity of evidence on the wider economic effects of Welsh public procurement, and the potential for regional firms to meet needs which are currently serviced by imports. These questions have been brought into a sharper focus with NHS budgets coming under pressure in current spending reviews.

The research objectives in summary were as follows:

- To define the term 'local' with respect to the purchasing behavior of ABHB.
- To demonstrate how far the Board had successfully implemented selected action points contained in the *NHS All Wales Procurement Strategy 2007-2010* relating to communicating opportunities to local suppliers, and assisting suppliers to improve delivery of goods and services.
- To identify whether targets had been set for local procurement by the ABHB, and the nature of actions being taken to achieve these targets.
- To analyse the amount of local spending undertaken by the Board and to analyse the benefits of local procurement for the wider local economy.
- To identify further local procurement opportunities for ABHB.

The definition of local was taken to mean the Health Board area in terms of the local authority areas of Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen. Regional was taken to mean of whole of Wales.

Opportunities for local SMEs
The report reveals that progress is being made by ABHB in meeting the strategic action points outlined in the *NHS All Wales Procurement Strategy*. However, the report highlighted a series of contextual issues that must be borne in mind in this connection. First, in terms of efficiently communicating requirements and in developing local supply potential, individual health boards are unlikely to be able to act wholly independently. With large amounts of goods and services flowing through designated hubs such as NHS Supply Chain and Welsh Health Supplies it is arguably in these organisations where a lead needs to be taken in communicating and developing local supply potential. The use of supply hubs and framework style agreements, greater procurement cooperation with the other home countries, tighter procurement regulations, the use of electronic portals and the wider advertising of tender opportunities, places constraints on the amount of supplier development that can be undertaken by organisations such as the ABHB. It is also difficult to escape the conclusion that the trend in the procurement process and tighter public spending conditions could work together to make it more difficult for SMEs to compete in winning NHS business in Wales.

ABHB Spending
The report provides an analysis of the expenditure undertaken by ABHB for 2009-10. A large amount of total spending relates to the wages and salaries of staff, (nearly £406m) and with this supporting an estimated 10,754 full time equivalent (FTE) jobs. During 2009-10 non-pay operational spending was a little over £547m. Finally, there was estimated total capital spending through the year of £125m and with the vast majority of this relating to the construction of the Ysbyty Ystrad Fawr and Ysbyty Aneurin Bevan hospitals.

Table 1 shows that of total ABHB operational spend (net of depreciation) of £528.7m, around 23.5% represents payments to firms and institutions in the ABHB area. Total ABHB spending in Wales as a whole in 2009-10 was £306.5m or 58% of total operational spending. Discounting for spending within the health and social work sector leaves £25.2m of spending in other sectors of the economy. Total operational spending outside of Wales was £222.2m or 42% of overall operational spending. Of the total of non-pay operational spending (less health and social work spending) of £113.1m, around 8% is within the ABHB area, 22% is within Wales as a whole (including the ABHB area), and then with 78% of spend outside Wales.

Figure 1 shows the level of purchases outside Wales by ABHB by sector. In a number of sectors the percentage of total operational spending outside of

Table 1: Spatial distribution of ABHB (non-pay) operational spending in 2009-10

	£000s	£000s	£000s	£000s
	ABHB	All of Wales (Incl ABHB)	Outside of Wales	Total
Total	**124,015**	**306,519**	**222,155**	**528,674**
(Total less health spending)	*9,196*	*25,176*	*87,905*	*113,081*

Darparodd Unite Bapur Briffio o Lyfrgell Tŷ'r Cyffredin, sydd ar gael yn y ddolen a ganlyn:

http://researchbriefings.files.parliament.uk/documents/CBP-7317/CBP-7317.pdf
(Saesneg yn unig)

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William Graham AM
Chair of Enterprise & Business Committee
The National Assembly for Wales
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25th February 2016

Dear William

Thank you for your invitation (13 January) to attend the Enterprise & Business Committee on 3 March to discuss the impact in Wales of the challenging conditions faced by the UK steel industry.

My Ministerial colleagues and I have been in regular contact with Tata and the Welsh Government, actively supporting Edwina Hart's Welsh Steel Taskforce. In our continued effort to engage with Tata, the Secretary of State for Business, Innovation and Skills and I visited Port Talbot on the 12th February. Issues affecting the company were communicated to us both by the management and the unions.

We recognise that Steel is a vital economic issue for Wales, and will continue to work to ensure that Port Talbot has a commercial and sustainable future.

As you are already aware, unfortunately I cannot attend the meeting of the Enterprise & Business Committee on 3 March. However, please find attached my written contribution to the evidence session.

Kind regards. Stephen.

Rt. Hon. Stephen Crabb MP
Secretary of State for Wales

THE STEEL INDUSTRY IN WALES

Written Evidence submitted to the Enterprise & Business Committee of the National Assembly for Wales by the Secretary of State for Wales

1. I welcome this opportunity to submit written evidence on the impact in Wales of the challenging conditions faced by the UK steel industry in advance of the Committee on 3 March 2016.

Overview

2. The steel industry in Wales and across the UK is facing challenging global conditions. Global steel production is outstripping demand by 35% worldwide and the price of steel has halved since 2014. Across Europe, the number of workers in steel manufacturing has fallen by about 70,000 between 2008 and 2014.

3. The increasing presence of Chinese steel on the global market has had a significant impact on the Welsh Steel industry. For some products, specifically reinforcing bar, cheap Chinese imports have gone from accounting for 0% of UK market in 2013 to 37% of the market at the end of 2014. More generally, Chinese steel exports roughly doubled between 2011 and 2014.

4. These difficult times have resulted in a number of companies having to take tough commercial decisions. These include the significant redundancies at plants operated by Tata in South Wales, Scunthorpe and Scotland.

5. Steel industry is pivotal to the industrial base in Wales and the community it serves. The impacts of recent announcements by Tata are severe and will be felt by the local communities and supply chains across UK.

6. We are working in partnership with the industry, unions and the Welsh Government with a view to ensuring that Steel continues to be a vital part of the future of Wales.

7. In the longer term we want to preserve as many jobs as possible while supporting companies to put themselves onto sustainable footing.

8. At Ministerial level, the UK Government, continues to engage with the Steel industry in Wales and across the UK to understand the challenges it is facing and how we can best support the industry. On 12th February, Secretary of State for Business, Innovation and Skills and I visited Tata Port Talbot to continue our ongoing engagement with the industry.

9. On 16 October 2015 the Government hosted a Steel Summit to discuss the steel crisis with key Government and industry participants as well as affected constituency MPs, recognising the significant part steel industry play in local communities.

10. Following the Summit, the steel industry made five key asks of government to help level the playing field, they were:

i. <u>Procurement:</u> Procurement processes to be more competitive to avoid UK steel companies losing out on major procurement projects.

ii. Business rates: A reduction of business rates. Industry suggests that business rates in the UK are up to ten times higher than those paid by competitors in France and Germany.

iii. Dealing with lower energy costs: Full implementation of the Energy Intensive Industries package which contains measures aimed at offsetting the costs of environmental levies on high energy users.

iv. Flexibility over EU Industrial Emissions Directives: Derogation from implementing the EU Industrial Emissions Directive which threatens further pressure on costs. The Directive places requirements on industry in relation to emissions and the use of technology to reduce them. Member states are able to designate specific plants to be given more time to meet the new requirements.

v. Anti-dumping: Measures taken at EU level to prevent dumping of Chinese steel products into EU markets.

11. On 18 January, EEF and UK steel made two additional asks of government – EU level action on Market Economy Status for China and direct funding assistance for the sector on R&D and environmental improvements.

Procurement

12. We are supporting sustainable steel sourcing in our procurement guidance for all UK Government departments which applies to all firms bidding for public sector work. We are the first country in the EU to implement new flexibilities which allow wider considerations, such as social impacts, job impacts and staff safety in procurement decisions, so that the true competitive value of UK steel is recognised. This will provide the much needed competitive to edge to the industry and support steel companies in competing for contracts. The Welsh Government has the power to implement Procurement Guidance to cover Welsh Government authorities.

13. The British Standards Institute (BSI) has revised and updated the voluntary British Standard BS4449 which applies to steel reinforcement bar.

14. We have shared a pipeline of UK Government projects with the industry, allowing British steel producers to plan ahead to meet the demand. Officials have mapped rough estimates of steel that could be needed for major projects including HS2, new nuclear and offshore wind. Devolved Administrations will manage their own pipeline analysis for devolved sectors, but we will work together to ensure as full a picture as possible is presented.

15. We are supportive of the work being undertaken by the Procurement work-stream of the recently set up Welsh Taskforce which will examine work needed to drive the number of contracts won by Welsh Steel manufacturers in Wales. The work-stream is also aiming to identify priority projects in Wales.

16. Across all of UK Government's major procurements we are working hard to make sure that wherever possible, British steel makers have the best chance of competing for, and winning, contracts.

Business rates

17. UK Government is not responsible for business rates policy and legislation in Wales, so options to support businesses in Wales via business rates policy is a matter for the Welsh Government.

18. The steel sector has asked for plant and machinery to be removed from business rate calculations. In England, we are working with the sector to ensure their views are taken into account in the current Rates Review being undertaken by HM Treasury.

Energy Intensive Industries package

19. We have paid almost £60 million in compensation to the Steel Industry for the indirect costs of the EU Emissions Trading System and Carbon Price Support on electricity prices (relief for around 65% of the cost passed through electricity bills).

20. At Budget 2014 the Government announced additional reliefs from the costs of renewables electricity policies. These relief regimes for the Renewable Obligation, small-scale Feed-in-Tariffs (RO/FiT) similarly required State Aid approval by the European Commission. On 14 December 2015, the European Commission approved relief for EIIs that meet certain criteria.

21. The Government published guidance on claiming compensation for the indirect costs of the RO/FiT for eligible EIIs on 19 January 2016. For the current financial year, eligible EIIs may submit applications for compensation for the costs of the RO/FiT in their electricity bills up to 31 March 2016. The compensation amounts will be calculated from the date of the State Aid decision (14 December 2015). Thereafter, such payments will be made quarterly in arrears.

22. In December 2015 we secured state aid approval to pay further compensation to electricity-intensive industries, including steel, to include Renewables policy costs. On 19th January we issued the guidance and compensation claimant forms, enabling steel and other electricity-intensive industries to apply. Compensation to eligible companies will be paid as soon as eligible applications are received and backdated to 14 December.

23. This will save the steel industry about £100 million over the financial year - roughly 30% of its electricity bills. This relief from electricity costs will give the UK Steel Industry greater certainty around electricity costs.

24. At Autumn Statement 2015 the UK Government went further and announced that we intend to move from compensation to exempt electricity intensive industries from renewable policy costs. UK Government officials are working to make this transition and it is expected to be in place by start of 2017-18.

25. Government is acting to keep business and household electricity bills as low as possible through cost control measures in the short term for example by closing the Renewables Obligation to large scale solar now and to onshore wind earlier than planned) and investment in new energy infrastructure in the medium to long term for example new nuclear and interconnection with neighbouring nations.

26. Industrial sectors subject to the EU Emissions Trading System receive free allowances to reduce their direct carbon costs

27. A full exemption from the Climate Change Levy for mineralogical and metallurgical processes (including iron and steel), and up to 90% relief for EIIs that sign up to Climate Change agreements.

28. We are also working closely with the eight most energy intensive sectors, including Steel, on how they can remain competitive amid increasing global carbon constraints. Decarbonisation and energy efficiency roadmaps for each sector were published in March 2015, and we are now beginning to develop an action plans jointly with the industry for agreement by the end of 2016.

Flexibility over EU Emissions Regulations

29. Both of Tata Steel's major power plants have been included in the UK transitional plan that the UK has submitted to the European Union.

30. We have already provided the industry with longer lead-in time for compliance with EU Regulations. Derogations for Port Talbot have already been agreed by Natural Resources Wales. This will save companies millions of pounds.

31. This gives the industry until June 2020 - a further 4 years - to meet the emission requirements.

Anti Dumping

32. The UK Government is in favour of effective trade defences and we believe that the level of duties should be proportionate to the injury caused by unfair trade. We have lobbied the EU in support of the industry, voted in favour of anti-dumping duties and are working with the EU to speed up anti-dumping investigations.

33. On Friday 12 February the European Commission announced new investigations on hot rolled coil as requested by Tata at Port Talbot. This is an exceptional step, in that it is a 'threat of injury' case. This means that, if the cases are proven, protection against unfairly trade can be introduced earlier than would otherwise be possible. The EU now has 37 trade defence measures in place on imports of steel products, while nine investigations are still ongoing.

34. And it is also welcome that the Commission has decided to apply provisional duties on both reinforcing bar from China and cold-rolled flat products from China and Russia. We share industry disappointment that the duties aren't higher in these cases. We have raised industry concerns with the Commission and been assured that it will reconsider if industry can provide the necessary evidence.

35. These are welcome actions, which show the Commission is taking industries concerns seriously. The Hot Rolled Coil case is an important step towards securing production at Port Talbot. The speed with which this case has been processed is evidence that the Commission is taking the steel crisis seriously.

36. At High Level Stakeholders' Conference, held in Brussels on 15th February, Anna Soubry, together with European partners, industry and trade unions, stressed to the European Commission the need for swift action to support the UK and EU steel industries. At the Conference, we strongly made the case for faster trade

defence investigations and for ensuring tariffs are set at the appropriate rate. We will continue to work with the Commission to ensure that the UK steel industry has the support it needs to compete effectively.

37. We are organising a 'Trade and State Aid Seminar' in Cardiff. The Seminar will be a great opportunity to get practical advice from policy experts in trade and state aid policy. We intend that the Wales, UK and EU angles will all be covered and are exploring the possibility of representatives from UK Steel, Eurofur and the European Commission participating. We are opening up the invitation to the UK Steel sector, all Unions, and to officials from the Devolved Administrations.

38. There have been allegations from the industry of Chinese imports of steel plates and sections that have been unlawfully CE marked and/or with non-compliant technical documentation. In December, officials from DCLG, BIS and Trading Standards initiated a surveillance project to target these non-compliant imports from China. This project is now operational and data on imports is starting to be received by Trading Standards.

Market Economy Status

39. The Government has also noted concerns about the forthcoming proposal to grant China Market Economy Status (MES). On 10 February, the Commission launched a consultation on the methods the EU should use in anti-dumping procedures concerning China after December 2016. This consultation, which will be open for ten weeks, invites stakeholders to give their opinion on the various options being considered by the Commission. This will give producers, users and consumers the opportunity to make their views known and have them taken into account. The Government welcomes the Commission's initiative, and urges UK business and consumers to engage in this exercise.

R&D Tax Credits

40. The industry maintains that, if Government recognises the strategic importance of the steel industry and manufacturing in the UK, then it needs to invest in industry to keep vital skills that will otherwise be lost.

41. Working in partnership with UK Steel, BIS has commissioned external independent advice on the competitiveness of the UK steel sector. This analysis is looking at the cost competitiveness of UK steel (primary) production, drivers of the UK steel industries overall competitiveness, as well the factors consumers take into account when purchasing steel, and proposing some scenarios for the future of UK steel. We will use these findings to focus discussions with the sector, and all key stakeholders, to explore actions which can improve the competitiveness of the UK steel sector.

Short term support for Welsh steel producers

42. The Welsh Government has set up a taskforce, just as we have seen in other areas that have been affected by large redundancies relating to steel. Lord Bourne and UK Government officials have been attending and actively supporting the task force.

43. Given responsibility for economic development lies with the Welsh Government, there is a significant role for them to play. However, it is important that both governments continue to work together to ensure long term sustainability of the Port Talbot site and associated jobs.

Welsh Government action

44. In addition to economic development and therefore the short term support to Welsh steel producers and local supply chain companies, the Welsh Government has devolved powers over redundancy support, skills and training and business rates.

45. Welsh Government has setup a Procurement work-stream as a subgroup of the Taskforce. The subgroup will examine works needed to drive the number of contracts won by Steel manufacturers in Wales. The work-stream is also aiming to identify priority projects in Wales and align capacity and capability with demand.

46. Given the devolution settlement, much of the support that can be offered both to workers and local supply chain companies would be provided by the Welsh Government.

47. Welsh Government have indicated that Port Talbot is to be designated as Enterprise Zone to promote investment and jobs more generally in the area, and have requested that Enhanced Capital Allowances (ECAs) be made available to the area. The Chancellor has welcomed plans to examine options and is clear he wants to work quickly to consider any proposals received from Welsh Government to determine whether ECAs could be offered.

48. Tata have made considerable asks of both Governments that span the devolution boundaries and require careful consideration. The future of Port Talbot must be commercially led but we will help where we can within the parameters of state aid rules.

Action from other EU Member States

49. The International Comparisons Working Group set up in response to the Steel Summit and in which Welsh Government officials participated, conducted a review of other countries' activities with respect to three areas where schemes are found: supporting energy costs; energy efficiency and R&D&I. The review concluded that the UK was doing all it could with respect to energy costs, but that it could do more with respect to energy efficiency.

50. The trend within other EU Member States appears to be for general schemes to promote the use of electricity from renewable sources, to improve energy efficiency, or to encourage take-up of cogeneration (using waste heat) techniques. One notable exception has been aid granted for steel manufacturing specific projects in Germany, which was authorised by the European Commission in 2010 using the framework for Environmental Protection. This is a relatively under-developed area in the UK and we should look to exploit all the opportunities afforded by the Energy and Environmental Aid Guidelines (EEAG).

Conclusion

51. The UK Government has taken significant action in response to industry asks and will continue to do all it can in the coming weeks and months to ensure a healthy and sustainable future for the industry.

52. There is clearly more to be done and I recognise this is a vital economic issue for Wales, and will continue to work closely with the Welsh Government.

Eitem 6

Mae cyfyngiadau ar y ddogfen hon

Eitem 7

Mae cyfyngiadau ar y ddogfen hon

Mae cyfyngiadau ar y ddogfen hon

Eitem 9

Mae cyfyngiadau ar y ddogfen hon

Please see the following document which was submitted by the Higher Education Funding Council for Wales (HEFCW) as a consultation response to the Finance Committee's scrutiny session on Welsh Government Draft Budget 2016-17.

Cyngor Cyllido Addysg Uwch Cymru
Higher Education Funding Council for Wales

Welsh Government Draft Budget proposals for 2016-17

Evidence from the Higher Education Funding Council for Wales (HEFCW)

Introduction

1. HEFCW regulates fee levels at universities, ensures a framework is in place for assessing the quality of higher education and scrutinises the performance of universities and other designated providers. Our role has evolved to pay particular attention to areas where market solutions do not lend themselves eg widening participation to higher education, encouraging and funding part-time enrolments and supporting subjects such as clinical medicine where costs are much higher than tuition fee income.

2. We use resources from the Welsh Government and others to secure higher education (HE) learning and research of the highest quality, make the most of the contribution of HE to Wales's culture, society and economy and ensure, working with Estyn, the provision of accredited teacher training.

3. Higher education makes a major contribution to the economy of Wales, sustains large numbers of high-skilled jobs and provides a substantial short-term return on government investment. It also generates the knowledge and highly skilled employees essential to the medium and long-term growth of the Welsh economy. It can only make this contribution to Welsh economy and society if it receives sufficient investment to retain and develop its core infrastructure and to remain competitive in a UK and international context.

4. In the context of the need for higher education to be competitive within an UK and international market, this submission provides, for context, information on changes which have happened to the funding of higher education in recent years and then indicates the likely consequences of the further cuts which are proposed in the recently published draft budget.

5. We recognise that difficult choices have to be made in terms of public expenditure and that these decisions are the responsibility of Government. We do, though, have a responsibility to provide advice, both to Government and to the Assembly, on the potential consequences of policy decisions. As we illustrate in this submission, we consider that the proposed cuts to the higher education budget threaten to undermine Welsh Government priorities for securing economic growth and the provision of public services, including health care, in Wales.

Summary

6. The bullet points below are the key issues raised in this response to the Finance Committee's consultation on the Welsh Government's Draft Budget proposals for 2016-17.

- Between Academic Year (AY) 2011/12 and AY 2015/16 HEFCW funding to HE providers in Wales has reduced by £216m to £151m on account of the increasing cost of the Welsh Government fee grant for students over that period (see Table 1). By AY 2015/16 the fee grant cost is estimated to be significantly higher than the total funding that HEFCW allocated for full-time undergraduate(FTUG)/PGCE teaching in AY 2011/12 and substantially higher than the original estimated cost (originally estimated to cost 35% of our teaching grant).

- This compares to a reduction in Higher Education Funding Council for England (HEFCE) revenue grant funding for HE providers in England for the same period of 51% (see Table 2).Consequently the HEFCW funding allocated to Welsh HE providers has already been reduced by 10 percentage points more than the equivalent funding for HE providers in England (equating to around £39m less in funding for Welsh HE providers).

- During the same period HEFCE's capital funding has increased by 229% whereas HEFCW capital funding has remained stable at a minimal level with no recurrent teaching capital funding available.

- The comparison in Table 2 of HEFCE and HEFCW funding available to HE providers in England and Wales does not include tuition fee income. Tuition fee income does not need to be taken into account in this comparison as HE providers in both England and Wales are able to charge the same FTUG/PGCE fees of up to £9,000 per student per year.

- HEFCW has already had to make difficult decisions as a consequence and funding reductions have had to be implemented in other areas of strategic priority including innovation, part time provision and strategic funding.

- Whilst the AY 2016/17 HEFCE budget is not yet known the recent Comprehensive Spending Review (CSR) made commitments to protect science and research funding in real terms and whilst there will be further reductions in HEFCE teaching funding the CSR indications do not imply reductions of 32% as proposed in the Welsh Government HE budget.

- The proportion of the fee grant that is paid to HE providers outside Wales has increased each year to a total cost of £89m in AY 2014/15, being approximately 40% of the total fee grant cost for that year. UCAS recruitment reports for AY 2015/16 indicate that the increase in the proportion of Welsh domiciled students studying at UK HE institutions outside Wales has continued.

- Neither HEFCW nor the Welsh Government are able to implement controls to limit the cost of the fee grant paid to HE providers outside Wales.

- If the HE budget is reduced to £88m from April 2016 as proposed our modelling indicates that in AY 2016/17 the Welsh universities' total income from HEFCW funding and the increased fee income under the new regime for all home and EU students[1] will be less than the total HEFCW funding paid to HE providers in AY 2011/12 prior to the introduction of the new fee regime.

- The draft budget for FY 2016-17 would provide funding of approximately £87m to be allocated in AY 2016/17 to Welsh HE providers to invest in strategic priorities**.** £87m is less than the total fee grant paid in AY 2014/15 to HE providers in the rest of the UK. The equivalent fee grant cost for AY 2016/17 based on current trends is likely to be higher again and consequently the Welsh Government will be paying more in fee grant to HE providers outside Wales than will be invested in recurrent grant funding (excluding fee grant) to HE providers in Wales.

- We have significant concerns that the proposed budget allocations for HE will have a detrimental impact on the capacity of Welsh universities to compete as successfully as they have to date with other UK providers and global competitors in attracting students, both from the UK and International students, in attracting staff and securing research grants and contracts.

- Even in the event of no further funding reductions in FY 15-16 or FY 16-17, and only a 2.5% increase in the fee grant cost in FY 16-17 the HEFCW funding allocation for AY 16/17 would reduce to approximately £126m. This on its own would have been a reduction of £25m (17%) in HEFCW funding.

- HEFCW recurrent funding is allocated mainly to the priority areas of research, part-time provision and expensive subjects (medicine, dentistry and performing arts).

- Universities use HEFCW research funding (QR) as core funding to competitively win some 60% further investment from the Research Councils. Reducing QR will reduce research activity and make Welsh universities and the Welsh economy less competitive.

- Universities use HEFCW part-time funding to keep down the cost of part-time courses, key to widening access to students from disadvantaged backgrounds and delivering high-level skills. The resulting increase in costs of a reduction in HEFCW funding is likely to see recruitment fall dramatically.

- Universities use the expensive subject funding for full-time undergraduate medical, dentistry and performing arts courses which cost more than the maximum fee of £9,000. Reductions in this funding could reduce the capacity

[1] i.e. the fee income over and above the tuition fee payable in 2011/12 of £3,375 with annual increases, for Welsh, EU and rest of UK students.

of Welsh Medical Schools and conservatoire to deliver quality training and attract the best students.

- The CSR confirmed the UK Government’s proposals to make postgraduate study loans available to English domiciled students from AY 2016/17 wherever they choose to study in the UK. There is strong competition for postgraduate students and it will be important for Welsh universities to be able to offer similar incentives and funding arrangements to Welsh domiciled students. HEFCW funding to support postgraduate taught provision has been reducing since 2011/12.The proposed budget reduction for FY 2016-17 may mean that no further funding for postgraduate study will be available from HEFCW after AY 2015/16.

- Reductions in the strategic funding available to support Welsh medium provision is likely to halt the development of the Coleg Cymraeg Cenedlaethol’s provision and impact on the capacity of HE providers to develop the use of the Welsh language across the full range of their activities.

- The funding reductions will have a differential impact on individual universities and some may find it challenging to manage the financial impact of such large reductions. HEFCW will not have any financial reserves to offer financial support for future financial shortfalls and longer term restructuring.

- The absence of general capital funding for HE in Wales and lower financial surpluses already means that Welsh universities have a more limited ability to invest in their estate than their UK counterparts. Any investment must be funded through commercial borrowing, with implications for universities’ capacity to repay their borrowings when due if HE funding is reduced further.

- A reduction of HEFCW funding of approximately £52m from AY 2015/16 to AY 2016/17 along with increasing staff overhead costs is likely to impact on universities’ ability to plan in the mid to long term and could lead to a higher number of fixed-term contract roles and a modest estimate of more than a thousand job losses.

- Higher education is a major economic contributor and industry in itself and generates some £2.4bn of Welsh Gross Value Added (GVA) (equivalent to 4.6% of the Welsh total) and creates almost 50,000 jobs in Wales (3.4% of the Welsh total), with a quarter of the GVA (£597m) and jobs (11,783) created by Welsh universities being in parts of Wales that do not have a university on their doorstep. Consequently the proposed funding reductions for HE will not only have an impact on the universities and their local communities but more widely throughout Wales.

What in your opinion has been the impact of the Welsh Government's 2015-16 budget?

7. Table 1 below summarises the funding allocations made by HEFCW to HE providers in Wales since the Academic Year ending 31 July 2012 (AY 2011/12). The new fee arrangements for full-time undergraduate and PGCE students (FTUG/PGCE) were introduced in AY 2012/13 and, since then, an increasing proportion of the HEFCW budget has been allocated to cover the fee grant cost[2] for Welsh and EU domiciled students studying in Wales and Welsh students studying in the rest of the UK.

8. From 1 April 2015 a decision was taken by the Minister to transfer the fee grant cost from the HE budget to the post 16 support budget, and consequently the HE budget was reduced substantially in the Welsh Government Financial Year ending 31 March 2016 (FY 2015-16). In addition, the transfer of funding for the fee grant from HEFCW to the Welsh Government also meant that we were no longer able to apply the fee grant cost controls that we had developed since AY 2013/14 to manage some of the unintended consequences of the new fees and funding regime[3]. Since the introduction of the new fee regime in AY 2012/13, student number controls only operated in 2012/13, being replaced in 2013/14 by the maximum fee grant arrangements. The maximum fee grant controls that we introduced could only be applied to Welsh universities. HEFCW could not apply similar controls to the fee grant cost paid to HE providers outside Wales and therefore neither we nor the Welsh Government have ever been able to implement controls to limit the cost of the fee grant paid to HE providers outside Wales.

Table 1

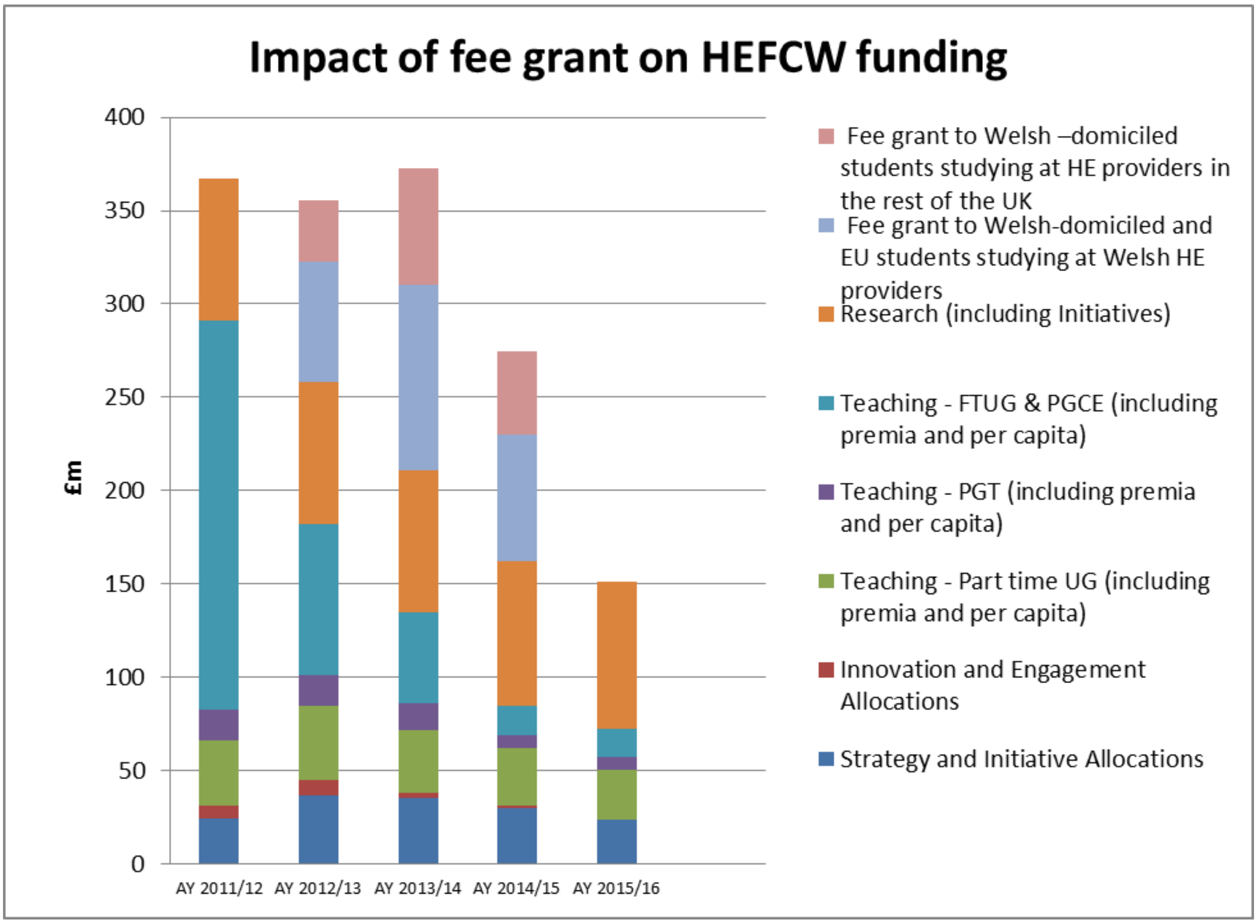
HEFCW allocations AY £m	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Teaching FT UG/PGCE	209	81	48	15	15	
Research	76	76	76	78	79	
Teaching Part Time (PT) UG	35	39	33	31	27	
Postgraduate Taught (FT and PT)	16	16	15	7	7	
Innovation Strategic Funding	7	8	3	2	-	
Strategy and Initiative allocations	24	37	35	29	23	
Total allocations to HE providers	**367**	**258**	**211**	**162**	**151**	**87**

[2] This fee grant (a non-repayable grant towards fees for students from Wales wherever they study in the UK) cost represents the difference between the tuition fee cost in 2011/12 and the increased tuition fee from 2012/13, up to maximum fee of £9,000, for FTUG/PGCE students.
[3] Circular Maximum Fee Grant Arrangements 2013/14 (W12/38HE) refers.

Fee grant payments to Welsh HE providers	-	65	99	67	-	-
Fee grant payments to other UK HE providers	-	33	62	45	-	-
Total Fee grant cost	**-**	**98**	**161**	**112**	**-**	**-**
Total funding allocation	**367**	**356**	**372**	**274**	**151**	**87**

Note:
1. The allocations for AY 2011/12 to 2014/15 in table 1 represent the actual recurrent payments made from HEFCW Grant in Aid for those years. The allocation for AY 2015/16 is based on our latest estimates of allocations for that year and the total funding available for AY 2016/17 of £87m is based on the funding proposed in the Welsh Government FY 2016-17 budget.

2. Strategy and Initiative allocations comprised mainly funding for reconfiguration and collaborations including the mergers to form the University of South Wales (USW) and the University of Wales Trinity Saint David (UWTSD) as well as funding for the Coleg Cymraeg Cenedlaethol.



9. Between AY 2011/12 and AY 2015/16 the HEFCW allocations to Welsh HE providers have fallen by £216m as a result of the increasing cost of the fee grant over that period. By AY 2015/16 the fee grant cost was significantly higher than the total funding that HEFCW allocated for FTUG/PGCE teaching in AY 2011/12

and substantially higher than the original estimated cost (originally estimated to cost 35% of our teaching grant). As a consequence, funding reductions have had to be implemented in other areas of strategic priority including innovation, part-time provision and strategic funding.

10. Table 2 below summarises the revenue funding available for HEFCW and HEFCE to allocate between AY 2011/12 and AY 2015/16 and provides a comparison of the relative revenue funding reduction borne by Welsh higher education providers compared to those seen by HE providers in England to date. Whilst the AY 2016/17 HEFCE budget is not yet known the recent Comprehensive Spending Review (CSR) made commitments to protect science and research funding in real terms and whilst there will be further reductions in HEFCE teaching funding the CSR indications do not imply reductions of 32% as proposed in the Welsh Government HE budget.

11. The comparison in Table 2 below does not include tuition fee income. Tuition fee income does not need to be taken into account in this comparison as HE providers in both England and Wales are able to charge FTUG/PGCE fees of up to £9,000 per student per year.

Table 2

HEFCE and HEFCW funding 2011/12 and 2015/16 excluding capital

	Funding category	Funding allocated to institutions (£m)					Change	Percentage change
		2011/12	2012/13	2013/14	2014/15	2015/16	2011/12 to 2015/16	2011/12 to 2015/16
HEFCE	Teaching	4,317	3,233	2,325	1,582	1,320	-2,997	-69%
	Research	1,558	1,558	1,558	1,558	1,506	-52	-3%
	HE Innovation Fund (HEIF)	150	156	160	160	160	10	7%
	Other	237	177	149	143	102	-135	-57%
	Total	6,262	5,390	4,472	3,443	3,088	-3,174	-51%
HEFCW	Teaching	260	137	94	53	52	-209	-80%
	Research	77	77	77	77	76	0	-1%
	Innovation & Engagement Fund (IEF)	9	11	6	0	0	-9	-100%
	Other	39	35	39	28	23	-16	-42%
	Total	385	259	215	158	151	-234	-61%

Source: HEFCE website, HEFCW annual reports, HEFCW's funding allocations circular. Fee grant payments and estimates for AY 2015/16 are excluded from the HEFCW figures. HEFCE figures are taken from early summary of allocations adjusted by final allocation documents.

Note: During the same period HEFCE’s capital funding has increased by 229% whereas HEFCW capital funding has remained stable at a minimal level with no capital funding available for teaching.

12. The reduction in HEFCW funding allocations between AY 11/12 and AY 15/16 (based on the published funding for AY15/16) is £234m, a reduction of 61%. This compares to a reduction in HEFCE revenue funding for the same period of 51% after taking account of the in-year funding reduction to HEFCE announced in July 2015. Consequently the HEFCW funding allocated to Welsh HE providers has already been reduced by 10 percentage points more than the equivalent funding for HE providers in England (equating to around £39m less in funding for Welsh HE providers compared to HE providers in England).

13. Whilst the reduction in HEFCW funding has been partly offset by the increased fee for FTUG/PGCE students at Welsh HE providers since AY 2012/13 it is worthy of note that the proportion of the fee grant that is paid to HE providers outside Wales has increased each year to a total cost of £89m in AY 2014/15 being approximately 40% of the total fee grant cost for that year. UCAS recruitment reports for AY 2015/16 indicate that the increase in the proportion of Welsh domiciled students studying at UK HE institutions outside Wales has continued and this trend is unlikely to change unless HE providers in Wales are seen as being equivalent to their competitors in the rest of the UK in terms of funding and facilities and other support available for students.

14. The capacity for Welsh universities to continue to earn income from non-government sources, and thereby to sustain or increase their current economic contribution to Wales, depends essentially on their capacity to attract high quality staff and good students. They need to be able to do so in the context of a highly competitive UK and international market. Key to this is their competitive position vis-à-vis England, which is why the relative funding levels between England and Wales are so significant.

15. The financial statements for the year ended 31 July 2014 indicate that, overall, the income of Welsh universities has increased by approximately 8% since 2011/12. However, most of that increase derives from competitively won research grants, other commercial activities such as consultancy and recruitment of overseas students. There has been an increase in fee income from UK students since the introduction of the new fee regime in 2012/13; however, this increase is lower than previously anticipated and, for each UK student, a substantial proportion of the increased fee income has to be spent on their teaching provision as well as fee plan commitments. Overall the proportion of Welsh universities' total income that comes from Funding Council grants and fees for UK students has stayed largely unchanged at 54% in 2011/12 and 53% in 2013/14.

16. If the HE FY budget is reduced as proposed to £88m from April 2016 our modelling indicates (based on reasonably generous assumptions in terms of continuing growth in student recruitment and fees for Welsh HE providers) that in AY 2016/17 the Welsh universities' total income from HEFCW funding and the increased fee income under the new regime for all home and EU students[4] will

[4] i.e. the fee income over and above the tuition fee payable in 2011/12 of £3,375 with annual increases, for Welsh, EU and rest of UK students.

be less than the total HEFCW funding in AY 2011/12 prior to the introduction of the new fee regime.

17. The FY 2015-16 budget was a challenging budget for HE providers in Wales and difficult decisions had to be made by HEFCW in allocating funding to areas of strategic priority and in order to respond to our Ministerial remit. As most undergraduate and PGCE full-time students had transitioned to the new fee regime (introduced in AY 2012/13) by AY 2014/15, it was assumed that there would not be a need for significant further reduction to be made to the HE funding allocations in FY 2016-17. HEFCW funding is allocated to HE providers for academic years starting in August and ending in July. The academic year is the same as the financial year for HE providers and consequently they prepare their financial statements for the 12 months ending 31 July. The Welsh Government budget provides funding to HEFCW based on the Welsh Government financial year (FY) ending 31 March, therefore the allocations to HE providers for academic year (AY) 2015/16 include funding from the first four months of the FY 2016-17 budget (April to July 2016). The HEFCW allocation to HE providers for AY 2015/16 was based on an assumption that the level of funding for HE for FY 2016-17 would be similar to the FY 2015-16 budget subject to a reduction equivalent to an increase in the fee grant cost of 2.5%. This provided an assumed budget for FY 2016-17 of £119m. The draft budget for FY 2016-17 is significantly lower than this at £88m and may require significant in-year funding reductions to be made to the sector in the current academic year 2015/16 as well as next year.

Looking at the draft budget allocations for FY 2016-17, do you have any concerns from a strategic, overarching perspective, or about any areas?

18. The proposed budget allocation for HE for FY 2016-17 is a £41m reduction in the funding available for allocation to HE providers in Wales. This represents a funding reduction of 32% between FY 2015-16 (£129m) and FY 2016-17 (proposed budget of £88m). It is generally sensible to avoid applying late in-year cuts to funding for HE providers. If the Council were to seek to avoid applying an in-year cut in AY 2015/16, all the impact of this proposed FY 2016/17 cut would have to be applied to AY 2016/17, which would represent a 40% cut (approximately £52m) between AY 2015/16 and 2016/17.

19. We have significant concerns that the proposed budget allocations for HE will have a detrimental impact on the capacity of Welsh universities to compete as successfully as they have to date with other UK providers and global competitors in attracting, supporting and retaining students, both from the UK and international students, in attracting staff and in securing research grants and contracts. We have set out below how our funding for AY 2015/16 was allocated between the Welsh Government priority areas:

AY 2015/16 Funding Allocations	£m	% of total funding
Quality Research (QR) & Postgraduate Research (PGR)*	79.4	53%
Part-time Teaching - Postgraduate Taught (PGT) & Undergraduate (UG)**	35.2	23%
Expensive Subjects	15.1	10%
Other Strategic Funding	21.4	14%
Total Allocations AY 2015/16	**151.1**	

* includes Sêr Cymru I & II,
**includes Open University mitigation funding

20. The FY 2015-16 funding available for allocation to HE institutions will amount to £122.5m once the maximum estimate of the fee grant cost has been taken into account. There is a final adjustment proposed to the HE budget to reflect the higher fee grant cost. We understand that this adjustment, which will reduce the HE budget for FY 2015-16 by £4.1m and increase the Post-16 support cost budget by the same amount, will be reflected in the supplementary budget for FY 2015-16.

21. In determining the funding allocation for AY 2015/16 our assumption was that there would not be further funding reductions in the HE allocation other than as a consequence of increases in the fee grant cost. We assumed that the fee grant cost would increase by 2.5% to take account of additional costs for courses that have a duration of more than 3 years and some growth in the average fee charged. Even in the event of no further reductions in funding in FY 15-16 or FY 16-17, and only a 2.5% increase in the fee grant cost in FY 16-17 (which itself amounts to £6m) the HEFCW funding allocation for AY 16/17 would have reduced to approximately £126m. This on its own would have been a reduction of £25m (17%) in HEFCW funding.

22. Some of this £25m reduction in funding was anticipated to come from areas of non-recurrent funding which could not be extended beyond AY 2015/16 due to the funding position and from areas where contractual commitments were due to end. These non-recurrent funding streams include the Strategic Development Fund (which has been used to support the mergers at the University of South Wales (USW) and the University of Wales Trinity Saint David (UWTSD) as well as to provide transitional funding for Glyndŵr University to enable them to appoint an interim executive to stabilise the University), funding for UHOVI[5], strategic funding and funding support for the Coleg Cymraeg Cenedlaethol. The ending or reduction of these funding streams would allow us to reduce funding allocations by £12m in AY 16/17 with the balance of funding reductions of £13m having to come from the remaining recurrent funding for the priority areas of research, part-time provision and funding for expensive subjects which are medicine, dentistry and performing arts. A £13m reduction would have represented a 10% reduction compared to the AY 2015/16 total recurrent funding. However the draft budget for FY 2016-17 implies a much higher

[5] UHOVI is delivered by the University of South Wales and provides opportunities to study in communities in the heads of the valleys areas.

reduction and would provide funding of only £87m to be allocated in AY 2016/17 for these strategic priorities. £87m is less than the fee grant cost for AY 2014/15 paid to HE providers in the rest of the UK. The equivalent fee grant cost for AY 2016/17 based on current trends is likely to be higher again and consequently the Welsh Government will be paying more in fee grant to HE providers outside Wales than it invests in recurrent grant funding (excluding fee grant) in HE providers in Wales.

23. We're aware that approximately £22m of the funding reduction is accounted for as a transfer to the fee grant budget and, based on current trends from UCAS data, we can expect that more than 40% of this funding will leave Wales as fee grant for Welsh domiciled students studying outside Wales. However, the forecasts for these costs are very difficult to predict at this stage and we believe that the assumptions and forecasts that support the fee grant budget should be further reviewed before the final budget is determined and that there is some flexibility built into the budget such that any underspend in the fee grant budget can be retained in the HE budget line.

24. HEFCW recurrent funding is allocated mainly to the priority areas of research, part-time provision and expensive subjects (medicine, dentistry and performing arts).

Research

25. The funding allocation table above for AY 2015/16 shows that 53% of HEFCW's budget is currently allocated in support of research activity. HEFCW has up to now given priority to protecting QR (and Postgraduate Research, known as PGR) in the face of an increasing FTUG/PGCE fee grant commitment. This is in a context where, as a proportion of the total recurrent research funding made available by the UK HE funding bodies, the share made available to Wales via HEFCW's QR is already falling. Wales' proportion of total UK QR funding dropped from 4.3% in AY 2007/08 to 3.9% in AY 2013/14.

26. The consequences that would result from a reduction in QR funding are as follows:

- *A decline in external (Research Council) investment*

27. Research funding (QR) underpins the dual support system for research in Wales. QR equivalent funding is allocated by all the other UK higher education funding bodies to underpin the UK wide operation of the dual support system[6] for investment in research. Our QR investment facilitates the capture of more than 60% more funding for Welsh universities from the UK Research Councils. Additionally it facilitates the capture of around 180% more funding from sources other than the Research Councils, including UK industry, UK central government and the EU.

[6] Dual support system is where HE funding bodies such as HEFCW provides research funding in the form of a block grant to support the research infrastructure, while other bodies such as Research Councils provide grants for specific projects.

28. However, attracting external research income is an extremely competitive process, whereby universities in Wales compete against the very best across the UK and in Europe. The availability of QR is essential to underpin bids submitted by universities in Wales by funding high quality researchers, facilities and equipment. Reducing QR would therefore directly impact on research activity at Welsh universities, with implications for the competitiveness of Wales' leading universities, and for the delivery of the Welsh Government's own commitment regarding Welsh Higher Education research income[7].

- *Substantial damage to the Welsh research environment*

29. Welsh universities performed strongly in the UK-wide Research Excellence Framework (REF2014). More than three-quarters (77%) of the research submitted by universities in Wales in 2014 was assessed as world-leading or internationally excellent, compared to just under half (49%) in 2008. Moreover, 49% of the research submitted was judged to be world-leading in terms of its impact in life beyond academia, compared to 44% across the UK as a whole. Wales had previously been commended[8] for the efficiency of its research base, with a warning that the relatively low investment in its research base is not sustainable. This was also seen in REF2014, where universities in Wales were below the UK benchmark in relation to the research environment element of the assessment. Any reduction in the underpinning support HEFCW provides via QR funding would be detrimental to the ability of universities to invest in a quality research environment and would jeopardise their performance in future REF exercises.

- *Undermining of the delivery of Welsh Government's strategies for research and innovation*

30. The Welsh Government's innovation strategy, Innovation Wales[9] has established Wales' Smart Specialisation approach on the strengths of its academic research base. A reduction in funding would therefore have implications for Wales' research and innovation base and economic development, as university research supports the provision of jobs and economic growth in Wales. This would impact significantly on the ambition for Wales of being a 'small and clever country' and the ambition of increasing the country's economic output as measured by GVA. Further, the Welsh Government is currently leading a bid to BIS to undertake a Science and Innovation Audit, based on evidence of identified world-leading research and technology strengths and fit with current strategic investments. These Audits will help drive future investment by the UK Government. A reduction in the funding of the underpinning research base in Wales could have implications for the ability of our universities to compete in UK-wide competitions such as the UK Research Partnership Investment Fund.

[7] Programme for Government, Education, Improving Further and Higher Education includes the indicator: "measure Welsh HE research income derived from competitive sources, as a percentage of the UK total".
[8] International Comparative Performance of the Welsh Research Base 2013
[9] Innovation Wales

31. HEFCW’s funding allocation currently includes commitments to two Welsh Government programmes: Sêr Cymru I aims to build upon and enhance research capacity in Wales by supporting research stars and National Research Networks; Sêr Cymru II will focus on attracting talent at mid-career stage by funding a cohort of Senior Research Fellows. Both programmes provide investment in the research base that will enable universities to secure additional external, competitively-won research funding to Wales from UK Research Councils and the European Union.

32. HEFCW’s decision to co-fund Sêr Cymru II was made on the basis of the fact that it will help to lever additional European funding into the HE sector. However, the Sêr Cymru programme (and other Welsh Government strategic investments in Welsh universities’ research and innovation capacity, such as e.g. SMART Expertise, Health and Care Research Wales) are intended to build on and strengthen the existing capacity within the sector, ie they build on core infrastructure within our universities provided by HEFCW’s QR and PGR. A reduction in the underlying QR/PGR funding would be damaging to current and planned Welsh Government investments but will be very difficult to avoid with the current funding proposed in the FY 2016-17 budget.

33. If we were to maintain the current levels of funding for QR, PGR and Sêr Cymru in the context of the significant funding reduction proposed in the draft budget for FY 2016-17, this would leave approximately £8m to allocate for the other strategic priorities: part-time provision, expensive subjects and strategic allocations such as the Coleg Cymraeg Cenedlaethol. In AY 2015/16 these other strategic priorities had funding of over £70m in total. The following paragraphs deal with the consequences of funding reductions to these key areas.

Part-time provision

34. If there are further reductions in part-time funding it would no longer be feasible to expect the sector to keep part-time fee levels at rates equivalent to those charged in AY 11/12. It is then likely that part-time recruitment to Welsh HE providers will start to fall as dramatically as it has in England. The report prepared by the Wales Institute of Social and Economic Research, Data and Methods (WISERD) to inform Sir Ian Diamond’s review of Higher Education Funding and Student Finance Arrangements in Wales, provides further evidence of the challenges faced by providers of part-time HE (WISERD part-time report). A reduction in part-time recruitment will have a detrimental impact on the up-skilling and re-skilling that is essential for delivering the high-level skills required for economic growth. In addition, a reduction in HEFCW funding would also have implications for support of the development of the employability skills of students so that they can make an ever swifter contribution to the Welsh economy. It will also have an adverse impact on widening access to HE as part-time learning is a key means of opening access to higher education for those from disadvantaged backgrounds. A reduction in part-time provision is likely to impact on work to reduce poverty in areas of multiple deprivation like Communities First areas, where some progress has been made in encouraging entry to higher education and opportunities for upskilling.

Expensive subjects

35. Reducing the remaining expensive subject premium for full-time undergraduate medicine and dentistry provision will adversely affect the capacity of the Medical Schools in Cardiff and Swansea to deliver quality training to meet the requirements of the Health Service in Wales. The expensive subject premium is a contribution towards making up the difference between the higher costs of medical provision and the maximum fee of £9,000. A further reduction in this funding will increase the deficit with the equivalent funding available for medical university provision in England and will reduce the competitive ability of Welsh universities to attract the best medical students. Many medical students stay in the locality of their university when they start in employment. The Welsh NHS needs Welsh Medical Schools that can attract and retain high quality students and medical teaching staff to maintain a flow of new doctors into Wales. A reduction in funding may lead to a perception by students and potential new medical staff that there is less funding available for training in Wales than in other UK medical schools. If this funding premium can no longer be funded from the HE budget then a consequence may be that funding the medical training provision could become a cost of the Welsh Government Health budget and would not therefore represent a real reduction in the Welsh Government expenditure. Funding may then be required to pick up the health consequences of insufficient funding being invested in prevention (ie the training of doctors for Wales). The Health Professional Education Investment Review has proposed some fundamental change including the establishment of a single body to oversee workforce planning, development and commissioning of education and training. There may well be further proposals to be made in view of the changes proposed in England for training nurses. We would not wish to take any decisions that have adverse implications for this priority area, but it is a potential unintended consequence of the significant HE funding reductions proposed in the budget.

36. Reducing the remaining expensive subject premium for higher-cost performing arts provision will impact on the ability of Wales' conservatoire, the Royal Welsh College of Music and Drama, to supply talented individuals for the priority Creative Industries Sector in Wales. We have already had to make very difficult funding decisions in this area of provision as a consequence of the funding reductions to date. The Education Minister has recently commissioned an independent review of conservatoire and performing arts provision in Wales which is due to report by the end of April 2016. We would not want to make decisions about further changes to the funding for this provision in advance of the conclusion of the review but the extent of the proposed budget reduction from 1 April 2016 may mean that further funding changes have to be made.

Strategic allocations

37. A reduction in HEFCW funding would impact on HEFCW and Welsh HE providers' ability to support the Coleg Cymraeg Cenedlaethol and Welsh medium HE, with significant implications for the delivery of the Welsh Government's commitment to strengthen the place of the Welsh language in everyday life. This would impact on the vitality and sustainability of the Welsh language and could in the longer term impact on the capacity of the public sector to meet Welsh Language Standards. AY 2016/17 is the final year of the Coleg's funding package and it will be reliant on some level of support from HE providers, which

is currently under discussion in the context of the Diamond Review outcomes from AY 2017/18 at the earliest. This position would be made more difficult if Coleg funding were to be necessarily cut or removed in AY 2016/17.

Postgraduate funding proposals

38. The CSR confirmed the UK Government's proposals to make postgraduate study loans available to English domiciled students wherever they choose to study in the UK. The precise details of the scheme are yet to be finalised but are expected to be in place for the AY 2016/17 intake. Welsh Government officials are currently working with Universities Wales to try to have a similar scheme in place for Welsh domiciled students though initially it may be limited to postgraduate students at Welsh universities. There is strong competition for postgraduate students and again it will be important for Welsh universities to be able to offer similar incentives and funding arrangements to those available in England if they are to maintain their competitive position. HEFCW funding to support postgraduate taught provision has been reducing since 2011/12 (as shown in table 1) and currently funding is only provided for part-time postgraduate taught students in AY 2015/16. However the proposed budget reduction for FY 2016-17 may mean that no further funding for postgraduate study will be available from HEFCW after AY 2015/16.

Differential impact on sustainability of individual HE providers

39. The current funding model for the recurrent funding streams for QR, part-time and expensive subjects provides differential funding between the universities linked to the strategic priorities of each funding stream and each university's capacity to respond to those priorities.

40. Over 80% of the AY 2015/16 funding is allocated as recurrent funding, with Cardiff University receiving the largest proportion of this (45%) followed by Swansea University (15%), the University of South Wales (11%) and the Open University in Wales (8%). Glyndŵr and Cardiff Metropolitan Universities have the lowest proportions at 3% and 2% respectively.

41. There are significant differences in the capacity of Welsh universities to manage the consequences of a further funding reduction. Glyndŵr University is in the process of completing the implementation of a sustainable strategic plan. However, the scale of the University is such that it has very limited capacity to absorb and manage further funding reductions in the short term. There are other universities also forecasting deficit budgets or break even positions this year and currently implementing strategic changes to address them but further funding reductions would adversely affect those plans.

42. HEFCW will no longer have any unallocated funding from AY 2016/17 to provide short term financial support, such as cashflow support, or transitional restructuring funding and consequently will have very limited capacity to manage the potential consequences of a university falling into significant financial difficulties.

43. The majority of Welsh universities either have borrowings in place or are in the process of entering into new borrowings commitments over the next year or so and a significant further reduction in HEFCW funding could have an adverse

impact on their ability to secure borrowing and/or to service the debt. In addition, the price of commercial loans, in terms of the interest rate charged, reflects the extent of confidence that commercial lenders have in the underlying financial base of universities. Reductions therefore also threaten to make commercial borrowing more expensive in future. In the absence of capital funding from the Welsh Government, universities in Wales need to borrow funds to invest in their infrastructure to be able to respond to the expectations of students, maintain league table positions and remain competitive in a UK/global student recruitment market. There are instances where some universities arguably have more building space than they need. This does not mean, however, that they have no need for capital investment. Typically, such spaces are no longer fit for purpose, or arise from maintaining listed, iconic buildings. There is often little commercial potential to dispose of such buildings, so capital investment is required to address the challenges of under-invested estate.

44. It is essential that Welsh universities remain competitive within the UK sector as the sustainability of the current fees and funding arrangements depend on Welsh universities being able to attract students from the rest of the UK. The absence of general capital funding from HEFCW and lower financial surpluses already means that Welsh universities have a more limited ability to invest than their UK counterparts. Any investment must be funded through commercial borrowing, with implications for university finances if HE funding is reduced further.

Job losses as a consequence of funding reductions

45. There will be significant staffing implications for Welsh universities as a consequence of any further funding reductions. If the funding available for HEFCW to allocate in AY 2016/17 is reduced to £87m as proposed in the draft budget this would represent a total reduction of £64m compared to the AY 2015/16 allocation of £151m. As already indicated about £12m of this reduction had already been anticipated and would lead to the end of the Strategic Development Fund (restructuring funding) and some strategic initiatives which would not necessarily lead to job losses when the funding ends. However the remaining funding reduction of £52m is inevitably going to lead to job losses as universities, as financially responsible charitable organisations, will have to reduce their costs to manage within the lower funding allocations available to them. Based on average staff costs for Welsh HE providers a reduction of £52m could give rise to job losses of approximately 1,150 full time equivalent (FTE) jobs[10] in Wales.

46. It should be noted that, as the above figures represent FTE jobs, they may represent an under-estimate of the total number of jobs that may be impacted as a result of a funding reduction.

47. In addition to the cost pressures on the sector resulting from such a cut in the HEFCW budget, the impact on sector staffing will be compounded by a range of significant financial pressures over the next few years resulting from unavoidable staff cost increases due to salary, national insurance and pension cost increases. Taken together, the above figures for potential impact on sector jobs may be an under-estimate.

[10] Staff costs and FTE numbers from published 2013/14 financial statements for Welsh universities.

48. Such significant funding reductions and consequential job losses in the sector, and potentially at stakeholders working with HE providers, will damage the prospects for providing good jobs and economic growth in Wales at a time when the GVA per head in Wales is lower than in England and Scotland by approximately £7.5k and £5.5k per annum respectively (ONS GVA report)

49. Universities have an economic impact on their communities and wider stakeholders that is much more significant than just their role as large and responsible employers. The recent report prepared by Viewforth Consulting (Economic Impact Summary report) concludes that higher education is a major economic actor and industry in itself and generates some £2.4bn of Welsh GVA (equivalent to 4.6% of the Welsh total) and creates almost 50,000 jobs in Wales (3.4% of the Welsh total). The report includes an extended analysis of the economic impact of Welsh universities across all the regions of Wales. This work found that every area of Wales benefits from the 'knock-on' effects of Welsh universities, regardless of whether they have a local university presence. Through the construction of a Wales-specific model, Viewforth Consulting have been able to demonstrate how economic impact flows further afield from areas that do not have a university through "ripple effects", with a quarter of the GVA (£597m) and jobs (11,783) created by Welsh universities being in parts of Wales that do not have a university on their doorstep. Consequently the proposed funding reductions for HE will not only have an impact on the universities and their local communities but more widely throughout Wales.

50. The impact assessment information that supports the draft budget does not provide details of the assessment made of the impact of the budget reduction on individual universities and their wider communities and stakeholders. Whilst we agree that it is important to focus on the impact of the HE budget decisions on students this cannot be fully considered without assessing the impact on the HE providers themselves.

PAPUR I'R PWYLLGOR MENTER A BUSNES AR Y PWYSAU SY'N WYNEBU'R DIWYDIANT DUR

Cyflwyniad

1. Mae'r papur hwn wedi'i baratoi i helpu i drafod eitem ar y pwysau sy'n wynebu'r diwydiant dur yng Nghymru.

Sefyllfa'r Diwydiant Dur

2. Y diwydiant dur yw un o gonglfeini ein sector gweithgynhyrchu. Mae'r prif safleoedd dur yn cyflogi nifer sylweddol o weithwyr yn uniongyrchol ac yn anuniongyrchol, yn cynnal cadwyni cyflenwi amrywiol yn ogystal ag yn sbarduno gwaith ymchwil a datblygu ac arloesedd.

3. Fodd bynnag, mae'n glir bod diwydiant dur y DU yn wynebu ei gyfnod anoddaf erioed. Mae'r argyfwng presennol wedi bod yn datblygu ers blynyddoedd lawer. Mae mewnforion rhad, yn enwedig o Tsieina a bellach gwledydd eraill gan gynnwys Rwsia, wedi achosi i brisiau dur Ewrop gwympo'n barhaus. Mae'r stribedi dur a gaiff eu mewnforio i'r UE o Tsieina wedi codi bron 50% yn y flwyddyn ddiwethaf.

4. Nid mewnforion rhad o dramor yw'r unig ffactor sy'n effeithio'n andwyol ar ddiwydiant dur y DU. Mae hefyd yn dioddef oherwydd bod y galw amdano'n sylweddol is na'r galw cyn y dirwasgiad; costau ynni uchel; ardrethi busnes sy'n sylweddol uwch nag ar dir mawr Ewrop; a chapasiti gormodol yn y farchnad. O ganlyniad mae pris dur bellach yn llai na hanner yr hyn ydoedd yn 2011 ac mae'n sylweddol is na'i bwynt isaf cyn hynny yn 2009.

5. Ar 18 Ionawr cyhoeddodd Tata Steel UK Limited gynigion i arbed costau gyda'r potensial o golli 1,050 o swyddi. Roedd 750 o'r swyddi hynny am gael eu colli ym musnes Strip Products UK ym Mhort Talbot. Bydd nifer llai o swyddi'n cael eu colli ar safleoedd Trostre a Llawern. Ar hyn o bryd mae Tata'n cyflogi ryw 6,500 o weithwyr yng Nghymru.

6. Yn ogystal â Tata Steel a Celsa, mae cwmnïau nodedig eraill yn prosesu dur yng Nghymru, gan gynnwys Liberty Steel, Capital Coated Steel a Caparo Wire.

7. Ym mis Hydref 2015, cyflwynodd UK Steel, y gymdeithas sy'n cynrychioli diwydiant dur y DU, bum cais i'r Llywodraeth i fynd i'r afael â'r argyfwng sy'n wynebu cynhyrchwyr dur yn y DU a diogelu dyfodol y diwydiant dur yn y DU:

   - Camau ar lefel yr UE ar fesurau gwrthddympio: mae UK Steel yn dadlau bod camau diweddar Comisiwn yr UE yn mynd yn uniongyrchol groes i'r casgliadau a gyrhaeddwyd wedi cyfarfod brys y Cyngor Cystadleurwydd y llynedd. Maent yn annog Llywodraeth y DU i bwyso ar y Comisiwn i weithredu.

- Camau ar lefel yr UE ar Statws Economi'r Farchnad (MES) ar gyfer Tsieina: mae'r UE wrthi'n ystyried a ddylai gydnabod Tsieina'n economi farchnad. Mae UK Steel yn dadlau pe bai Tsieina'n derbyn statws MES byddai'r mesurau gwrthddympio, sy'n diogelu cannoedd ar filoedd o swyddi yn yr UE rhag cystadleuaeth annheg Tsieina ar draws ystod o ddiwydiannu strategol yr UE, yn troi'n ddiwerth.

- Newid Ardrethi Busnes ar gyfer cwmnïau cyfalaf-ddwys yn unol â'u cystadleuwyr yn Ffrainc a'r Almaen, drwy beidio ag ystyried offer a pheiriannau wrth gyfrif ardrethi busnes.

- Defnyddio deunyddiau lleol mewn prosiectau adeiladu mawr

- Rhoi cymorth ariannol yn uniongyrchol i'r sector ym maes Ymchwil a Datblygu a gwelliannau amgylcheddol.

Cymorth gan Lywodraeth Cymru

8. Rydym wedi bod yn gweithio'n agos â'r diwydiant dur am flynyddoedd lawer ac rydym yn ymwybodol iawn o'r heriau sy'n ei wynebu. Rydym wedi bod yn defnyddio'n cyfryngau ein hunain i ddatblygu cymorth, sy'n amrywio o ymchwil a datblygu, sgiliau a hyfforddiant, cymorth ar gyfer diogelu'r amgylchedd ac ystyried opsiynau ar gyfer ardrethi busnes.

9. Mae'r Comisiwn Ewropeaidd yn ystyried y sector dur yn sector dan gyfyngiadau ac felly nid yw'n gallu manteisio ar bob ffurf o gymorth gwladwriaethol gan gynnwys cymorth achub ac ailstrwythuro ar gyfer cwmnïau sydd mewn trafferthion neu gymorth rhanbarthol ar gyfer prosiectau buddsoddi cyfalaf mewn ardaloedd a gynorthwyir. Fodd bynnag, mae'r sector dur yn gymwys i dderbyn mathau eraill o gymorth gwladwriaethol megis cymorth i ddiogelu'r amgylchedd a mesurau ymchwil a datblygu.

10. Ar y cyd â'r EPSRC (y Cyngor Ymchwil Peirianneg a'r Gwyddorau Ffisegol) ac Innovate UK rydym wedi helpu i ddatblygu SPECIFC (y Ganolfan Beirianneg Cynnyrch Cynaliadwy ar gyfer Arloesi mewn Haenau Diwydiannol Gweithredol) i sicrhau bod ffrwyth ymchwil sy'n cael ei gynnal yn SPECIFC yn cael ei fasnacheiddio'n gynhyrchion a gwasanaethau newydd. Tata yw un o'r prif bartneriaid diwydiannol yn y ganolfan hon, gyda BASF, Pilkington a chwmnïau o drawstoriad eang o'r diwydiant.

11. Rydym hefyd wedi rhoi cymorth penodol i Tata a Celsa gan gynnwys hyfforddiant a sgiliau sy'n cael eu cydnabod yn arfer gorau gan y diwydiant ac undebau yn y DU.

12. Rydym hefyd yn ystyried creu Ardal Fenter ychwanegol yng Nghymru sy'n cwmpasu Port Talbot. Yn ogystal ag anfon neges bwysig i'r diwydiant, byddai'n creu amgylchedd lle y gallai busnesau a diwydiannau eraill ffynnu ynddo. I gael yr effaith fwyaf, byddai angen i Ardal Fenter o'r fath gael yr holl gyfryngau polisi

gan gynnwys Lwfansau Cyfalaf Uwch (ECAs) ac rydym wrthi'n trafod ein cynigion gyda Llywodraeth y DU.

13. O ran ardrethi busnes, rydym wedi bod yn rhagweithiol wrth ystyried ystod o opsiynau ac yn benodol, brisio offer a pheiriannau am fod hyn yn effeithio ar sawl sector. Rydym wedi canolbwyntio ar a all newidiadau gael eu gwneud i eithrio buddsoddiadau newydd mewn offer a pheiriannau rhag talu gwerth ardrethol (RV) eiddo (hereditament).

14. Maes technegol iawn yw hwn, fel sy'n cael ei gydnabod gan y Panel Ardrethi Busnes a sefydlais, sy'n gofyn am fethodoleg brisio, goblygiadau ariannol ac arweiniad arall ond mae'n gyfle euraidd i newid. Mae ein Swyddogion yn gweithio gydag Asiantaeth y Swyddfa Brisio i weld beth fyddai'n dechnegol bosibl a thros ba gyfnod.

Tasglu Tata

15. Mewn ymateb i'r problemau sy'n wynebu Tata Steel ym Mhort Talbot a'i gyhoeddiad i ddiswyddo 1050 o bobl, gwnaethom greu Tasglu Tata ar unwaith gan gynnal y cyfarfod cyntaf ar 20 Ionawr.

16. Prif ffocws y Tasglu yw gwneud pob dim a allwn i helpu'r gweithwyr dan sylw. Fodd bynnag, mae'r cyfan yn debygol o effeithio ar fwy na'r gweithwyr a fydd yn colli eu swyddi. Mae'n debygol y bydd y newyddion yn effeithio ar fusnesau yn y prif gadwyni cyflenwi yn ogystal â busnesau llai sy'n darparu nwyddau a gwasanaethau lleol. Felly bydd y Tasglu hefyd yn ystyried yr hyn sy'n gallu cael ei wneud i'w helpu hefyd. Bydd y gwaith hwn yn mynd yn ei flaen yn syth ac ar y cyd â'n gwaith i helpu gweithwyr sydd wedi colli eu swyddi.

17. Mae'r Tasglu wedi creu pedwar llif gwaith i ystyried y camau y gallwn eu cymryd mewn ymateb i'r cyhoeddiad hwn.

- Hyfforddiant a Sgiliau
- Cymorth Busnes a chadwyni cyflenwi
- Iechyd
- Caffael

18. Bydd y llif gwaith caffael yn archwilio'r hyn sy'n gallu cael ei wneud i gynyddu nifer y contractau y mae gweithgynhyrchwyr UK Steel yn eu hennill mewn cystadleuaeth deg ac agored.

19. Mae Datganiad Polisi Caffael Cymru a gyhoeddwyd yn 2012 yn llwyr gefnogi egwyddorion Siarter Dur Prydain. Mae ein polisïau caffael blaengar sydd eisoes ar waith yn cyd-fynd â nodau'r Siarter. Er enghraifft, rydym wrthi'n adolygu'r dogfennau contract enghreifftiol ar gyfer cyflawni prosiectau trafnidiaeth mawr i sicrhau bod y safon yn cael ei hystyried. Bydd y llif gwaith yn ystyried opsiynau i ddefnyddio cyfryngau fel grantiau i gyflawni'r polisi caffael. Bydd hefyd yn cytuno ar ffordd o bennu'r gofynion am ddur mewn prosiectau yn y dyfodol.

Materion y DU a'r UE

20. Mae'r problemau mwyaf sylweddol sy'n effeithio ar yr argyfwng presennol sy'n wynebu'r diwydiant yn cael eu gweld ar lefel y DU ac ar lefel yr UE.

21. Yn ogystal â dympio mewnforion rhad o dramor, mae'r gyfradd gyfnewid bresennol a'r bunt gref, yn ogystal â chostau ynni uwch na gwledydd eraill yr UE, yn effeithio ar gynhyrchwyr dur yn y DU.

22. Rydym wedi bod yn mynegi pryderon ers 2011 am yr effaith y mae prisiau ynni yn ei chael ar fusnesau sy'n defnyddio llawer iawn o ynni. Mae Llywodraeth y DU bellach wedi cael caniatâd i lacio'r rheolau ar gymorth gwladwriaethol i dalu iawndal i ddiwydiannau sy'n defnyddio llawer o ynni gan gynnwys cynhyrchwyr dur am gostau ynni adnewyddadwy. Ni fydd angen i ddiwydiannau sy'n defnyddio llawer o ynni dalu costau polisi'r Rhwymedigaeth Adnewyddadwy a Thariffau Cyflenwi Trydan.

23. Rydym hefyd wedi mynegi pryderon am faint ac, mewn rhai achosion, ansawdd cynhyrchion dur penodol sy'n cael eu mewnforio. Rydym hefyd wedi nodi'r posibilrwydd y gallai Cronfa Addasu Globaleiddio Ewrop roi cymorth priodol i unrhyw weithwyr sy'n colli eu swyddi.

24. Mewn cynhadledd rhanddeiliaid y diwydiannau sy'n defnyddio llawer o ynni, a gynhaliwyd ar 15 Chwefror ym Mrwsel galwodd y diwydiant dur ar yr UE i gryfhau mesurau amddiffyn y fasnach. Roedd costau ynni uchel hefyd wedi'u nodi'n rhwystr mawr i'w gallu i gystadlu.

25. Bydd angen cymryd camau ar lefel Cymru a'r DU i helpu'r diwydiant drwy gyfrwng polisi caffael.

26. Mae'r pwyntiau uchod wedi'u hadleisio gan y Tasglu a Chyngor Adnewyddu'r Economi. Yn bresennol yng nghyfarfod diweddaraf y Cyngor ar 1 Chwefror oedd sefydliadau busnes fel CBI Cymru, Sefydliad y Cyfarwyddwyr, Ffederasiwn Busnesau Bach ynghyd â TUC Cymru, Unite ac Undebau Cymunedol. Rwy'n atodi hysbysiad y Cyngor yn dilyn y cyfarfod er gwybodaeth y Pwyllgor.

HYSBYSIAD CYNGOR ADNEWYDDU'R ECONOMI – 01 CHWEFROR 2016

Daeth Cyngor Adnewyddu'r Economi ynghyd heddiw (1 Chwefror), a'r prif drafodaethau oedd y diwydiant dur yng Nghymru.

Roedd pob un o'r partneriaid cymdeithasol yn bresennol. Roedd TUC Cymru yn bresennol, yn ogystal â chynrychiolwyr Unite ac Undebau Cymunedol. Roedd cynrychiolwyr busnes yn cynnwys CBI, FSB, IoD, Cadeirydd Commerce Cymru, ICAEW, Siambr Fasnach De Cymru, RICS a Chymdeithas y Cyfreithwyr. Roedd y mentrau cymdeithasol yn cael eu cynrychioli gan Ganolfan Cydweithredol Cymru..

Cafodd y Cyngor y newyddion diweddaraf am Dasglu Tata, oedd wedi cyfarfod am y tro cyntaf ddau ddiwrnod wedi'r cyhoeddiad. Cynhelir ail gyfarfod y Tasglu brynhawn heddiw.

Cafodd y gweithredu cyflym a phroactif gan Lywodraeth Cymru wrth gymeryd camau ar fyrder i sefydlu'r Tasglu ei gydnabod gan y Cyngor. Cytunodd y Cyngor mai'r blaenoriaethau oedd sicrhau bod cymorth yn cael ei roi i'r rhai yr effeithir arnynt yn ogystal â mynd i'r afael â'r effaith ar yr economi leol a chadwyni cyflenwi.

Fodd bynnag, pwysleisiodd y Cyngor fod y problemau tyngedfennol sy'n cael effaith ar y diwydiant dur yn llawer ehangach na'r hyn y gallai Llywodraeth Cymru ei wneud, a bod angen i Lywodraeth y DU gymeryd camau amlwg ar unwaith i ddelio ag amrywiol broblemau difrifol, gan gynnwys yr angen am strategaeth i gefnogi'r diwydiant dur.

Yn benodol, bu'r Cyngor yn annog Llywodraeth y DU i wneud cais ar frys i Gronfa Globaleiddio Ewrop roi y cymorth sydd ei angen yn fawr i'r rhai sydd mewn perygl o golli eu swyddi.

Mae'r argyfwng presennol yn dilyn y pwysau parhaus fu ar y diwydiant dur yn Ewrop o ganlyniad i fewnforio rhad, yn enwedig o Tsieina, a gwledydd eraill hefyd bellach, gan gynnwys Rwsia, a galwodd y Cyngor am fesurau atal dympio ar fyrder ar ddeunyddiau dur.

Cafodd y bygythiad o weld Tsiena yn cael ei chydnabod fel gwlad sydd ag economi'r farchnad ei bwysleisio, a'r effaith negyddol fyddai hyn yn ei gael ar unrhyw fesurau gwrth-ddympio. Ystyriwyd bod caffael yn un o'r ffyrdd mwyaf pwerus o newid pethau. Roedd Llywodraeth Cymru eisoes yn gweithredu ar hyn ond roedd angen i Lywodraeth y DU ymrwymo i weithredu'n weladwy ar bob prosiect seilwaith mawr megis Morlyn Llanw Bae Abertawe. Roedd hyn yn bwysig, nid yn unig o ran effaith faint o ddur sydd ar gael a'r pris gan y diwydiant, ond o ran diogelwch mewn achosion ble y mae cynnyrch dur o ansawdd is yn cael ei fewnforio i'w ddefnyddio ar gyfer prosiectau adeiladu yn y DU.

Mae effaith prisiau ynni uchel yn y DU wedi'i godi yng Nghyngor Adnewyddu'r Economi ers sawl blwyddyn. Bu galwadau dro ar ôl tro ar i Lywodraeth y DU ddelio â'r mater hwn. Roedd effaith y prisiau uchel hyn ar ba mor gystadleuol yw'r diwydiant dur yng Nghymru yn fyd-eang yn hynod amlwg heddiw.

Roedd y Cyngor yn unfrydig wrth alw am weithredu amlwg ar fyrder gan Lywodraeth y DU i gefnogi'r sector dur, gan gydnabod bod y diwydiant yn dioddef un o'r adegau mwyaf argyfyngus yn ei hanes. Mae'r sector yn gwneud cyfraniad sylweddol i'r cynnyrch domestig gros, ac mae'n cynnal miloedd o swyddi ledled Cymru a'r DU. Tynnodd y Cyngor sylw at ganlyniadau difrifol colli gallu'r DU i gynhyrchu dur a gorfod dibynnu ar fewnforion am nwyddau sydd mor dyngedfennol. Hefyd, ni fyddai effaith unrhyw ddirywiad pellach yn y diwydiant dur yn cael effaith ar y rhai yr effeithir arnynt yn uniongyrchol yn unig, ond byddai hefyd yn cael effaith ar weithgynhyrchu ledled Cymru.