



Llywodraeth Cymru  
Welsh Government

Paul Davies MS

Chair of Economy, Trade & Rural Affairs Committee

2 March 2022

Dear Paul,

Thank you for your draft report of 14 February following my evidence to the Committee of 20 January on Economy spending plans in the 2022-23 Draft Budget.

Please find attached our response to the Committee's report.

Yours sincerely,

A handwritten signature in black ink that reads "Vaughan Gething". The signature is written in a cursive style.

**Vaughan Gething AS/MS**

Gweinidog yr Economi

Minister for Economy

**Recommendation 7.** The Welsh Government should supply the Committee with a breakdown of the funding allocation and associated objectives for the action plan which will support Let's Shape the Future.

**Response: Accept**

In March 2021, the Welsh Government published a recovery plan for the visitor economy, 'Let's Shape the Future', which has been the main focus of activity over the past year as an important short to medium term focus to support the recovery from the pandemic. The delivery of the recovery plan will be concluded at the end of the current financial year. A delivery report will be published shortly and we are now effectively bridging back to our long-term strategic plan, 'Welcome to Wales: priorities for the visitor economy 2020-25'.

**Financial Implications**

The Business Plan for 2022-23 is being developed to deliver on our Welcome to Wales priorities and will provide a balance between capital and revenue expenditure to directly support the sector through the continuing recovery phase and further development of a sustainable tourism offer. The Welsh Government's draft Budget for 2022-23 provided an allocation of £5m capital and £11.962m revenue for tourism. We will be happy to provide a more detailed breakdown of allocations once the Business Plan has been finalised.

**Recommendation 8.** The Welsh Government should consider developing a package of targeted assistance to support economic recovery in those sectors most affected by the recent restrictions.

**Response: Accept**

Dedicated provision of information, guidance, advice and support is offered through the Business Wales, Development Bank of Wales, Regional Development and Innovation support through the Welsh Government and we continue to keep under review the support needed for business to start, sustain and grow.

**Financial Implications**

Funding has been secured up to March 2025 to continue to deliver dedicated support available through the Welsh Government and officials are working on the detail of provision for this period. Current provision can be tailored to meet needs of for examples regions or sectors where it is required. However, if there is a requirement to scale up provision this would lead to the need to secure additional funding.

**Recommendation 9.** The Welsh Government should provide detail on the specific activity the revenue and capital allocations for the Community Bank will be used to support.

**Response: Accept**

Our vision for the Community Bank for Wales is one that is based on the mutual model, owned by, and run for, the benefit of its members, rather than the maximisation of profit for shareholders. It will be a modern full service community

bank, headquartered in Wales. It will provide access to bilingual products and services, through a range of channels including digital, online and in-branch.

I made an Oral Statement on 14 December 2021 providing an update on the progress of Banc Cambria, welcoming the announcement by the Monmouthshire Building Society (MBS) stating its intent to develop its approach to delivering a community bank in Wales.

We are committed to supporting the creation of a Community Bank for Wales, working closely with Cambria Cydfuddiannol Ltd and the Monmouthshire Building Society, responding to and providing appropriate support, as they continue to develop their strategic and operational delivery plans to establish Banc Cambria.

Building from the outline proposal from the Monmouthshire Building Society in 2021, it is anticipated that a detailed investment proposal will be received during 2022 seeking a commercial investment from the Welsh Government and other investors.

The capital allocation set aside for Community Bank establishes the capacity to consider such an investment in due course on terms that are commercial in nature.

### **Financial Implications**

I am responsible for the Community Bank during its development phase, supported by revenue funding of £0.150m across 2022-23 and 2023-24 for ongoing policy development and research via procurement of external expertise / reports in areas such as economic impact assessment, financial due diligence and legal advice.

My colleague, the Minister for Social Justice is leading on the capital investment to establish the Community Bank. The establishment of the Community Bank by Monmouth Building Society is dependent on new capital being introduced to the Society. These are 3 year budgets and therefore do not include the later years capital requirements. A full investment proposal is expected from MBS in the latter part of 2022 and will be commercial in nature.

**Recommendation 10.** On an annual basis, the Welsh Government should apprise the Committee of progress against its target of doubling the size of the employee-owned sector by the end of the Senedd.

### **Response: Accept**

Employee Ownership Wales is part of the Social Business Wales programme funded by the Welsh Government and the European Regional Development Fund up until March 2023. Following March 2023 funding has been secured through the Welsh Government to continue providing support and to promote employee ownership in Wales.

Fully-funded, bespoke advice is provided to help decide if Employee Ownership and Share Schemes are the right solution for the business. Options Appraisal and then to oversee the design and implementation of the chosen Employee Ownership structure.

Wales currently has 30 fully operational employee owned businesses with four of these formed in 2020.

The Welsh Government has recently approved £0.070m additional support for promoting employee ownership in Wales. The funding will help support the development of marketing materials and campaigns for employee ownership.

### **Financial Implications**

No financial implications with continued commitment to Business Wales and Development Bank Wales.

**Recommendation 11.** The Welsh Government should update the Committee on the outcomes of their discussion with the Development Bank of Wales including around their resources and how they can support businesses to succeed.

### **Response: Accept**

The Development Bank of Wales is a key part of the Welsh Government's strategy to support the economy of Wales by making it easier for businesses to get the finance they need to start up, strengthen and grow. The Development Bank is well capitalised and stands able to offer both debt and equity based finance solutions via a portfolio of 16 live funds relevant to businesses at different stages of their development and growth.

The Welsh Government issued a Term of Government Remit Letter to the Development Bank of Wales in November 2021. This Remit articulates high level policy aims for DBW, sets the direction and focus for DBW over the term of this Government and provides a point of reference for Welsh Ministers in the overall performance management of DBW. The Remit letter makes specific reference to Programme for Government commitments which DBW are expected to play a key role in delivering, notably: (i) expanding access to patient capital, and (ii) increasing the use of equity stakes.

Responding to the Remit Letter, in May 2022 the Board of DBW will bring forward a Corporate Strategy for the period 2022-27 which will address the key policy objectives and organisational challenges.

In total, the Development Bank invested £197.6 million in the 2020/21 financial year. Whilst £92 million in loans came from the Covid-19 Wales Business Loan Scheme (CWBL) to support companies through the pandemic, investments from all 'business-as-usual' funds remained stable. £105.6 million provided a range of support for businesses across all areas of the economy and all stages of growth.

This current financial year, during the nine-month period from April to December 2021, the Development Banks made £79 million of loans and equity investments into over 300 Welsh businesses and is on track to meet targets for the year.

The Welsh Government's ongoing commitment to business support was clearly demonstrated through the significant £270m capitalisation of the Wales Flexible

Investment Fund in 2021. This action provides a bridge that will allow the organisation to maintain levels of business lending as access to EU funds end.

At the end of the 2020/21 financial year, the Development Bank had £724m of FT Capital and general capital available to invest in future years in line with agreed business cases. This positions the bank to make business and property investments at a rate of over £130m per annum on average over the next 7 years – maintaining a supply of accessible finance to businesses.

The bank is structured as a nationwide organisation in order for it to successfully support businesses across all of Wales. It has over 80 investment managers who support businesses needs from its 5 offices in Wrexham, Cardiff, Llanelli, Llandudno Junction and Newtown. It continues to work closely with all business and stakeholder organisations in the Welsh financial ecosystem including Business Wales and the Wales Co-operative Centre.

### **Financial Implications**

No financial implications.

**Recommendation 12.** The Welsh Government should provide more detail on the risk to the future of Business Wales and set out the implications for businesses if overall funding for Business Wales is not maintained at the current level.

### **Response: Accept**

Funding has been secured up until March 2025 as part of the Welsh Government draft budget proposals, to ensure there is a continuation of information, guidance, advice and support to businesses in Wales through the Business Wales service. Securing funding up to March 2025 has come at a cost to other activities and financial means to support business development and innovation.

### **Financial Implications**

No financial implications.

**Recommendation 13.** The Welsh Government should set out how it intends the allocation for degree apprenticeships to be spent and its plans for expanding the courses and increasing diversity of degree apprentices in line with the Economy, Infrastructure and Skills Committee's 2020 report.

### **Response: Accept**

We intend to work closely with the Higher Education Funding Council for Wales (HEFCW) and other stakeholders to scope the expansion of the Degree Apprenticeship programme. Expansion is expected to be focussed on existing programmes in Digital/ICT and Advanced Manufacturing as well as the development of new pathways informed by Regional Skills Partnership's employment and skills plans, the outcomes of the programme evaluation, investment priorities and budget. The evaluation includes gathering views of learners. We are already working with HEFCW to improve the marketing of degree apprenticeships to stimulate both learner and employer demand, with a particular focus on programme reach.

### **Financial Implications**

£22m has been secured within the Work Based Learning BEL for the next three years to support investment in the expansion of the Degree Apprenticeship programme. This budget will be transferred to the Education and Welsh Language MEG to enable HEFCW to deliver the programme, working directly with the university sector across Wales.

**Recommendation 14.** The Welsh Government should clearly set out to the Committee how this budget supports the objective of winning competitive research and innovation funding to replace the EU funding that will be lost to Wales.

### **Response: Accept in principle**

We have delivered on the recommendation to reinsert an innovation fund; £15m was provided in 2021-22, alongside £81.7m for quality research (QR) to HEFCW. We have also provided £2m additional funding for the Wales Innovation Network. The Network was established in response to Professor Graeme Reid's 2020 report, 'Strength in Diversity', which recommended the creation of a new initiative to tap into the diversity of Wales' research and innovation capacity through collaboration.

We will continue to work across the Welsh Government Cabinet, with UKRI and Innovate UK and are committed to growing research and innovation with increasing emphasis on R,D&I closer to market and aligned with Wales' industrial, business and societal needs. We are working across Government, and with HEFCW, to develop plans to support increased high quality bidding to UK Government and other external sources of research and innovation funding. These plans will be aligned to the current needs of the R,D&I ecosystem, and will rely on strong collaboration, capacity and capability building, rather than replacing EU funded activity like for like.

Winning competitive research and innovation funding is not simply a function of the Welsh Government budget. Partners – especially in further and higher education as well as industry – will need to reconsider their approach and crucially the UK Government and UK funding bodies will need to address the significant imbalance in the way that UK research and innovation funds are skewed towards south east England. The recent UK Government "levelling up" announcements would amount to £9m more in research and innovation funding for Wales whilst £60m has been lost because despite repeated unambiguous pledges former EU funds have not been replaced in full. There is therefore a £51m deficit in addition to the skewing of UK research and innovation funds away from Wales and a number of English regions.

### **Financial Implications**

The 2022-23 Draft Budget maintains the level of funding to HEFCW. It will be for HEFCW to determine the distribution of funds allocated.

**Recommendation 15.** The Economy, Trade and Rural Affairs Committee and the Children, Young People and Education Committee jointly recommend that the Welsh Government should set out a breakdown of the contributions from each Main Expenditure Group, at Budget Expenditure Line level, that combine to make the total

£500m estimated funding required to deliver the Young Person's Guarantee. This breakdown should make it clear what is new funding and what is a continuation of existing programmes.

**Response: Accept**

We are investing over £500m in the Young Person's Guarantee in 2022-23. This will be made up of:

- £20 million in new funding has been allocated in the Economy MEG to the Employability including Young Peoples Guarantee BEL to support the expected new Young People Not in Education, Employment or Training (NEET) cohort in 2022-23.
- £513.8m in existing funding will continue to support those 16-24 NEETS through numerous interventions, and underpinned by the Working Wales advice service, delivered by Careers Wales. The estimated contribution by MEG is:
  - £463.5 in the Education and the Welsh Language MEG;
  - £47.9m in the Economy MEG; and
  - £2.4m in the Finance and Local Government MEG.

Details of the funding by Budget Expenditure Line (BEL) level is shown in the table below.

BEL	Education and Welsh Language MEG £000	Economy MEG £000	Finance and Local Government MEG £000	Total £000
Post-16 Provision	463,500			463,500
Employability including YPG		44,000		44,000
Communities for Work		790		790
Children and Communities Grant			2,400	2,400
Parents Childcare and Employment		600		600
Business Wales		2,500		2,500
<b>Existing budget</b>	<b>463,500</b>	<b>47,890</b>	<b>2,400</b>	<b>513,790</b>
Employability including YPG		20,000		20,000
<b>New budget</b>	<b>-</b>	<b>20,000</b>	<b>-</b>	<b>20,000</b>
<b>Total budget</b>	<b>463,500</b>	<b>67,890</b>	<b>2,400</b>	<b>533,790</b>

**Financial Implications**

None, as the recommendation relates to keeping the Committee informed.

**Recommendation 16.** The Welsh Government should consider allocating specific funding to ensure Welsh businesses are able to maximise opportunities and prepare for changes resulting from new free trade agreements.

**Response: Reject**

Our Programme for Government commits us to delivering an ambitious programme of export support through the implementation of the Export Action Plan for Wales. The overarching aim of the Plan is to create a strong, vibrant and sustainable exporting sector; and, put in place a comprehensive range of export programmes to support businesses on their export journey. This ranges from inspiring businesses to export; building export capability; helping businesses find overseas customers; and accessing overseas markets, including those where Free Trade Agreements are agreed. Within this, the plan includes actions to support businesses to prepare for and maximise opportunities from any new free trade agreements, including, for example, through dedicated 'on-the ground' support and advice via our team of International Trade Advisers, based across Wales; a programme of webinars on specific exporting topics and markets; trade missions to key markets; and through our new export cluster initiative. Given the breadth of activity being delivered through the Plan, and in the context of a continually changing global trading environment, it is important that there is sufficient flexibility within the budget to deliver on all of the above areas. We will continue to review our programmes and activities to ensure businesses can take advantage of any new opportunities as they emerge.

In addition to our export plan officials will work across the Welsh Government to ensure that everyone who deals directly with businesses understands the opportunities presented by, and potential impacts of, the new FTAs'. The Trade Policy team has already begun the process of implementing an internal communication programme to promote the opportunities available to companies in Wales via the export and business and regions teams who promote and deliver support services.

### **Financial Implications**

None

**Recommendation 17.** The Welsh Government should keep the Committee updated on the developments of new border control posts in Wales, as well as the outcomes of internal and inter-governmental discussions around their funding

### **Response: Accept**

As I previously explained to the committee, we are still in the design and planning phase for our border control posts, with Holyhead at a more advanced stage than South West Wales.

The Committee will be aware that the UK Government has agreed in principle to fund build costs for both permanent and interim facilities upon submission of a reserve claim, supported by business cases for North and South West Wales. While the UK Government has conditionally agreed to fund the construction costs of the BCPs, it has explicitly said it will not meet the operational costs. Welsh Treasury officials remain in discussion with HM Treasury on funding for upfront set up costs and operational costs.

I will be happy to update the Committee at key stages.



The uncertainty around Northern Ireland protocol remains a concern. As I informed the Senedd at the beginning of the year, the UK Government has once again extended staged controls for all movements of goods from the island of Ireland to Great Britain beyond 1 January 2022; raising uncertainty for the Government and others who have to make preparations.

**Financial Implications**

None, as the recommendation relates to keeping the Committee informed.