



Llywodraeth Cymru  
Welsh Government

Darren Millar  
Acting Chair,  
Economy, Trade and Rural Affairs Committee

5<sup>th</sup> April 2023

Dear Darren,

Thank you for your report from February 2023 containing the Economy, Trade and Rural Affairs Committee's report on the Scrutiny of the Welsh Government's Draft Budget 2023/24. We are grateful for the committee's work on this and apologise for the delay in responding.

Please find attached the Welsh Government's response.

Yours sincerely,

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# Welsh Government Response to the Economy, Trade and Rural Affairs Committee report on Scrutiny of the Welsh Government's Budget 2023/24

05/04/2023

Please find below the Welsh Government's response to the 22 recommendations set out by the Economy, Trade and Rural Affairs Committee.

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## 1. Recommendations.

**Recommendation 1.** The Welsh Government should keep the Committee updated on its negotiations with UK Government regarding the replacement for EU Rural funding.

Response: **Accept**

The 2021 spending review delivered the final three years of the UK Government 2019 manifesto commitment ‘... to maintain the annual budget to farmers in every year of this Parliament’.

Alongside the other devolved governments, we have repeatedly expressed our concerns with the methodology applied by the UK Government with successive UK Ministers, outlining how it does not fully replace EU funding, and we have requested further engagement on this methodology with a view to remedy the position.

It is our hope that we can work with the UK Government pragmatically through the new inter-governmental relations review arrangements.

There is no indication UK Government intends to propose long term replacement funding arrangements, instead the next spending review may confirm the levels of replacement of EU Rural funding from FY2025/26.

**Recommendation 2.** The Minister should set out in detail how she is adapting schemes to account for the £21 million shortfall from replacement EU funding.

Response: **Accept**

I have prioritised supporting active farmers by maintaining the level of support provided through Wales' Basic Payment Scheme, every year since 2021.

The remaining replacement EU funding is being used in full to begin tackling the nature and climate emergencies and enable a just transition towards a stronger, greener, fairer Wales. This is being delivered through my Rural Investment Schemes, ahead of the proposed Sustainable Farming Scheme.

**Recommendation 3.** The Welsh Government should write to the Committee setting out what lessons have been learnt from the RDP, how they will be accounted for and what control measures will be used in its replacement.

Response: **Accept**

Audit Wales' 2020 review highlighted issues in the selection of some socio economic projects under the RDP, and found that the steps taken in the selection and appraisal did not do enough to assess whether some projects would deliver value for money prior to the funding award. Welsh Government took concrete steps to ensure that lessons were learned for the RDP as follows:

- Enhanced selection rules were implemented to ensure that projects are selected openly and fairly, that projects were selected in merit order in accordance with a published scoring procedure, and that value for money is a criteria for all project awards.
- A new tiered scheme of hierarchical appraisal boards were introduced to ensure that all projects were subject to proper scrutiny and oversight prior to grant award.
- A series of internal decision making groups were created to ensure that decisions were appropriately discussed, documented, and an audit trail is retained.

These principles are fully embedded within the RDP grant appraisal model, and are in place for current and future Rural Investment Schemes:

**Recommendation 4.** The Welsh Government should set out its contingency plans for overspend on the RDP as a result of over-committed funding.

Response: **Accept**

Overcommitting funds at programme level is necessary to ensure Wales utilises all the funding available from the final EU Rural Development Programme (RDP) .

Schemes and individual contracts are continuously monitored to ensure the programme remains on track. Programme modifications are permitted and planned through to September 2023 to adjust individual measures, subject to the opinion of the Programme Monitoring Committee and approval from the European Commission.

Some individual schemes which form part of the RDP have always included long running commitments, such as the annual payment farmers receive when creating new woodland areas. Those commitments transition to the next 7 year programme and whilst UK has left

the EU, the approach will remain with the Rural Investment Schemes providing budget cover, ahead of the proposed Sustainable Farming Scheme.

**Recommendation 5.** The Welsh Government should set out its plans for the replacement RDP schemes and how they have been adapted following re-prioritisation of budget in this area.

Response: **Accept**

The Rural Investment Schemes, announced in March 2022 support farmers, land managers and the wider rural sector across 6 themes and support the sector ahead of the proposed Sustainable Farming Scheme;

- **Farm scale land management** – providing support for on-farm sustainable land management actions,
- **On farm environmental improvements** - including a focus on nutrient management, enhancing fuel and feed efficiency, embedding circular economy approaches and encouraging the use of renewable energy,
- **On farm efficiency and diversification** – including supporting farm efficiencies through investment in new technology and equipment and to enable opportunities for agricultural diversification,
- **Landscape scale land management** - delivering nature based solutions at a landscape scale, through a multi-sectoral collaborative approach,
- **Woodland and forestry** - supporting our commitment of 43,000 hectares of woodland creation by 2030 and supporting the creation of a timber based industrial strategy, and
- **Food and farming supply chains** - creating a strong and vibrant Welsh food and drink industry with a global reputation for excellence with one of the most environmentally and socially responsible supply chains in the world.

No adaptations to the Rural Investment Schemes have been necessary.

**Recommendation 6.** Welsh Government should clearly set out how the £6.5m from the Minister for Climate Change's budget will fill the gap in the replacement RDP budget and what areas usually funded by the RDP will not be funded as a result of the overall reduction in funding.

Response: **Accept**

Over £7m of Climate Change funding is being made available in the 3 years to March 2025, to deliver forestry schemes such as the Woodland Restoration Scheme, Timber Business Investment Scheme (both previously funded through EU Rural Development

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Programme) and a new scheme to improve management of existing woodlands, as part of the suite of Rural Investment Schemes.

**Recommendation 7.** The Welsh Government should update the Committee with the value of the new Farming Connect contract and also provide details of the assessment undertaken to ensure the new contract will allow the service to fully support farmers' transition to the SFS.

Response: **Accept**

Farming Connect is continually being evaluated, the most recent findings being reported by [SQW in 2021](#). One of the recommendations included the need for a greater emphasis on SLM objectives, to enable the sustainable production of food while tackling the climate and nature emergencies, as well as strengthening and promoting its offer in this area.

The next Farming Connect (1 April 2023 – 31 March 2025), a total contract value of £22.9m, has been developed to deliver against the SLM Objectives – SLM underpins all future farm support and Farming Connect is no exception. In addition to these outcomes, the next Farming Connect will also support farmers to transition to the new SFS.

The next Farming Connect will build on its achievements over the last seven years of delivery through the ongoing targeted support which will help both today's, and future generations prepare for the opportunities and challenges ahead.

The Programme will support all businesses to increase efficiencies – including for example through benchmarking, knowledge transfer, innovation, utilising new technologies or setting up diversified ventures – enabling farming businesses to lower costs and increase profitability while maintaining the highest standards of animal health and welfare and land management.

**Recommendation 8.** The Welsh Government should monitor the impact of increased NRW charges on the farming community and on the environment and animal welfare. The Minister should keep the Committee updated on the outcome of this monitoring six months after fee increases come into force and regularly after that date.

Response: **Accept**

Welsh Government officials have agreed with NRW to work together to monitor the potential impact of fee increases which includes considering any adverse effect it may or may not have on the farming community, the environment and animal welfare. The



Minister will write to the Committee to provide an update in line with the timing specified within this recommendation.

**Recommendation 9.** The Welsh Government should set out a timeline for the development of the Community Food Strategy. This should take note of the passage of the Food (Wales) Bill and if necessary give scenarios depending on different likely outcomes with the Bill's passage through the Senedd.

Response: **Accept**

The Programme for Government commitment is to develop a Community Food Strategy (CFS) during the life of this Senedd. A considerable amount of background research has been completed and is currently being tested through stakeholder focus groups.

The Food (Wales) Bill has diverted official resources from CFS. As a result of this when work on CFS will recommence depends on the fate of the Bill. If the Bill fails at the end of stage 1 (May), work on the CFS will restart then. If the Bill fails the final vote (Oct), work on the CFS will restart after that.

If the Bill passes as drafted it will require Welsh Government to immediately commence work on the functions it creates which will mean work on the CFS will be postponed indefinitely.

**Recommendation 10.** The Welsh Government should update the Committee whenever there is any re-prioritisation of funding in the economy budget during 2023-24.

Response: **Accept in principle**

The Welsh Government has two opportunities a year through the in year supplementary budget process to capture any allocations to/from reserves and to reflect changes to the baselines including those announced by UK government. Any reprioritisation of funding during the year will be captured as part of this process. Given the supplementary budgets are published, Welsh Government would not propose a separate update be provided to the Committee.

**Recommendation 11.** In light of his suggestion that “we will have less money in a range of areas, so we will be able to do less” the Minister should provide more information to quantify the reduction in resourcing. The Minister should also set out how this will affect any area of his portfolio seeing a reduction in terms of the outputs and outcomes expected, in particular the number of businesses supported.

Response: **Accept**

With European funding coming to an end and without equivalent replacement funding being made available as promised by UKG difficult choices will be required. While the Welsh Government continues to commit resource to these vital areas, we will need to carefully consider our intervention aligned to the needs of the Welsh Economy. A detailed breakdown of the outcome and outputs planned in areas impacted will be submitted to Committee shortly.

**Recommendation 12.** The Minister should provide the Committee with further detail on the data being used to develop the retail delivery plan, particularly that which is being used to assess the uneven impact of the current economic challenges on the sector.

Response: **Accept in principle**

The Retail Action Plan (Plan) will be published in the coming months. The plan will outline data used as evidence to support the actions in the Plan. An impact assessment has also been developed and will provide resources and data used to assess the sectorial issues, which are reflected in the identified actions. The Welsh Government will make use of official data to further explore the situation in Wales, as well as identifying any potential gaps which may exist.

The plan has been developed in social partnership with retail sector representatives, retail business, trade unions and the Welsh Government. This approach means all parties engaged in the social partnership have been actively involved in the development of the Plan and in identifying supporting evidence feeding into the actions in the Plan. The Plan outlines additional work which will be undertaken through the course of the Plan to fill gaps in knowledge about the sector in Wales and details a commitment to evaluate the Plans' impact in two years. The approach outlined aims to ensure the Plan is able to respond to

the dynamic and changeable economic landscape and pressures which retail is subject to.

**Recommendation 13.** The Welsh Government should provide any analysis it has undertaken on the likely effects of the reduced tourism resource budget and reduced marketing spend on visitor numbers to Wales.

Response: **Accept in principle**

The reduction in the tourism budget line is a relatively small proportion and savings have been made across marketing and development budgets, not just focused on one specific area. A reduction in visitor numbers is not anticipated, especially on the back of elevated campaigns, across the UK and internationally, in relation to the FIFA World Cup.

We will be monitoring the position closely throughout the year and there is a range of related evidence that can be shared with the Committee at the appropriate point. Regular bespoke surveys are undertaken to track consumer demand, trip conversion and marketing awareness and these are all used to inform decision making throughout the year to ensure we maximise visitor numbers in line with our ambitions in our strategy, Welcome to Wales.

**Recommendation 14.** The Welsh Government should keep the committee informed of any decisions taken during 2023-24 on the size of the Tourism Investment Fund.

Response: **Accept**

A capital allocation of £5m is in our budget for 2023-24 with two main capital funds available to support organisations operating within the sector with their development projects; Brilliant Basics and the Strategic Capital Investment fund.

Brilliant Basics is a fund aimed at supporting small-scale infrastructure improvements in key destinations. We have recently launched a £5m fund over two years (£2.5m per year) which is open for applications from local authorities and national parks with a maximum grant of £0.300m per application.

The Strategic Capital Investment Fund represents an annual allocation of £2.5m within the Tourism Development budget. This grant funding enables Visit Wales to service existing commitments and to pilot new approaches to supporting businesses and communities develop the tourism product.

Alongside these capital programmes we also have the £50m Wales Tourism Investment Fund which is a partnership between the Welsh Government and the Development Bank of Wales bringing together both commercial and grant funding into one combined package of financial support to provide capital investment for the tourism and hospitality sector. It offers investment of between £100,000 and £5m and until very recently the fund provided a blended package of support based on repayable loan and a grant element of up to 20%. Given the difficulties that the sector has been experiencing in the wake of the Covid-19 Pandemic and more recently the impact of the cost-of-living crisis, I have approved an increase of the grant element from 20% to 40% where there is a case to increase the grant element. The fund is planned to continue to operate up to its first formal review at the end of 2024-25.

**Recommendation 15.** The Minister should regularly update the Committee regarding any refocusing or reprofiling of funds related to the Young Person's Guarantee (YPG) and should write to Members with his views on the future of the YPG in autumn 2023.

Response: **Accept**

I will work alongside the Minister for Education and Welsh Language, whose portfolio also holds significant funding relating to the YPG, to ensure the Committee is updated regularly on any refocusing or reprofiling of funds. I will also update the Committee on progress and future plans regarding the YPG in the autumn.

**Recommendation 16.** The Children, Young People and Education Committee and the Economy, Trade and Rural Affairs Committee jointly recommend the Welsh Government should supply both committees with details of how the Ministers for Economy and Education are working together on incentives for young people to remain in education, employment or training. This should include any work being undertaken as a result of the increased cost of living.

Response: **Accept**

We published the [Young Person's Guarantee Annual Report \(2022\)](#) on 8 February 2023.

The publication sets out the range of policies and programmes we have introduced to reach the National Milestone that '90% of 16 – 24-year-olds in Wales are in education, employment, or training (EET) by 2050' and to support young people and organisations in the face of the cost of living crisis.

This includes the refreshed **Youth Engagement and Progression Framework** which will play a key part in the early identification of potential NEETs in school and up to the age of 18.

It is built around understanding their needs, putting appropriate support or provision in place and monitoring their progression. The Framework also aligns with our commitment to prevent youth homelessness and seeks to ensure young people are identified and supported before they reach a crisis point.

In April 2022, we launched **Jobs Growth Wales Plus (JGW+)**, replacing the existing Jobs Growth Wales and Traineeship programmes. Under **JGW+**, 16-18 year olds receive individualised support to equip them with the confidence, skills and experience to progress into further learning, find a job or remain in employment. Wage subsidies of up to 50% for the first six months and on-the-job training are available for businesses employing young people aged 16 to 18 through the scheme.

Since its launch (and by September 2022) 3,470 individuals have commenced JGW+, of which 1,270 have completed their programmes and with over 50% having had a positive outcome so far.

In January 2023, we introduced a range of further support to help young people during the cost-of-living crisis by reducing the financial barriers they may be facing in accessing and remaining on the programme.

The additional support includes:

- Doubling the rate of the Training Allowance to £60;
- A new free meal allowance;
- Temporarily allowing 100% of travel costs to be claimed (if undertaking training)
- Extending the eligible age range to 19 years old, for enrolling onto the Programme.

Separately, the cost-of-living crisis represents significant challenge to colleges, so we need to look at new ways of working. A new **£5m Innovation Fund** will allow FE providers to consider creative new ways of working and collaborating with others in the sector to benefit learners.

In terms of higher education we have previously taken the decision that the rate of support for students is linked to the value of the National Living Wage. In the 2023-24 financial year the **rate of maintenance support** paid to full and part-time higher education students from Wales will increase by 9.4% for the 2023/24 academic year. In contrast, the UK Government has announced a 2.8% increase for students ordinarily resident in England.

The Annual Report sets out the range of other actions taken to date.

**Recommendation 17.** The Welsh Government should keep the Committee updated regarding the publication of the final version of its new innovation strategy and any related action plans.

Response: **Accept**

The Innovation Strategy, *Wales Innovates: Creating a Stronger, Fairer, Greener Wales* was published on 27 February. A delivery plan will follow shortly setting out further detail on goals, actions milestones and measures under each mission.

**Recommendation 18.** The Welsh Government should keep the Committee informed about any effect it's new innovation strategy or any related plans will have on funding and budget lines.

Response: **Accept**

I have committed to report to the Committee after years 1,3 and 5 on the effects the new Innovation Strategy is having on funding, in line with our review and evaluation plans.

The Strategy is explicit that there will be less money for innovation support in Wales and less control over it. It therefore proposes a convening function for Welsh Government to bring stakeholders closer together to develop more compelling, bigger bids for more UK and International competitive funds which should improve budget lines in the medium-term

In doing this we will work with UKRI, Innovate UK and others to deliver on their stated intentions of making significant further investments in Wales, and other parts of the UK outside of the SE of England.

The UK R&D funding landscape is in a state of evolution (e.g. Horizon Europe engagement) and the Welsh ecosystem will need to be open to different and better opportunities for innovation funding.

**Recommendation 19.** The Welsh Government should undertake work to estimate its spend on inward investment and share this with the Committee.

Response: **Accept in Principle**

The Welsh Government accepts that it would be helpful for the inward investment budget to be made available to the Committee in order to identify the amount of funding available to support companies that are seeking to establish an operation, or expand an existing facility, in Wales.

However, previous attempts to identify the full budget available to support inward investment have confirmed that there are multiple different budget lines from which budget is drawn depending on the nature of the investment and/or the activity that is being undertaken to attract potential investors to Wales. This has meant that it has not been possible in the past to fully identify the budget available to support inward investment and will not be possible to estimate for 2023-24. In addition, many of these budget lines are generic business support which is available to businesses in Wales, as well as investors, and budget has been drawn from these lines on a needs basis.

**Recommendation 20.** The Minister should write to the Committee setting out the options being considered for running Border Control Posts.

Response: **Accept**

I will include information on the options being considered for running Border Control Posts in the regular updates on the development of BCPs provided to the committee, as agreed in the response to Recommendation 21.

**Recommendation 21.** The Minister should update the Committee regularly regarding the development of Border Control Posts, including details of discussions on the matter between the Welsh and UK Governments.

Response: **Accept**

The UK Government plans to publish the Borders Target Operating Model shortly. After that, I will be able to update the Senedd, and I will continue to provide regular updates to the Committee either in person or in writing on the proposed new Border regime and plans for Border Control Posts in Wales.

**Recommendation 22.** The Minister told Members the Welsh Government had received money from the UK Treasury for spending Welsh Government have made 'at risk on getting ready to create border control posts.' Welsh Government should set out how much of the money it has spent 'at risk' on Border Control Posts and how much of that has been reimbursed by UK Government.

Response: **Accept**

The UKG first insisted the Welsh Government prepare for new checks on SPS goods back in 2020-21. Since then, we have had to stop and start work due to delays by the UKG.

Over the first two financial years (2020-21 and 2021-22), the Welsh Government incurred expenditure for design and programme costs totalling £6.1m which we agreed to meet from the Welsh Government's own resources.

For 2022-23, the UKG had only committed to provide 'absolutely necessary build costs' and no funding was provided in our Budget settlement from the UK Government in relation to the Borders Control Posts programme. Until £3.4m was received from the UKG as part of the UK Supplementary Estimates in January, this spend was incurred by the Welsh Government at risk.

The funding received meets all our spend on borders for 2022-23, including further design and programme costs incurred this year. It also enables our contractor to prepare the site for the Border Control Post at Holyhead. There is a tail of costs committed into 2023-24, which is again at risk to Welsh Government until UKG reimburses them. The UKG has not yet provided any 2023-24 funding for the Borders programme in Wales.