

Scrutiny of the Welsh Government's Draft Budget 2023/24

February 2023

On 13 December 2022 the Welsh Government laid its draft budget for 2023-2024 before the Senedd. This report outlines the Committee's views on the draft budget and its recommendations.

Evidence

This report draws on evidence given to the Committee in budget scrutiny sessions on 12 January 2023. The Committee held two scrutiny sessions, one with the Minister for Rural Affairs and North Wales, and Trefnydd and one with the Minister for Economy. Both Ministers were accompanied by supporting officials. This report also draws on the written evidence provided to the Committee by both the Minister for Rural Affairs and North Wales, and Trefnydd and the Minister for Economy ahead of the sessions. This report is set out in two chapters, the first on issues related to the Minister for Rural Affairs and North Wales, and Trefnydd's remit and the second on the Minister for Economy's remit.



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..... 6
- 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. 6
- 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..... 7
- Recommendation 4.** The Welsh Government should set out its contingency plans for overspend on the RDP as a result of over-committed funding. 7
- 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. 7
- 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 the what areas usually funded by the RDP will not be funded as a result of the overall reduction in funding..... 7
- 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..... 8
- 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. 9
- 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..... 9

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- Recommendation 10.** The Welsh Government should update the Committee whenever there is any re-prioritisation of funding in the economy budget during 2023-24.....11
- 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.....11
- 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.....12
- 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.....13
- 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.....13
- 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.....15
- 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.....15
- 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.....17
-

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.17

Recommendation 19. The Welsh Government should undertake work to estimate its spend on inward investment and share this with the Committee. . 18

Recommendation 20. The Minister should write to the Committee setting out the options being considered for running Border Control Posts.19

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.....19

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.....19

2. Minister for Rural Affairs and North Wales, and Trefnydd

Replacement for EU funding

- 1.** The Minister's paper states the UK Government has adopted the same methodology to replace EU funding in this Spending Review as in 2021/22 and 2022/23. The Welsh Government disagrees with this approach, arguing it *"nets off outstanding EU spending"*. Welsh Government calculates this has led to Wales receiving £222m less than expected (£85m less in 2022/23 and £137m less in 2021/22) and states that the continuation of this approach in 2023/24 will see Wales lose an additional £21m.
- 2.** The Minister told Members that she regularly presses the UK Government on the issue of the shortfall and *"the point that they promised us EU replacement funding in full"*. She went on to say that the new Secretary of State for Environment, Food and Rural Affairs wants to engage with Welsh Government, and that this was promising and she hoped *"pragmatism can come in here and we will see some further funding"*. However the Minister went on to explain that dispute resolution was still an option, and the Welsh Government may consider using it in the future.
- 3.** When the Minister was asked about what she had de-prioritised as a result of the loss of funding she said *"We do know, unfortunately, that that will mean less investment in our farming sector and in our rural communities, but I haven't deprioritised, if you like; I've just used the money I've got to bring forward the new programme."* When pressed to explain this further the Minister said *"We're using that money to adapt within the schemes. But, there is obviously less money."*
- 4.** Members would like to be kept up to date on the Welsh Government's negotiations with the UK Government and any decisions around the use of the dispute resolution process.
- 5.** In these uncertain times Members feel it is vital that farmers and rural communities have clarity on the funding they will receive. Members are concerned about the effects of the £21m shortfall on farmers and rural communities and would like more detail on how the Minister intends to 'adapt within the schemes' as a result of the reduction.

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

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.

Rural development funding

6. Audit Wales 2020 review of rural development funding highlighted concerns that *“Key aspects of the design, operation and oversight of the Welsh Government’s Rural Development fund were not effective enough to ensure £53 million of grant awards would deliver value for money.”*

7. A Welsh Government official told Members that the Welsh Government took Audit Wales’ work *“very seriously”* and that they are implementing measures to address the issues it raised. He went on to say *“There is a set of controls and measures in place now that looks at both the management of the grants and the awards, but also looks at then the evaluation and the process that happens afterwards ... I do think that we’ve done a huge amount of work over the last few years to address some of those issues.”*

8. With the current pressures on budgets, ensuring value for money will be even more important than ever. Members were pleased to hear that the Welsh Government has learnt lessons from the Audit Wales report, however they would like more detail on changes that have been made as a result of the lessons learnt, and the new control measures that have been put in place.

9. The Minister told Members that, to ensure every penny of the Rural Development Programme (RDP) was met, Welsh Government had over-committed funding by £50 million. Members are concerned about this liability. Whilst they understand the over-commitment is on the assumption that not all funds will be claimed, and is a way to ensure all money is spent, the Committee would like to know what the Government’s contingencies are if more funds are claimed than they have budgeted for.

10. The Minister’s paper shows there is an £8.9m reduction in the budget expenditure line (BEL) for the replacement RDP schemes, when compared to the indicative budget for 2022-23. The Minister told Members that this reduction was as the result of a cabinet reprioritisation exercise.

11. The Minister told Members that statutory responsibilities and commitments meant she had very little flexibility within her budget. She explained that “Every Minister had to find funding as part of the reprioritisation exercise” and due to the restricted nature of her budget the RDP replacement funding BEL was one of the few places she could reprioritise from. The Minister went on to say that she works closely with the Minister for Climate Change and that there would be £6.5m “additional funding in this area in relation to woodland schemes” from the Climate Change budget.

12. Members are concerned about the effects of the reduction in spending on the Welsh Government's plan to bring forward a replacement for the RDP. Indeed, the Minister described this funding in her paper as providing “vital support for our primary production and food sectors which have, and continue to be, affected by the impacts of Covid, the UK's withdrawal from the European Union and now the cost of living crisis.”

13. Members were interested to hear that the Climate Change budget will be used to fill some of the shortfall in the replacement RDP budget. However the RDP has much wider goals than woodland schemes. The Committee would like further detail on the use £6.5m from the Minister for Climate Change's budget and the anticipated effects of the overall shortfall.

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.

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

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.

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 the what areas usually funded by the RDP will not be funded as a result of the overall reduction in funding.

Farming Connect

- 14.** The Committee held an event at this summer's Royal Welsh Show where Members discussed the Sustainable Farming Scheme (SFS) with stakeholders. Whilst feedback around Farming Connect tended to be positive, one of the key pieces of feedback received at the event was that Farming Connect needs to be fit for purpose to carry out its broadened advisory role if the ambitions of the SFS are to be fulfilled. Stakeholders specifically highlighted it would need sufficient resource and expertise.
- 15.** The Minister told Members that there was a new Farming Connect contract starting on 1 April this year. She went on to highlight that Farming Connect was very well supported and used. She agreed that *"it's going to be very important as we take SFS and as we take our sustainable land management objectives forward."* However the Minister did not have the value of the new contract to hand and promised to update the Committee with that information.
- 16.** Members agree that Farming Connect will need to be properly resourced to support farmers in the transition to the SFS. Members are keen to see both the figure for the new contract and the assessment which has been undertaken to estimate the cost and use for Farming Connect over the new contract term.
- 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.

Natural Resources Wales fee increases

- 17.** NFU Cymru has accused NRW of 'hiking' its regulatory fees and charges. It includes examples of a 10-fold increase in the cost of new applications for land spreading of spent or un-used sheep dip and an increase from £135 to £6,327 to the cost of new licences for abstraction/impoundment of water.
- 18.** A Welsh Government official told Members that the increase in costs was because *"NRW have not amended those charges for a very long time, and, therefore, the current charging regime does not cover their costs."* He went on to say that NRW had consulted on these changes and for a long time, in essence, the costs of activities to NRW have not been reflected in the charges.
- 19.** Whilst Members understand NRW must balance its budget, they are also concerned that these cost increases come at a very difficult time for farmers. The

Welsh Government must monitor the impact of these cost increases on farmers and on the environment and animal welfare.

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.

Food strategy

20. The Welsh Government has a Programme for Government commitment to develop a Community Food Strategy. In January the Minister wrote to the Committee outlining the direction of and areas that might be covered by the Strategy. In the Committee's budget meeting the Minister told Members that whilst there was a £1.8 million baseline budget for the food strategy its development was being impacted by Peter Fox MS's Food (Wales) Bill "*because the same [Welsh Government] official is working on both*".

21. Members were surprised to hear that only one official was working on the Community Food Strategy, especially as it is a Programme for Government commitment. Members are also concerned that there is no clear timeline for the delivery of the strategy.

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.

3. Minister for Economy

The Economy

The economic picture for the year ahead

23. Alongside the draft budget the Welsh Government published a report from their Chief Economist which contained some stark reflections on the current economic climate. The report notes that *“At the time of writing, Wales and the UK appear to be entering a recession, following a period during which living standards have already fallen for four successive quarters”* and that *“Across the UK, average household incomes are expected to decrease by 4.3 per cent in 2022-23 and by 2.8 per cent in the following year. The cumulative two-year decrease of more than 7 per cent would be unprecedented.”*

24. The report noted that inflation is expected to remain above 10% for the first half of this year and that the Office for Budget Responsibility (the OBR) anticipates the rate of unemployment to increase by around one and half percentage points over the next 18 months or so, which in Wales would be equivalent to a figure of around 20,000 to 25,000 more people out of work.

The Department's Budget

25. The Minister for Economy told Members this year's budget was *“an incredible challenge”* and warned that *“it will be an uncomfortable time for many people in the world of work, running businesses or working in those businesses, and it will be a difficult time for me and my department in facing up to those challenges.”*

26. He went on to tell Members that *“we've got a budget settlement that isn't providing significant amounts of extra cash in real terms”*, and that the Welsh Government had decided to prioritise the *“NHS, social care and local government, including education”*. The Minister also highlighted *“the loss of former EU funds, and the fact that they aren't being replaced like for like in terms”*, as a *“real problem”* for his department.

27. The Minister told Members that, alongside capital commitments, he is *“trying to prioritise some of the spend we can still maintain in employability programmes and I'm trying to prioritise skills as a significant part of that”*.

Business and employment support

28. The Minister told Members that the effects of the recession would be uneven across the economy. He said Welsh Government *“won't be able to save every single business that will face difficult times in the recession”* and they would need to balance intervention to support business hit by the recession with *“promoting areas of growth within the economy.”*

29. The Minister explained that it wouldn't be a straight forward balancing act, as *“we will have less money in a range of areas, so we will be able to do less, and that's unavoidable”*. He went on to say *“It means that there are fewer businesses that we can support; there are fewer businesses we can invest in to help them to grow, and there is less we're going to be able to do than I would have liked to have done, for example, in promoting trade.”*

30. The Minister said that, due to the uneven and unpredictable nature of the recession, it was not possible to predict exactly how he would need to flex and prioritise his budget. He gave the example of the employment programme React+ which was demand-led so its budget would be dependent on the employment market. He went on to give the example that Welsh Government will need to react and flex in the way they deliver economic support *“because there isn't mathematical certainty about which areas of the economy will be hardest hit.”*

31. As the Minister will have less money for a range of areas in his portfolio, Members would like to highlight that it will be absolutely vital his department achieves maximum value for money from spend. Members agree that the current economic uncertainty will make it hard for the Minister to predict exactly which areas will need focused support in the forthcoming year. Members would therefore welcome regular updates regarding the re-prioritisation of funds and areas the Minister feels will need support throughout the year.

32. Whilst accepting that it is hard to predict exactly what support will be needed, Members would like more information to quantify the reduction in resourcing to specific areas of the Minister's portfolio.

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

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.

Sectoral and Regional Support

Retail

33. In December 2022 the Committee heard evidence from the Welsh Retail Consortium regarding the ongoing effects of the increased cost of living on their industry. Sara Jones told Members *“As you can imagine, retail is very much in the eye of the storm once again after the two very difficult trading years during the pandemic; a third year now that's proving equally challenging”*. She highlighted that *“Consumer confidence is at the lowest level I think it's ever been since records have been running—even lower than the 2008 recession, and that's obviously filtering through into consumer demand and spending decisions.”*

34. The Welsh Government published a retail position statement in March 2022. The Welsh Government's evidence paper states that the Minister's intention is to publish a delivery plan for the sector in the *“coming months”*.

35. The Minister told Members that retailers were seeing an unevenness in the effects of the current economic picture. He said there had been a *“difference between some city and town centres; some out-of-town retailers have done better than others as well”*. As a result the Minister said Welsh Government were *“looking at the data that is as up to date as possible about consumer trends and habits and how that shapes what we're looking to do, and the overall pictures around consumer confidence and consumer behaviour as we look to the future.”*

36. The Committee looks forward to seeing the retail delivery plan. Members are interested in the figures the Government is using to assess the unevenness of the impact of the current economic climate on retail.

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.

Tourism

37. The Tourism resource BEL has been reduced by £1.3 million compared to the final budget for 2022-23. The Minister told the Committee this would mean the Government would have to reduce what they would have otherwise been able to do. This meant the Welsh Government was *“unlikely to have the scale of marketing we would otherwise have had for some of our European markets through the next year.”*

38. The Minister also said *“We're also going to have to look at what we do when it comes to the tourism investment fund. We're still maintaining that at the same size and scale, but there will be challenges.”*

39. Members are concerned about the impact of the reduction in marketing for Welsh tourism and the possible challenges in maintaining the Tourism Investment Fund. The Committee would like further information on any analysis that has been undertaken around both issues.

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.

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.

Skills

The impact of the cost of living on skills

40. In December 2022 the Committee took evidence on the cost of living and the young person's guarantee. On 20 December the Committee wrote to the Minister to raise some of the issues it heard.

41. As the letter was sent recently, the Minister is yet to reply. However Members wanted to take this opportunity to reiterate some of the key issues raised that are pertinent to the Young Person's Guarantee and the budget:

- The Committee heard concerns that support was not keeping up with the cost of living and that as a result some young people may be leaving vocational programmes and going into low-skilled work to enable them to meet basic needs.

- Geographical location is having a big effect on the impact of the cost of living pressures. increasing transport costs can have a “debilitating effect” on some learners from rural areas.
- The cost of living is impacting young people's mental health. Training providers report having to provide more and more support, especially around mental health, at their own cost.

42. The committee looks forward to receiving a response to its letter to the Minister about the impact of the cost of living on skills in due course.

The Young Person's Guarantee

43. The Minister told the Committee the Young Person's Guarantee was initially established in anticipation of a large increase in unemployment as a result of the Pandemic. However as the expected unemployment did not materialise the Minister said that the programme's target has changed, saying:

“For young people and the guarantee and the offer that's made in that, it's to make sure that we don't leave people behind and that we give people opportunities to make sure that they can access the labour market. Our bigger challenges are actually those people who are further away from the labour market. It's why there's more focus on the work of Jobs Growth Wales+ to make sure that 16 and 17-year-olds get opportunities to access the labour market and the support we have for them to do that”

44. The Minister went on to say that “young people do feel more uncertain about their future now than 10 years ago” and that he felt the Young Person's Guarantee was “still really, really important”. Because of this the Minister said he would “protect” the programme and the skills provision within it, but that this was “against the backdrop where we're going to lose about £50 million a year in the funding we used to get from EU funds for employability programmes.”

45. The Minister said that the Young Person's Guarantee “will remain a commitment of mine in future budgets. But what I can't do is give a cast-iron guarantee that there will be absolutely zero impact, if the broader budget position doesn't improve.”

46. Members are very interested in the future of the Young Person's Guarantee and would like to be kept informed of how budget pressures around the

programme are being managed through 2023-24. Members would also be keen to receive an update on the future of the Young Person's Guarantee in the autumn term.

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.

Financial support for post 16 training

47. There are a number of financial support options available to support and incentivise learners to stay in post 16 education. These include Educational Maintenance Allowance (EMA) and learning grants. Participants in Jobs Growth Wales+ can receive a weekly training allowance, and there is a minimum wage for apprentices (although this is set by the UK Government). The Committee reflected on the support available under employability and training programmes during our work on the cost of living and skills.

48. The Minister told Members that the Welsh Government was trying "to make sure that post-16 education is a real option, as opposed to an illusion, for a number of people in different communities" with this support. He went on to say that "one of our bigger challenges" was making sure that young people saw "not just an apprenticeship or a training course, but, actually, there's a career that would be rewarding, not just financially, but for what people want to do". The Minister went on to tell Members that a lot of this support was "really a question for the Education Minister" as it was high spend-programmes such as the EMA, which are funded from his budget.

49. The Committee agrees with the Minister that it is important to support young people to continue into post-16 education. Both this Committee and the Children, Young People and Education Committee are interested in this area of work and would like to hear more about the conversations between the Minister for Economy and the Education Minister on the allocation of funding to post-16 support in light of cost of living pressures. As such the two committees have made a joint recommendation on the matter.

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.

Research and Innovation

50. The Welsh Government's paper says *"the innovation strategy will be launched early in 2023 and will include further detail on our priorities for RD&I [Research, Development and Innovation] and our funding commitments", although there "is no hypothecated budget to resource the new Innovation Strategy in financial year 23-24".*

51. The Institute of Physics submission to the Senedd Finance Committee says Wales is not keeping pace with other UK nations' investment in RD&I. Universities Wales said that the 2022-23 budget did not address core support for RD&I, causing a *"loss of opportunity to capitalise on the major increase in UK competitive funding"*.

52. The Minister explained that, as a result of EU funding not being replaced like for like: *"I have lost £50 million for employability programmes, I have lost money that would otherwise have gone into the innovation budget directly".* He went on to say *"That's having a direct impact on higher and further education", and "I'm afraid we've got people who are unlikely to carry on in those research-funded posts in higher education in the new financial year."*

53. The Minister explained:

What we are trying to do in our innovation strategy is reflect and take on board that honest truth, and at the same time, to say, 'This is how we need to draw together and have a more coherent whole from the Government'. It's how and why we need to work right across our system, with private sector research partners, as well as higher and further education. We need to be much better at securing money from UK funding sources.

54. The Minister summed up the purpose of the innovation strategy saying it *"will both try to give us a framework for where we see our major strengths and opportunities in Wales, so that we will be able to set out, 'This is our view on where Wales can be really successful, and this is how and where we want public*

money to go', and at the same time working with those sectors to make sure that we get a much better deal out of UK funding sources."

55. Members are concerned by the feedback from stakeholders that Wales was not keeping pace with the other UK nations on research and innovation, and related warnings that Wales could see a loss of opportunity as a result. Whilst Members understand the Minister's budget is tight, the Committee believes Wales must avoid falling behind on research and innovation. As such Members believe a high quality, strong innovation strategy must be finalised as a priority.

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.

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

Trade

56. The draft budget sets the Export, Trade and Inward Investment BEL at £4.192 million. This is a reduction of half a million pounds compared to the final budget for 2022-23.

57. The Minister told Members that whilst the Welsh Government would *"still have a significant programme of support"* for trade, the reduction would mean they would not be able *"to expand the support that we have into different markets"*.

58. *"Growing the economy by increasing exports and attracting inward investment"* is one of the three core ambitions set out in the Welsh Government's International Strategy. Whilst £4 million of the Export, Trade and Inward Investment BEL is allocated to deliver the Export Action Plan there is no specified allocation for inward investment.

59. The Minister explained that this was because many government actions drive inward investment. One of the examples the Minister gave was how business support can help drive inward investment. He told Members:

"we support opportunities to grow businesses. Some of those are businesses that are here already, some of those businesses are foreign owned, and some of those are new business opportunities for new

inward investment. Now, that won't show up in the export trade and investment budget line, and it certainly won't show up in the export action plan budget line.”

60. Whilst Members understand that inward investment can be driven by many government policies and programmes, the Committee is concerned that without understanding how much money the Welsh Government is spending to attract inward investment it is very hard to assess its success. As such it is exceptionally hard to scrutinise one of the core ambitions of the International Strategy.

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

Border Control Posts

61. The Welsh Government's draft budget does not make provision for Border Control Posts (BCPs). The Minister's paper notes this is because progress to develop BCPs have been 'hampered' due to the UK Government's decision to review the Target Operating Model (TOM). The Minister's paper also states that decisions relating to the facilities needed to serve the Pembrokeshire ports are pending agreement on the TOM. The Committee welcomes the commitment made by the UK Government to fund the necessary build costs of BCPS.

62. In the Committee's budget session the Minister told Members that “we have had some money come across from the UK Treasury for money that we'd spent at risk on getting ready to create border control posts.” He went on to explain that “the challenges [with BCPs] are around the running costs, and the running costs are, at least in part, dependent on what the operating model is going to be: what we're going to be checking for, how and why.” He summed this up by saying “The running costs are less certain around how they will be covered by the UK Treasury or otherwise. And if that is an extra pressure on the Welsh Government budget, it is not something that is going to be inconsequential.”

63. Members are concerned about the uncertainty around the development of BCPs in Wales. The Committee would like more information on the options being considered with regards to who will be running the BCPS and the potential cost implications for those options on the Welsh Government's budget and on businesses using them. Members would also like clarity on the amount of

money reimbursed by the UK Government to the Welsh Government for 'at risk' spending on BCPs in 2022-23.

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

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.

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.