

Scrutiny of the Welsh Government's Draft Budget 2022/23

February 2022

On 20 December 2021 the Welsh Government laid its draft budget for 2022-2023 before the Senedd. This report outlines the Committee's views on the draft budget and recommendations.

Evidence

This report draws on evidence given to the Committee in a budget scrutiny session on 20 January 2022. The session had two panels, one with the Minister for Rural Affairs, 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, North Wales and Trefnydd and the Minister for Economy ahead of the session. This report is set out in two chapters, the first on issues related to the Minister for Rural Affairs, North Wales and Trefnydd's remit and the section on the Minister for Economy's remit.



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2. Minister for Rural Affairs, North Wales and Trefnydd

Animal Health and Welfare

1. On 4 November 2021, Welsh Government published the Animal Welfare Plan for Wales 2021-26. It covers farmed, companion and other kept animals. It highlights four Welsh Government commitments and progress made towards them. The commitments include to:

- develop a national model for the regulation of animal welfare, introducing registration for animal welfare establishments, commercial breeders for pets or for shooting and animal exhibits;
- improve the qualifications for animal welfare inspectors to raise their professional status;
- require CCTV in all slaughterhouses; and
- restrict the use of cages for farmed animals.

2. Local authorities enforce many animal welfare regulations. Animal welfare groups have argued there is a lack of resource for this purpose. RSPCA Cymru has previously indicated to the Committee that there needs to be a *"wholesale review concerning the ability of Local Authorities and other agencies to enforce legislation that impacts upon the welfare of animals"*.

3. The Minister told Members that there was a local authority enforcement project and that *"it's okay having the strategies and the policies, but if the enforcement doesn't work, then you're not going to make any progress"*. RSPCA Cymru previously told the Committee that whilst the Welsh Government's Local Authority enforcement training project is welcome, it must be underpinned by more resource. Members fully agree that enforcement will be vital to success for the plan and are concerned that a lack of funding may lead to the new regulations being poorly enforced.

Recommendation 1. Welsh Government must ensure Local Authorities are properly resourced to enforce the Animal Welfare Plan for Wales 2021-26.

Agricultural Pollution Regulations

4. When Natural Resources Wales gave evidence to Members in September regarding the Regulations they said the regulations *"provide us with a massive workload"*. Natural Resources

Wales estimates it needs 60 extra staff to deliver the "*minimum viable product*" but "*well over 200*" to deliver the "*full role*".

5. The Minister for Climate Change is responsible for setting NRW's budget. The Minister for Rural Affairs noted NRW's core grant in aid has been maintained and Welsh Government officials were working with NRW on a "baseline review exercise" to examine the allocation of NRW resources against its statutory functions and Programme for Government commitments.

6. The Minister added that while she hadn't discussed additional funding with NRW, there was a possibility that additional funding could be found from the Rural Affairs budget if necessary, subject to the outcome of the baseline review and further discussions.

7. The Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 are currently subject to judicial review proceedings and an ongoing Inquiry by this Committee. Members have not finished their evidence gathering and do not want to pre-empt their findings. However members are concerned that funding for Natural Resources Wales (NRW) has not been increased in the budget to reflect its additional enforcement responsibilities required by the Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021.

Recommendation 2. The Minister for Rural Affairs, North Wales and Trefnydd and the Minister for Climate Change work together to ensure that the Natural Resources Wales core 'grant in aid' funding should be increased to reflect the increased workload created by enforcing the Water Resources (Control of Agricultural Pollution) (Wales) Regulations 2021 as they stand.

Transition to the Sustainable Farming Scheme

8. The Welsh Government's evidence paper shows the funding for Agriculture Customer Engagement remaining static. The paper explains this funding is "*the key mechanism for communicating and engaging with farming customers and the wider industry on Welsh Government administered schemes, policies and initiatives*".

9. The Welsh Government is developing its proposed Sustainable Farming Scheme with an intention to carry out further 'co-design' in summer 2022 and consult on final proposals for the SFS and Transition Plan in spring 2023. Stakeholder engagement through an outreach programme on the final scheme is expected the following year.

10. Members are concerned that there is no increase in funding for engagement with farmers despite the transition to a new model of farming subsidy. As this is the key mechanism for communication and engagement with farmers Members would have expected to see an uplift for a campaign regarding the new subsidy model.

11. The Farmers' Union of Wales raised concerns with the Committee around how the Welsh Government would pay for the increased administration required under the Sustainable Farming Scheme given the large number of unique contracts expected. The Minister told the Committee *that "no decisions have been taken at all about the exact funding that will be allocated."* Members are concerned that question remains unanswered.

12. The UK Government has adopted the same methodology to replacement EU agricultural funding in this Spending Review as it did for 2021-22. The Welsh Government disagrees with this approach, arguing it "nets off outstanding EU spending". The Minister's paper suggests the same approach will see Wales receive at least £106m less than expected for 2022-23. The Minister's evidence paper says the Welsh Government is considering whether to invoke the (as yet untested) dispute resolution process to progress this matter.

13. The Committee is keen to see assurance that the Minister will continue to press the UK Government to reconsider the methodology and address the shortfall in funding for 2022-23. Members would like the Minister to keep the Committee updated on these matters.

Recommendation 3. The Welsh Government should set aside clear funding for engagement with farmers around the transition to a new model of farming support.

Recommendation 4. The Welsh Government must consider the additional administration created by the proposed large number of unique contracts under the Sustainable Farming Scheme and allocate funding accordingly.

Recommendation 5. The Minister should continue to press the UK Government to reconsider the methodology for determining replacement EU funding for agricultural support and address the shortfall in funding for 2021-22. She should report back to the Committee on the outcome as soon as practicable.

Fisheries

14. The Minister told the Committee the *"line for marine and fisheries is £4.5 million. That includes £2.1 million for EU replacement funding"*. However the expenditure tables show an allocation of £3.1 million to 'marine and fisheries', and the Minister's paper an allocation of £3 million.

15. A separate line 'EU Funded Fisheries Schemes' includes the £2.1 million EU replacement funding'. Similarly, the expenditure tables show an allocation on £2.7 million to this line, yet the Ministers paper shows an allocation of £2.2 million.

Recommendation 6. The Welsh Government should write to the Committee with clarity over budget allocations for its fisheries functions.

3. Minister for Economy

Visitor economy action plan

16. The Welsh Government's evidence paper highlights that the visitor economy is a sector *"severely impacted by the Coronavirus pandemic"*. And that *"businesses have faced unprecedented and extreme challenges from the outset"* going on to say *"the downturn of the sector stands to have a serious impact – symbolic, social, cultural and economic - on many towns and villages that are also facing other post Covid-19 related challenges that will continue into 2022/23"*.

17. Members are pleased to see that the Welsh Government are putting together an action plan to support Lets Shape the Future, the Government's recovery plan for the sector. Members were also very pleased to hear about the sector engagement that has taken place in Let's Shape the Future.

18. However Members are still concerned that there is not enough detail on the budget allocation for the action plan. Members would like to see a breakdown of the funding being allocated to the action plan and the vision of exactly what that funding will achieve.

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.

Recovery Business Support

19. On the 23 December the Minister announced the Welsh Government would be withdrawing the £35 million Business Support Fund, which had been aimed at supporting small and medium businesses *"relaunch, develop, decarbonise and grow to help drive Wales' economic recovery"*. The Minister told the Committee that money had been diverted to the *"emergency response"* and that funding challenges meant resources weren't available for the business support fund. He went on to say the Welsh Government will *"need to make sure that every pound we spend works even harder, as well as thinking about what we can do in being more creative in other areas as well"*.

20. Members appreciate the need to redirect funding to those businesses forced to temporarily cease trading as part of the pandemic response. However, Members were concerned to hear that this meant that those sectors affected by the most recent restrictions will not have access to the support they would previously have had to help them to recover.

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.

Community Bank

21. The Programme for Government includes a commitment to support the establishment of a Community Bank for Wales. The Minister for Economy told Members that his budget had *"a development phase revenue funding of £150,000 in the financial year"* for this project. The Government paper indicates this funding is 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."*

22. The Minister for Social Justice is leading on the capital investment to establish the 'Community Bank' Budget Expenditure Line shows capital allocations of £1.5 million in both 2022/23 and 2023/24, and an allocation of £1.75 million in 2024/25 from her budget.

23. Members are keen to see further detail on how this funding will be used.

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.

Employee-owned businesses

24. The Welsh Government has committed to doubling the size of the employee-owned sector in Wales in this Senedd term. The Minister for Economy explained that he had not set annual milestones for the amount of employee-owned businesses he would like to see created as part of this overall target. However he said Welsh Government *will "look at it within each year to see what we've done"*.

25. Members accept that yearly targets may not be the best way to measure achievement against this objective. However, the Committee is keen to remain informed against progress. As such Members would like to receive the analysis of progress against each year.

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 this Senedd.

The Development Bank of Wales and Business Wales

26. The Minister noted several times through the session that he was in discussion with the Development Bank of Wales around various issues. Those included *"the resources they have, and whether we can make even greater use of financial transactions capital"* and *"what they are going to do to support businesses to try to succeed and flourish."*

27. The Minister flagged Business Wales as a *"genuine success story"* and told Members the Government had found money to keep it running. However he told Members that *"in the middle of this Senedd term, there'll be more questions if we don't have clarity on successor EU funding or increases in the overall Welsh Government budget. There could be more difficult choices there as well."*

28. The Fifth Senedd's Economy, Infrastructure and Skills Committee highlighted Business Wales and the Development Bank of Wales delivery of support as *"one of the success stories of the pandemic"*. In their COVID-19 recovery report it said *"the Welsh Government should ensure Business Wales and the Development Bank of Wales are given sufficient resources to continue their key roles in the recovery and reconstruction efforts."*

29. Members are keen to see the expertise built up by Business Wales and the Development Bank during the pandemic maximised, and their position supporting the recovery secured. As such Members would like to be kept abreast of discussions around the future of the two bodies.

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.

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.

Degree apprenticeships

30. The Minister explained that the Government was *"going to move and be able to expand degree apprenticeships"*. The Fifth Senedd's Economy, Infrastructure and Skills Committee held an Inquiry into degree apprenticeships, amongst the recommendations were that the Welsh Government should investigate broadening the range of frameworks, and focus on widening

access to the pilot whose cohorts are not representative. The Committee was concerned that the Budget does not adequately reflect whether those recommendations could be met.

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.

Research and Innovation

31. The Welsh Government's paper addresses the innovation strategy, however it does not include any details of intended resourcing. In the Committee's session Huw Morris told Members *"£10 million additional allocation for QR [Quality Related] to the funding council for universities, and that includes £2 million for the Wales innovation network, specifically guided to increase that bidding activity"* and the Welsh Government promised further detail and clarification in writing.

32. In 2019 the Fifth Senedd's Economy, Infrastructure and Skills Committee undertook an Inquiry into Research and Innovation in Wales. One of the Committee's recommendations was to fully fund the Reid Review recommendations. Members are keen to see the clarifications offered by Welsh Government around funding, and agree with the view that the 2017 Reid Review recommendations should be fully funded.

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.

The Young Person's Guarantee

33. The Young Person's Guarantee is a key Welsh Government manifesto commitment which aims at creating a *"comprehensive package [that] brings together programmes designed to provide the right support at the right time for the diverse needs of young people across Wales. This includes new user friendly services to help young people find opportunities more easily."* The Minister for Economy told members that the Guarantee is *"our headline commitment"*.

34. In the Children, Young People and Education Committee's session with the Minister for Education he told CYPE Members that the budget for the Guarantee was cross cutting and *"there isn't a separate line"* which is the *"Young Person's Guarantee"*. This Committee's Members are concerned about the lack of transparency regarding the funding and delivery of this key Government commitment.

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.

International Trade and Border Control Posts

35. Whilst the Welsh Government have made a £4.7 million allocation for export, trade and inward investment, the Minister told Members that the vast majority of this (£4.5 million) will be allocated towards supporting business to continue exporting. He went on to say *"We haven't factored in a specific amount for new free trade agreements, because I genuinely think it is premature to be able to do so."*

36. The Minister also told Members there was more work to do regarding the funding of border control posts. He explained that there would need to be an agreement between Welsh Ministers around how *"running costs are spread across the Welsh Government, if the UK Government still insist on transferring the cost of these new measures into the Welsh Government budget."* He went on to say *"There's certainly no allocation in the UK budget settlement for the increased costs that are inevitable from running border control posts."*

37. The Committee is pleased that the Welsh Government is investing money to support businesses export. However, given the opportunities presented but also concerns stakeholders have raised around the impact of trade agreements on sectors, Members feel that a specific budget allocation should be given to support businesses to respond to any new trade agreements.

38. Members are keen to hear the outcomes of future discussions within the Welsh Government and between the Welsh and UK Governments regarding funding of border control posts.

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.

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.