

Scrutiny of the Welsh Government Draft Budget 2023-24

February 2023



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**Finance Committee
Welsh Parliament
Cardiff Bay
CF99 1SN**

Tel: **0300 200 6565**
Email: **SeneddFinance@senedd.wales**
Twitter: **@SeneddFinance**

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Scrutiny of the Welsh Government Draft Budget 2023-24

February 2023



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddFinance

Current Committee membership:



Committee Chair:
Peredur Owen Griffiths MS
Plaid Cymru



Peter Fox MS
Welsh Conservatives



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour

The following Member attended as a substitute during this inquiry.



Russell George MS
Welsh Conservatives

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Chair's Foreword

It is difficult to argue against the Welsh Government's claim that this is one of the toughest budgets it has ever produced. High inflation, rising energy costs, and a cost of living crisis are putting unprecedented pressures on already stretched budgets. These are undoubtedly hard times.

However, this challenging picture does not let the Minister off the hook, nor does it mean that the proposals within this Draft Budget cannot be improved. This report points to areas where the Welsh Government is falling short of its rhetoric and where tangible improvements can be made.

As a Committee, our efforts have focused on three main areas: a lack of clarity and candour on the decisions being made by the Welsh Government; the need to enhance the cost of living support for those who need it most; and the additional steps required to protect public services.

Firstly, we found it particularly difficult to identify the impact of spending decisions, especially where funding has been postponed, reduced or stopped altogether.

This lack of clarity and candour is concerning: For the Senedd to fully understand the choices that have been made in this Draft Budget, the Minister needs to be transparent and not hide behind a narrative that promises more of the same without specifying exactly where the spending axe will fall.

On support to deal with rising costs of living, there is no denying that providing help to the most vulnerable in our society is of paramount importance. Whilst we commend the Welsh Government for prioritising this area in its Draft Budget, we heard evidence that the support on offer could be enhanced in a number of ways to make it easier and simpler for those who need support to get it quickly.

That is why this report makes concrete recommendations to improve the Welsh Government's current package, including: the fast-track development of an unified benefits system – a Welsh Benefits Charter; expanding the free childcare model; increasing the value of the educational maintenance allowance, and prioritising the replacement to the Warm Homes programme.

On public services, we very much welcome the additional funding provided through the Draft Budget to alleviate pressures, particularly in the health, social care and local government sectors. However, much more is needed: More

information on how these funds will alleviate key concerns, such as recruitment and retention; and further clarity on which areas will miss out.

We think that the public sector workforce requires particular focus and attention; it is the backbone of public services in Wales but it is clear that staff are embattled, under-resourced and under too much pressure. That is why we have called for the development of a public service workforce plan to provide long-term stability, support and direction. We cannot expect our services to improve if we don't look after those working so hard to keep them afloat.

Lastly, I would like to thank everyone that has taken the time to speak with us and hope that our views and recommendations are reflective of what we heard. Our engagement work, which began last June, is crucial in informing our scrutiny and we aim to build on this work for next year as we look forward to the 2024-25 budget round.

A handwritten signature in black ink, appearing to read 'Peredur Owen Griffiths', with a stylized flourish at the end.

Peredur Owen Griffiths MS

Chair of the Finance Committee

Conclusions and Recommendations

Conclusion 1. We welcome the Minister’s willingness to consider ways in which budget documentation can be improved. While we have reflected our views above, the Committee has decided to consult Senedd committees on their experiences of scrutinising this year’s budget documentation and ways in which improvements can be made..... Page 55

Recommendation 1. The Committee recommends that, when the Welsh Government is requesting a delay to the publication of the Welsh Government budget and proposing a condensed period of scrutiny, the Minister should attend the Finance Committee to discuss budget priorities and the economic context in which the budget is formulated..... Page 18

Recommendation 2. The Committee recommends that the Welsh Government provides a full assessment of the impact that inflation will have on its funding position for 2023-24 and the changes to outcomes expected to be delivered within that time period..... Page 28

Recommendation 3. The Committee recommends that the Minister continues to press the UK Government, through the Finance Interministerial Standing Committee and other channels, to establish robust intergovernmental mechanisms relating to fiscal matters to ensure it can effectively escalate disagreements and resolve funding disputes. Page 28

Recommendation 4. The Committee recommends that the Welsh Government provides further information on independent mechanisms to resolve funding disputes between the UK and Welsh governments and an update on their use. Page 28

Recommendation 5. The Committee recommends that the Welsh Government carries out detailed work to model the behavioural impact of varying Welsh rates of income tax across all bands to ensure the decision-making process around setting tax rates is supported by robust evidence.....Page 41

Recommendation 6. The Committee recommends that the Welsh Government undertakes foundational work into the benefits and risks associated with devolving powers to modify Welsh rates of income tax bands and thresholds and provides the Committee with an update on progress before the Committee’s annual budget priorities Plenary debate in July.Page 41

Recommendation 7. The Committee recommends that the Welsh Government conducts an assessment of the benefits and risks involved with devolving powers to administer benefits in Wales and provides the Committee with periodical updates on progress.Page 41

Recommendation 8. The Committee recommends that the Welsh Government publishes detailed calculations relating to the block grant adjustment alongside the Draft Budget, either as part of the budget narrative or by inclusion in the Office for Budget Responsibility's Welsh Taxes Outlook, to show how each devolved tax affects the block grant and the Welsh Government's overall funding position.Page 42

Recommendation 9. The Committee recommends that the Minister provides more detail, both in response to this report and alongside supplementary budgets, on how its capital programme will be affected by constrained budgets and inflationary pressures, including:

- which projects will be prioritised over the coming financial year and which ones will lose out; and
- what impact such pressures will have on delivering the Welsh Government's Programme for Government priorities. Page 42

Recommendation 10. The Committee recommends that the Welsh Government provides an update on Financial Transactions Capital allocations before the Final Budget is laid and explains why such allocations could not be included at the Draft Budget stage for the second year running.Page 42

Recommendation 11. The Committee recommends that the Welsh Government calls on the UK Government to increase overall and annual limits for borrowing and reserves, at least in line with inflation, and that these limits should be reviewed regularly so as not to reduce its value in real terms over time.Page 42

Recommendation 12. The Committee recommends that the Welsh Government monitors the levels of reserves in local authorities to ensure that they are equitable, used appropriately and at sufficient levels to deal with the pressures being faced.Page 42

Recommendation 13. The Committee recommends that the Welsh Government makes changes to the way it presents information in documentation published alongside the Draft Budget so that it provides:

- an assessment of the impact of spending decisions across portfolios, including the impact of reprioritisation exercises and clarity on the real terms effect of decisions within portfolios;
- an assessment of how the Welsh Government's spending decisions are (or are not) supporting preventative measures. Page 55

Recommendation 14. The Committee recommends that the level of information provided at the 2024-25 Draft Budget is equivalent to the information provided at the 2022-23 Draft Budget. Page 55

Recommendation 15. The Committee recommends that the Welsh Government uses its gender budgeting pilots to inform and develop a wholesale gender policy appraisal of all Welsh Government budgetary decisions..... Page 55

Recommendation 16. The Committee recommends that the Welsh Government provides details of the Budget Impact and Improvement Advisory Group's forward work programme, including the tangible outputs its work will deliver for the 2024-25 Draft Budget. Page 55

Recommendation 17. The Committee recommends that the Welsh Government prioritises the streamlining of financial assistance schemes, under a proposed Welsh Benefits Charter, and fast-tracks the development of a unified application process for devolved grants and financial aid schemes. Page 64

Recommendation 18. In light of the rising cost of living, the Committee recommends that the Welsh Government undertakes a review of the current financial support schemes to ensure eligibility thresholds are suitable, fit for purpose and not excluding vulnerable people on the margins of support schemes. Page 64

Recommendation 19. The Committee recommends that the Welsh Government takes urgent steps to address the unequal gender impact of rising living costs and, in particular, conducts a review of the current free childcare model to assess its effectiveness and encourages its further expansion..... Page 64

Recommendation 20. The Committee recommends that the Welsh Government:

- reviews the eligibility threshold of Education Maintenance Allowance; and
- considers increasing the value of Education Maintenance Allowance. Page 64

Recommendation 21. The Committee recommends that the Welsh Government prioritises the development of a replacement Warm Homes programme to improve the energy efficiency of homes and to prevent vulnerable people from falling into fuel poverty..... Page 64

Recommendation 22. The Committee recommends that the Welsh Government explains how the funding allocated in the Draft Budget aligns with the six priorities for the NHS Wales identified by the Minister for Health and Social Services and which areas it will deprioritise as part of this process..... Page 78

Recommendation 23. The Committee recommends that the Welsh Government provides information on the outcomes it expects to be delivered by NHS organisations and social care providers with the additional funding it has allocated for 2023-24. Page 78

Recommendation 24. The Committee recommends that the Welsh Government conducts an assessment of funding it has allocated to improve efficiencies in the NHS with a view to reducing pressures in the long-term..... Page 78

Recommendation 25. The Committee recommends that the Welsh Government provides information to demonstrate how the allocations for 2023-24:

- alleviates immediate staffing pressures across the health, social care and local government sectors; and
- delivers improvements to the recruitment and retention issues faced within those areas. Page 78

Recommendation 26. The Committee recommends that the Welsh Government provides:

- an update on the use of agency and locum staff by the NHS, including information about the measures it will adopt to reduce reliance on them and the expected impact of the actions on expenditure; and
- details of the actions being taken to address issues relating to the pension tax annual allowance given its significant impact on the NHS workforce. Page 79

Recommendation 27. The Committee recommends that the Minister provides an update on the work being conducted by the Welsh Government on introducing a social care levy to fund the rising cost of social care provision and to alleviate workforce pressures..... Page 79

Recommendation 28. The Committee recommends that the Welsh Government works with public sector organisations to produce a comprehensive long-term public services workforce plan and provides an update on its development.

..... Page 79

1. Introduction

Welsh Government's Draft Budget

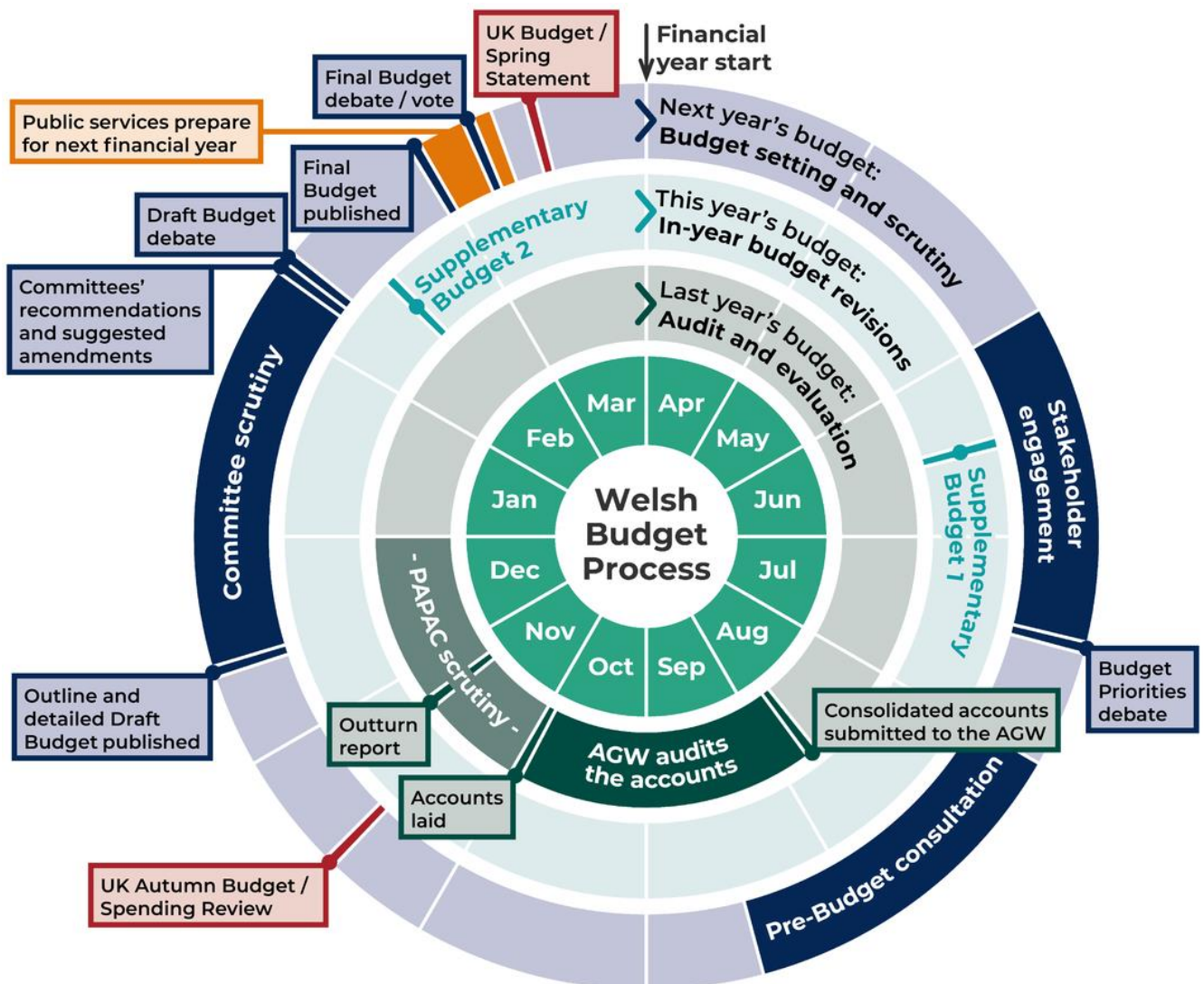
1. Each year the Welsh Government publishes its Draft Budget for the next financial year. The Draft Budget sets out revenue and general capital spending plans for the year and, usually the planned allocations for the next two years.
2. The Welsh Government's total Budget is made up of:
 - Funding by the UK Government known as the Block Grant;
 - Borrowing plans;
 - Welsh Rates of Income Tax;
 - Non-domestic rates; and
 - Fully devolved taxes (Land Transaction Tax and Landfill Disposal Tax).
3. The Finance Committee (the Committee) is responsible for considering the Draft Budget from a strategic, overarching perspective, in accordance with Standing Order 19. Individual policy committees undertake their own focused evidence sessions in order to examine and report on the areas of the Draft Budget that fall within their respective remits.

Budget Process Protocol

4. The current Budget Process Protocol between the Welsh Government and the Senedd was agreed by the Senedd on 21 June 2017.¹ The budget protocol sets out the two stages of information that will be published by the Welsh Government relating to the Draft Budget:
 - Outline proposals that set out the high-level strategic spending and financing plans of the Welsh Government; and
 - The detailed Draft Budget in which the Welsh Government will provide budget proposals for each portfolio at the Budget Expenditure Line (BEL) level or equivalent with appropriate supporting narrative.
5. However, for the past four years (including this year), uncertainties relating to the Welsh Government's funding position has meant a delay to the publication of

¹ [Senedd Budget Process Protocol, 21 Jun 2017](#)

the Draft Budget with both the outline and detailed proposals published at the same time. As the following infographic demonstrates, this had led to a constrained scrutiny process within the annual budget cycle:



Key:

AGW = Auditor General for Wales;

PAPAC = Public Accounts and Public Administration Committee

6. The Committee wrote to the Minister for Finance and Local Government ('the Minister') on 9 December 2022 proposing changes to the protocol, which aims to:

- Formalise the Committee's pre-budget engagement and scrutiny work; and

- Provide greater certainty in relation to the timing of the Draft Budget.²

7. The Minister responded on 17 January 2023 acknowledging that the budget timetable for 2023-24 had not provided the Committee “with the certainty you require in order to scrutinise the Draft Budget” and that it is worth considering how to “better adapt” to circumstances where there is “UK Government indecision on when fiscal events will take place”.³ The Minister also agreed to discuss these issues in more detail with the Chair “to further explore this work and areas where we may have common ground in terms of changes needed”.⁴

Timetable

8. On 1 July 2022, the Minister for Rural Affairs and North Wales, and Trefnydd, wrote to the Business Committee setting out a timetable for publication of the Draft Budget for 2023-24 (‘the Draft Budget’), in accordance with the timescales set out under Standing Order 20. The letter outlined a “worst case scenario” timeline “which is wholly dependent on the UK Government’s announcements”. It proposed that the outline and detailed draft proposals would be:

- published together by 13 December 2022; and
- debated on 7 February 2023 (with the Annual Budget published on 23 February 2023 and debated on 7 March 2023).⁵

9. This timetable was subsequently confirmed by the Minister on 4 July 2022.⁶

10. The UK Government had planned to issue a medium-term fiscal plan on 23 November. The date was brought forward to 31 October, largely to calm financial markets following the “mini budget” delivered by the then Chancellor of the Exchequer on 23 September. After Rishi Sunak MP became Prime Minister this was moved to 17 November, where it formed part of the Autumn Statement and was accompanied by official forecasts from the Office for Budget Responsibility

² [Letter from the Finance Committee to the Minister for Finance and Local Government. 9 December 2022](#)

³ [Letter from the Minister for Finance and Local Government to the Finance Committee. 17 January 2023](#)

⁴ [Letter from the Minister for Finance and Local Government to the Finance Committee. 17 January 2023](#)

⁵ [Letter from the Minister for Rural Affairs and North Wales, and Trefnydd to the Finance Committee. 1 July 2022](#)

⁶ [Letter from the Minister for Finance and Local Government to the Finance Committee. 4 July 2022](#)

(OBR).⁷ The Minister subsequently confirmed that the Senedd's timetable would remain unaffected.⁸

Public Engagement

11. The Committee's public engagement sessions for the Draft Budget consisted of the following:

- an external stakeholder event at Llanhilleth Miners Institute, Abertillery, on 15 June 2022;
- an online workshop with members of the Welsh Youth Parliament on 23 June 2022; and
- focus groups with organisations and individuals facilitated by the Senedd's Citizens Engagement team and held throughout June 2022.

12. The views expressed during these sessions were summarised in a Summary Engagement Report⁹ published by the Committee and an Engagement Findings Report¹⁰ produced by the Senedd's Citizen Engagement Team.

Budget Priorities Debate

13. The Committee's annual budget priorities debate was held on Wednesday 13 July 2022 and informed by the Committee's engagement work, as detailed above.¹¹ The debate provided a formal opportunity for Members, and particularly Senedd Committee Chairs, to influence the Welsh Government's spending priorities prior to the formulation of the Draft Budget in the autumn.

14. During the debate, the Chair of the Finance Committee outlined six priority areas which had been identified from the engagement sessions:

- Getting support to those who need it most as quickly as possible;
- Better workforce planning;
- Investment in youth infrastructure;

⁷ UK Government, Autumn Statement 2022, 17 November 2022

⁸ Letter from the Minister for Finance and Local Government to the Finance Committee, 24 October 2022

⁹ Finance Committee Summary Engagement Report, Welsh Government Draft Budget 2023-24

¹⁰ Senedd Cymru, Welsh Government draft budget 2023-24: Engagement findings, June 2022

¹¹ Plenary, RoP, 13 July 2022

- Increasing capital funding;
- Better use of data to develop more effective and joined-up public services;
- Stable green funding.¹²

Pre-Budget Scrutiny and Consultation

15. The Committee held a pre-budget session with the Minister on 29 September.¹³ Private technical sessions were also held during the same meeting with the Welsh Government's Chief Economist; officials responsible for the Welsh Government's Budget Improvement Plan; and representatives from the Future Generations Commissioner's office, the New Economic Foundation, Chwarae Teg and the Wales Women's Budget Group.¹⁴ The purpose of these sessions was to gain an insight into the economic and fiscal context informing the Welsh Government's budget formulating process.

16. The Committee issued a pre-budget consultation from 23 September to 18 November 2022¹⁵ on behalf of all Senedd Committees. A total of 29 responses were received. The consultation focused on the following areas:

- The impact of the Welsh Government's 2022-23 Budget, including funding related to the recovery of the pandemic;
- How the Welsh Government can support the economy and business following the pandemic, Brexit and inflationary and other economic pressures;
- What action the Welsh Government should take to help households cope with inflation and the cost of living crisis;
- Whether the Welsh Government's plans to build a greener economy are clear and sufficiently ambitious, and if there is enough investment being targeted at tackling the climate change and nature emergency; and
- If the Welsh Government is using the financial mechanisms available to it around borrowing and taxation.

¹² Plenary, RoP, 13 July 2022, paragraphs 307 to 312

¹³ Finance Committee, RoP, 29 September 2022

¹⁴ Finance Committee, Agenda, 29 September 2022

¹⁵ Finance Committee, Welsh Government Draft Budget 2023-24: Consultation

Scrutinising the Draft Budget 2023-24

17. The Committee considered the overall strategic decision-making and prioritisation behind the allocation within the Draft Budget proposals, along with taxation and borrowing plans, against the backdrop of public finances and the wider economy. The Committee also took a strategic approach in scrutinising the Draft Budget which centred on the four principles of financial scrutiny:

- Affordability – Is the big picture of total revenue and expenditure appropriately balanced?
- Prioritisation – Is the division of allocations between different sectors/programmes justifiable and coherent?
- Value for money – Are public bodies spending their allocations well – economically, efficiently and effectively?
- Budget process – Are they effective and accessible? Is there integration between corporate and service planning, and performance and financial management?

18. Once the consultation had closed, the Chair wrote to Senedd Committees on 12 December 2022¹⁶ noting that the scrutiny of the Draft Budget is likely to centre on the cost of living crisis, rising energy costs and high inflation.

Committee View

19. The Committee notes that, due to the timing of the UK Government Autumn Statement 2022, the time available for scrutiny by the Senedd was truncated for the fourth consecutive year. The Committee accepts that the Welsh Government has no control over the timing of UK Government fiscal events and recognises that uncertainties regarding its funding position was particularly acute in preparing funding plans for 2023-24 given instability in the leadership and policies of the UK Government in the summer and early autumn of 2022.

20. However, the Committee is concerned that, because the scrutiny of the Draft Budget is subject to reduced timescales that fall over the Christmas period, stakeholders and witnesses face challenges to be able to adequately analyse and respond to areas of interest to the Committee. This is regrettable as it has a significant impact on the scrutiny of the budget. Nonetheless, the Committee appreciates that the Welsh Government was able to publish its Draft Budget and

¹⁶ [Letter from Chair to Senedd Committee Chairs, 12 December 2022](#)

associated documentation less than four weeks after the publication of the UK Autumn Statement.

21. The Committee was also pleased that the Minister and Welsh Government officials, including the Welsh Government's Chief Economist, attended Committee at the end of September to discuss issues and themes raised from the Committee's summer engagement activities and the current economic context. While this cannot replace scrutiny of firm proposals contained in the Draft Budget and the consideration of how strategic allocations impact key stakeholders, the Committee recommends this approach is continued in years when the timetable is condensed due to significant funding uncertainties caused by UK Government fiscal events. This is something we have raised previously with the Minister,¹⁷ and would like to see it become a key feature of pre-budget scrutiny for future budget rounds when the timetable is curtailed.

22. The Committee thanks the Minister for her continued co-operation in relation to making changes to the Budget Process Protocol. The Committee reiterates its view that the protocol was established at a time when significant fiscal events would take place in the spring rather than in the autumn, and that a change in this approach since 2017 has constrained the ability of the Senedd to conduct proper scrutiny of the Draft Budget. We look forward to continued correspondence with the Minister on this issue ahead of the 2024-25 budget round.

Recommendation 1. The Committee recommends that, when the Welsh Government is requesting a delay to the publication of the Welsh Government budget and proposing a condensed period of scrutiny, the Minister should attend the Finance Committee to discuss budget priorities and the economic context in which the budget is formulated.

¹⁷ [Letter from the Finance Committee to the Minister for Finance and Local Government, 9 December 2022](#)

2. Overview and Economic Outlook

23. The Welsh Government published its Draft Budget for 2023-24 on 13 December 2022, which included the following documents:

- A Draft Budget narrative¹⁸
- Draft Budget proposals¹⁹
- Budget expenditure lines²⁰
- Tables supporting spending plans²¹
- A Draft Budget leaflet²²

24. In addition, the following were published alongside the Draft Budget as supporting documents:

- Chief Economist's report²³
- Infrastructure investment project pipeline²⁴
- Budget improvement plan²⁵
- Tax policy report: December 2022²⁶
- Welsh rates of Income Tax ready reckoner²⁷
- Welsh Taxes Outlook²⁸

25. Overall, the total Draft Budget allocates approximately £22.9 billion. This is an increase of £1.2 billion compared to the 2022-23 Final Budget, equating to a 5.7 per cent increase in cash terms and a 2.4 per cent increase in real terms, based on the November 2022 GDP deflator. Overall budget changes are shown in the following infographics:

¹⁸ [Welsh Government, Draft Budget 2023-24 – A Budget in Hard Times, December 2022](#)

¹⁹ [Welsh Government, Draft Budget Proposals 2023-24, December 2022](#)

²⁰ [Welsh Government, Budget Expenditure Lines 2023-24, December 2022](#)

²¹ [Welsh Government, Tables supporting spending plans, December 2022](#)

²² [Welsh Government, Draft Budget: Leaflet, December 2022](#)

²³ [Welsh Government, Chief Economist's Report, December 2022](#)

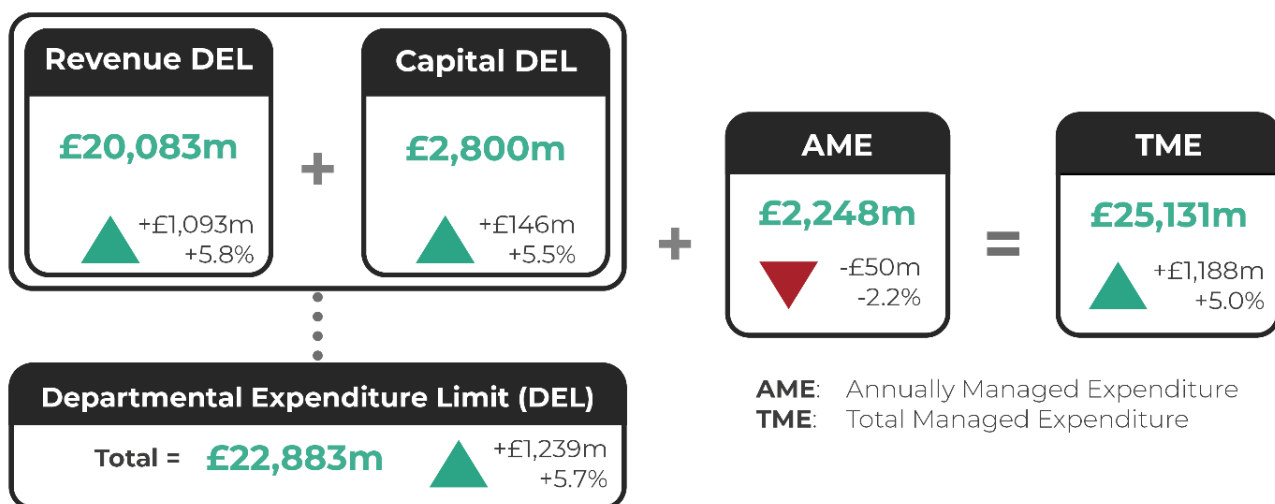
²⁴ [Welsh Government, Infrastructure Investment Project Pipeline, December 2022](#)









²⁵ [Welsh Government, Budget Improvement Plan, December 2022](#)

²⁶ [Welsh Government, Tax policy report, December 2022](#)

²⁷ [Welsh Government, Welsh Rates of Income Tax: Ready Reckoner, December 2022](#)

²⁸ [Office for Budget Responsibility, Welsh Taxes Outlook, December 2022](#)



		Total revenue and capital allocation	Change 2022-23 Final Budget to 2023-24 Draft Budget	
	Health and Social Services	£10,758m	£626m 6.2%	▲
	Finance and Local Government*	£5,114m	£462m 9.9%	▲
	Climate Change	£2,845m	£34m 1.2%	▲
	Education and the Welsh Language**	£2,647m	£76m 3.0%	▲
	Economy	£554m	£68m 14.1%	▲
	Rural Affairs	£447m	£54m 13.8%	▲
	Central Services and Administration	£358m	£5m 1.3%	▲
	Social Justice	£160m	-£87m -35.2%	▼

Sources: Welsh Government Draft budget 2023-24 and Senedd Research calculations

26. The Autumn Statement 2022, issued by the Chancellor of the Exchequer on 17 November 2022, provided net additional funding to the Welsh Government of £666 million in 2023-24 and £508 million in 2024-25;²⁹ an additional £1.2 billion to

²⁹ Finance Committee, RoP, 14 December 2022, paragraph 20

the Welsh Government over the next two years.³⁰ The Chancellor's planned public sector cuts are included in the later years of the settlement and not reflected in the Draft Budget.

27. The Welsh Government has reprioritised funding of £87.4 million from within existing departmental plans to "refocus limited resources towards areas of greatest need".³¹ The Minister explained:

*"...one of the exercises that we undertook was to reprioritise budgets across the Government, to try and free up some additional funding for the next financial year to be redistributed. And one of the principles behind that was that we should still maintain our commitments to our programme for government."*³²

28. In terms of the impact of the Draft Budget on the Co-operation Agreement³³ between Labour and Plaid Cymru, the Minister confirmed:

*"The budget doesn't propose any changes to the co-operation agreement areas where there was funding attached. Within the co-operation agreement, there are 13 areas that explicitly have funding attached to them, and we haven't made any changes to those in the draft budget."*³⁴

Economic Outlook

29. The Welsh Government faces a number of challenges in 2023-24. The OBR said "living standards are set for the largest fall on record" this year and next.³⁵ The key points heard by the Committee during its scrutiny of the Draft Budget are as follows:

- The UK is likely entering a recession which is expected to persist for over a year.³⁶

³⁰ HM Treasury, Policy Paper: Autumn Statement 2022, 17 November 2022

³¹ Welsh Government, Draft Budget 2023-24 – A Budget in Hard Times, December 2022, Page 33

³² Finance Committee, RoP, 14 December 2022, paragraph 26

³³ Welsh Government, The Co-operation Agreement, 16 December 2021

³⁴ Finance Committee, RoP, 14 December 2022, paragraph 123

³⁵ Office for Budget Responsibility, The outlook for household income and consumption, November 2022

³⁶ Office for Budget Responsibility, Overview of the November 2022 economic and fiscal outlook, 17 November 2022

- Unemployment is expected to increase, while economic inactivity is high.³⁷
- Inflation is having a significant impact on what can be bought with existing funds; the OBR estimates CPI inflation to average 10 per cent over 2022-23 and 5.5 per cent in 2023-24, while the GDP deflator is forecast at 4.9 per cent in 2022-23 and 3.2 per cent in 2023-24;³⁸ inflation faced by public services will lie somewhere between the two figures.
- Real terms wages are expected to continue to fall, by over 4 per cent in 2022-23 and almost 3 per cent in 2023-24.³⁹
- Public sector pay offers in 2022-23 and 2023-24 will impact considerably on budgets, particularly as devolved public sector pay accounts for around half of revenue spending.⁴⁰
- The cost of borrowing for the UK Government has increased considerably.

30. Wales Fiscal Analysis (WFA) told the Committee that the outlook after the spending review period “is particularly gloomy...given the pencilled-in plans of the UK Government”.⁴¹ It added that “there are uncertainties around whether those spending plans will come to fruition”.⁴²

31. However, shortly after the Autumn Statement, the OBR told the Treasury Select Committee on 22 November, that its growth outlook was more optimistic than the Bank of England’s and “more or less in line with other independent forecasters”.⁴³ When asked why this was the case, the OBR noted:

“The big factor ... is we think households in the UK will save substantially less than they have in recent years, and that will keep consumption and demand a bit stronger.”⁴⁴

32. The Institute for Fiscal Studies (IFS) believed that the OBR’s forecast was more optimistic than other forecasts because “people won’t cut back spending as much, hence the economy won’t have that double-whammy ... of spending falling

³⁷ [Office for Budget Responsibility, Overview of the November 2022 economic and fiscal outlook, 17 November 2022](#)

³⁸ [Office for Budget Responsibility, Economic and Fiscal Outlook – November 2022](#)

³⁹ [Welsh Government, Chief Economists Report 2022, 13 December 2022, page 12](#)

⁴⁰ [Wales Fiscal Analysis, Welsh Budget Outlook, December 2022, page 6](#)

⁴¹ Finance Committee, RoP, 12 January 2023, paragraph 78

⁴² Finance Committee, RoP, 12 January 2023, paragraph 78

⁴³ Finance Committee, RoP, 12 January 2023, paragraphs 339

⁴⁴ Finance Committee, RoP, 12 January 2023, paragraphs 341

by more than the incomes”.⁴⁵ The IFS also pointed out that the OBR “thinks there’ll be some pick-up in productivity growth” whereas the Bank of England “assumes that productivity growth will remain at very, very disappointing levels”.⁴⁶

33. Despite their optimistic conclusions, the OBR stated that various factors had made the process of producing its forecast for 2023-24 challenging:

“it’s been pretty difficult forecasting the UK economy over the last few years—first COVID, then the huge price increases in the wake of the Russian invasion. So, the errors that one has made over the last couple of years are very, very large, and one can’t be tremendously confident about being close to our central forecast.”⁴⁷

Inflation

34. As mentioned under paragraph 7, high inflation is having a significant impact on what can be achieved with existing funds. According to the Welsh Government, when accounting for inflation, its overall settlement over the three-year spending review period (2022-23 to 2024-25) will be worth less in real terms than it was at the time of the Spending Review in October 2021.⁴⁸ The Welsh Government also said that, in 2024-25, its overall budget will be no higher in real terms than in the current year and that capital budgets will be 8.1 per cent lower.⁴⁹

35. Certain areas within the Draft Budget have been affected more than others by high inflation, with the affordability of capital plans in particular being called into question. The Autumn Statement 2022 did not provide the Welsh Government with additional capital funding for 2023-24 and 2024-25 on top of what was previously announced. Capital allocations in the Draft Budget 2023-24 are 5.5 per cent higher than those in the Final Budget for 2022-23. Further consideration of the Welsh Government’s capital plans are included in Chapter 3.

36. WFA calculated that overall losses to the Welsh Government due to inflation, even after the additional funding provided by the UK Government in its Autumn Statement, could total over £800 million in 2023-24 and £600 million in 2024-

⁴⁵ Finance Committee, RoP, 12 January 2023, paragraph 106

⁴⁶ Finance Committee, RoP, 12 January 2023, paragraph 106

⁴⁷ Finance Committee, RoP, 12 January 2023, paragraphs 350-352

⁴⁸ [Welsh Government, Written Statement: Welsh Government response to the UK Autumn Statement 2022, 17 November 2022](#)

⁴⁹ [Welsh Government, Written Statement: Welsh Government response to the UK Autumn Statement 2022, 17 November 2022](#)

25.⁵⁰ Similar conclusions were reached by the IFS.⁵¹ These were reflective of what the Minister expressed shortly after the Autumn Statement was published when she told the Senedd that the “extra funding does not come close to what we need to meet the pressures across all areas of our budget”.⁵²

37. Uncertainties to the Welsh Government’s funding position as a result of inflation was noted by WFA:

“It’s quite difficult to properly assess, or accurately assess, how much the cost pressures have increased for public services. What we usually use, the gross domestic product deflator measure of inflation, probably doesn’t fully capture the extent of cost pressures facing public services, and the increase in cost pressures compared to what we were expecting.”⁵³

38. The IFS explained that a combination of high inflation and a fall in household incomes would significantly impact the demands placed on the Welsh Government:

“There may be pressure to offer support to households. There may also be greater demand for certain public services, higher demand for the council tax reduction scheme as a result of increases in unemployment, and so on.”⁵⁴

39. The OBR told the Committee that the inflationary pressures experienced this year were unlikely to persist because of oil and gas prices falling back over the next few years. It stated:

“That [the predicted fall in oil and gas prices] is probably the single biggest factor behind the prediction that the rate of inflation is going to drop back down really quite substantially by the end of this year and during the course of 2024, and we think to a very low level of virtually no inflation as you move through 2024.”⁵⁵

40. However, it added a note of caution that, because higher gas prices is being driven by “geopolitical factors as well as by the weather in Europe and gas

⁵⁰ [Wales Fiscal Analysis, Welsh Budget Outlook, December 2022, page 20](#)

⁵¹ [Institute for Fiscal Studies, Implications of AS and EFO for Wales and the Welsh Government, 28 November 2022, slide 19](#)

⁵² [Plenary, RoP, 22 November 2022, paragraph 192](#)

⁵³ Finance Committee, RoP, 12 January 2023, paragraph 13

⁵⁴ Finance Committee, RoP, 12 January 2023, paragraph 16

⁵⁵ Finance Committee, RoP, 12 January 2023, paragraphs 350-352

consumption”, inflation is going “to continue to be very volatile and depend on the course of the war”.⁵⁶

41. When asked about the impact that inflation was having on the Draft Budget, the Minister said “there will be parts of the budget where we’re just simply not able to deliver as much as we’d originally intended”.⁵⁷

42. The Minister’s official stated:

“...we haven’t really been able to reflect fully those inflationary pressures anywhere in the budget, just because they are so substantial and our funding is not growing at anything like the rate of inflation that we’re seeing across the board.”⁵⁸

Intergovernmental Relations

43. The Minister told the Committee, that the Welsh Government was “only informed of our settlement after the Chancellor had made his statement” which is “obviously not ideal by any stretch of the imagination”.⁵⁹ The Minister felt that this was a regrettable approach which ought to be avoided in future:

“...we had to watch the statement and get the information from that at the same time as everybody else, despite the fact that it has implications for us ... I just think the courtesy of a call before the statement is important, and I wouldn’t want to see that repeated again.”⁶⁰

44. The Minister also expressed concerns regarding the “absolute lack of transparency”⁶¹ associated with the funding available to the Welsh Government through the UK Government’s Shared Prosperity Fund (SPF) given that it had been added to a UK Government departmental budget. She told the Committee:

“...our officials, the Welsh Local Government Association, yourselves, all had to try and seek some clarity as to what had happened. And, essentially, the £400 million has been added

⁵⁶ Finance Committee, RoP, 12 January 2023, paragraphs 350-352

⁵⁷ Finance Committee, RoP, 14 December 2022, paragraph 11

⁵⁸ Finance Committee, RoP, 14 December 2022, paragraph 31

⁵⁹ Finance Committee, RoP, 14 December 2022, paragraph 67

⁶⁰ Finance Committee, RoP, 14 December 2022, paragraph 67

⁶¹ Finance Committee, RoP, 14 December 2022, paragraph 68

to the Department for Levelling Up, Housing and Communities' budget."⁶²

45. The Minister's official echoed these concerns and recognised that this was a "challenging area" between the UK and Welsh governments given the lack of clarity about the funding streams, adding "we don't really get a lot of engagement with the UK Government on how they're going to work in practice".⁶³

46. Comments around practical difficulties with these new funds were expressed by the WLGA who said that, issues around terms and conditions made it "pretty well impossible" to spend funding by March 2023.⁶⁴ The UK Government announced details of the projects that had received funding through Round 2 of the Levelling Up Fund on 18 January 2023.⁶⁵

Committee View

47. The Committee heard evidence on how the combination of inflation, wage pressures and construction costs will impact on the value of the overall funding available to the Welsh Government for 2023-24. The Committee acknowledges the particularly difficult economic outlook and the context in which the Welsh Government is setting its Draft Budget. It also notes the OBR's view that there is considerable uncertainty and volatility in the forecast, which are exacerbated by global factors outside of the Welsh Government's control.

48. The Committee acknowledges the pressures of inflation and the uncertainties it causes to the Welsh Government's funding position. Furthermore, the Committee recognises that the Welsh Government has had to make difficult decisions to support the growing pressures placed on public services and households in mitigating the impact of the cost of living crisis (these are explored in further detail in Chapter 5). We also understand that presenting the impact of inflation on budgets is challenging, given the substantial amounts involved.

49. However, we believe that the Welsh Government could do more to explain the impact of inflation on its spending plans for 2023-24. The Committee notes the Minister's comments that the Welsh Government will not be able to deliver as much as originally intended through this Draft Budget, but we consider it

⁶² Finance Committee, RoP, 14 December 2022, paragraph 68

⁶³ Finance Committee, RoP, 14 December 2022, paragraph 203

⁶⁴ Finance Committee, RoP, 19 January 2023, paragraph 248

⁶⁵ [Department for Levelling Up, Housing and Communities, News Story: Landmark Levelling Up Fund to spark transformational change across the UK, 18 January 2023](#)

disappointing that the details of what may not be delivered is absent and ask for such information to be provided.

50. The Committee believes that uncertainties regarding the value of the Draft Budget caused by high inflationary pressures have been further exacerbated by poor communication between the Welsh and UK governments. It is regrettable that the Minister had to wait until the Chancellor delivered his Autumn Statement to understand its impact on the Welsh Government's funding position for next year. This makes it harder for the Welsh Government to effectively plan its budgetary approach and is not reflective of an effective working relationship which is underpinned by smooth channels of communication based on mutual respect.

51. The Committee is also disappointed that a lack of transparency from the UK Government is impacting on the arrangements for administering post-EU funds in Wales. The Committee's report on its inquiry into this issue in October 2022⁶⁶ noted, with concern, the lack of engagement between the Welsh and UK governments on the development of these funds.⁶⁷ It also made recommendations aimed at improving communication between the governments and on ironing out practical issues with the implementation of the SPF.⁶⁸ It is highly regrettable that these problems persist.

52. Improved intergovernmental dialogue is therefore required between the two governments as a matter of urgency so that certainty on the Welsh Government's annual and in-year funding position is provided. We have previously recommended that the Welsh Government provides regular updates to the Committee on the intergovernmental mechanisms established to ensure that they are an effective means to escalate disagreements and resolve funding disputes⁶⁹ and for further information to be provided on dispute resolution processes.⁷⁰ We note the Welsh Government's response on these points⁷¹ and welcome the progress being made, which includes the Minister notifying the Committee of future Finance Interministerial Standing Committee meetings.⁷² These issues have also been a feature of discussions held with counterparts in

⁶⁶ [Finance Committee, Post-EU Funding Arrangements, 10 October 2022](#)

⁶⁷ [Finance Committee, Post-EU Funding Arrangements, 10 October 2022, Paragraph 61](#)

⁶⁸ [Finance Committee, Post-EU Funding Arrangements, 10 October 2022, Recommendations 11 and 12](#)

⁶⁹ [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2022-2023, February 2022, Recommendation 11](#)

⁷⁰ [Finance Committee, Post-EU Funding Arrangements, 10 October 2022, Recommendation 17](#)

⁷¹ [Welsh Government response to recommendations from the Finance Committee's Report: Post-EU funding arrangements, 21 November 2022](#)

⁷² [Letter from the Minister for Finance and Local Government to the Finance Committee, 30 January 2023](#)

other devolved legislatures through the Interparliamentary Finance Committee Forum, established last year.⁷³

53. Although we welcome the Minister's continued dialogue on this issue, we are frustrated that they remain unresolved and reiterate our views that the nature of the UK's constitution requires robust intergovernmental structures to deal with fiscal issues, particularly to resolve disputes, and that the Minister continues to raise such issues with ministerial counterparts at the Finance Interministerial Standing Committee.

Recommendation 2. The Committee recommends that the Welsh Government provides a full assessment of the impact that inflation will have on its funding position for 2023-24 and the changes to outcomes expected to be delivered within that time period.

Recommendation 3. The Committee recommends that the Minister continues to press the UK Government, through the Finance Interministerial Standing Committee and other channels, to establish robust intergovernmental mechanisms relating to fiscal matters to ensure it can effectively escalate disagreements and resolve funding disputes.

Recommendation 4. The Committee recommends that the Welsh Government provides further information on independent mechanisms to resolve funding disputes between the UK and Welsh governments and an update on their use.

⁷³ Finance Committee Joint Statement from the Interparliamentary Finance Committee Forum, 16 June 2022

3. Fiscal Levers

Devolved Taxes

54. There are three devolved Welsh taxes: Welsh rates of income tax (WRIT), land transaction tax (LTT) and landfill disposals tax (LDT). Two local taxes – council tax and non-domestic rates – also provide revenue to fund public services.

55. The Welsh Government’s principles and approach to taxation in Wales is set out in its Tax Policy Framework, which was last updated in November 2021.⁷⁴ Progress on implementing the priorities identified in that framework are reported on through the Welsh Tax Policy Report, which is published annually by the Minister alongside the Draft Budget.⁷⁵ The OBR is responsible for providing independent forecasts of Welsh tax revenues. Its latest Welsh taxes outlook⁷⁶ was published alongside the Draft Budget and sets out the OBR’s forecast for each of the devolved Welsh taxes.

56. The Chancellor announced several changes to UK income tax policy as part of the Autumn Statement. This included:

- Extending the freeze in the personal allowance by a further two years to the end of 2027-28.
- Extending the freeze in the higher rate threshold by a further two years to the end of 2027-28.
- Reducing the additional rate threshold from £150,000 to £125,140 from April 2023, which will remain fixed thereafter.⁷⁷

57. The OBR explained that the main impact of the changes announced by the UK Government is to “bring a lot more taxpayers into tax, both new taxpayers” and “more people into additional rates”. WFA noted that dropping the additional rate threshold from £150,000 would have a “significant impact” in Wales as it “approximately doubles the number of taxpayers in Wales who are paying the 45p rate of tax”.⁷⁸

⁷⁴ [Welsh Government, Tax Policy Framework Update, November 2021](#)

⁷⁵ [Welsh Government, Welsh Tax Policy Report 2022, December 2022](#)

⁷⁶ [Office for Budget Responsibility, Welsh taxes outlook, December 2022](#)

⁷⁷ [HM Treasury, The Autumn Statement 2022 speech, 17 November 2022](#)

⁷⁸ Finance Committee, RoP, 12 January 2023, paragraph 111

Wales Rates of Income Tax

58. WRIT is the most significant source of tax revenue controlled by the Welsh Government, constituting 12 per cent of the overall budget.⁷⁹ The OBR's latest Welsh tax forecasts revised all previous forecasts for WRIT from March 2022 downwards.⁸⁰ This is a downgrade of £319 million from 2022-23 to 2026-27, with receipts £55 million (1.9 per cent) a year lower on average than previously forecast.

59. The OBR highlighted the lower WRIT forecasts largely reflect the downward revisions to its UK-wide forecast.⁸¹ However, despite the dip in forecasts, WRIT receipts in cash terms continue to increase year-on-year to 2026-27.⁸²

60. WFA noted that tax revenues would have a beneficial impact on Welsh Government funding in 2023-24. It stated that tax revenues are “about £174 million more than the block grant adjustment that’s been taken off ... in 2023-24” adding that this is “equivalent to almost a penny on the basic rate of income tax ... being added to the Welsh budget and day-to-day spending without having to change tax policy that much”.⁸³ The IFS agreed that the OBR forecasts point to a “small improvement ... in the net tax position over the next couple of years”.⁸⁴

61. According to the Welsh Government’s latest estimates, changing the WRIT by 1 pence would have the following impact on its tax revenue:

- Basic rate (taxable income of £12,571 to £50,270): +/- £237 million;
- Higher rate (taxable income of £50,271 to £150,000): +£33 million, -£34 million;
- Additional rate (taxable income of over £150,000): +£3 million, -£4 million.⁸⁵

62. The Future Generations Commissioner suggested increasing both the higher and additional income tax rates of WRIT “even if it’s just to protect some of the really challenging priority areas, like climate, like biodiversity, in terms of weathering the storm”.⁸⁶

⁷⁹ [Welsh Government. Draft Budget 2023-24 – A Budget in Hard Times. December 2022. page 3](#)

⁸⁰ [Office for Budget Responsibility. Welsh taxes outlook. December 2022](#)

⁸¹ [Office for Budget Responsibility. Welsh taxes outlook. December 2022. page 18](#)

⁸² [Office for Budget Responsibility. Welsh taxes outlook. December 2022. page 18](#)

⁸³ Finance Committee, RoP, 12 January 2023, paragraph 109

⁸⁴ Finance Committee, RoP, 12 January 2023, paragraph 21

⁸⁵ [Welsh Government. Welsh Rates of Income Tax ready reckoner 2023 to 2024. December 2022](#)

⁸⁶ Finance Committee, RoP, 12 January 2023, paragraph 164

63. However, WFA felt that such an approach was problematic because of the relatively small amounts that would be collected by only raising the higher and additional rates in Wales. WFA concluded that “if you want to raise material levels of funding to change the outlook for the Welsh budget, you’re going to have to change the basic rate of income tax”.⁸⁷

64. The Welsh Government proposes to retain the current WRIT for 2023-24.⁸⁸ The Minister told the Committee she had thought “long and hard” regarding the approach to WRIT,⁸⁹ and due to economic circumstances it “didn’t feel like the right time to be taxing people more”.⁹⁰

65. In justifying the decision not to raise WRIT the Minister told the Committee that the power to do so had limitations, particularly if it was used as a means of raising revenue for specific permanent increases, such as public sector pay:

“...even if we were to raise Welsh rates of income tax to cover an element of pay ... one pence on the basic rate, which would affect everybody, only brings in £238 million. So, it doesn’t meet the kind of level of funding that would be needed in any case, and, obviously, it would have to be a permanent increase as well.”⁹¹

66. The Minister said that the behavioural impacts of increasing the higher and additional rates were not yet known. She added:

“... when we are talking about some of the very highest earners, they do have options that other people don’t have, in the sense that many of those people on additional rates might have additional properties elsewhere, and they can change their arrangements so that their permanent or main home is not in Wales, and then they don’t end up paying any of their tax here. So those are the kind of behavioural changes that people might make. But this wouldn’t be the time to start testing some of that.”⁹²

⁸⁷ Finance Committee, RoP, 12 January 2023, paragraph 122

⁸⁸ Finance Committee, RoP, 14 December 2022, paragraph 70

⁸⁹ Finance Committee, RoP, 14 December 2022, paragraph 70

⁹⁰ Finance Committee, RoP, 14 December 2022, paragraph 70

⁹¹ Finance Committee, RoP, 14 December 2022, paragraph 160

⁹² Finance Committee, RoP, 19 January 2023, paragraph 308

Forecasts

67. Evidence from the Minister and witnesses was generally positive regarding the methodologies and quality of OBR forecasts. However, WFA and the IFS suggested a minor addition to the OBR's Welsh Taxes Outlook publication. This would involve moving details relating to Welsh tax revenues compared to UK Government revenue forecasts as a whole, from annexes to the main body of the report.

68. WFA also suggested that the OBR's forecast could present information on the block grant adjustment in a more useful way, adding that "there are large swings in the forecasts and the narrative doesn't really explain them ... it's very hard to gauge what's driving that differentiation in relative performance".⁹³ The IFS agreed that the current forecasts presents a "real missed opportunity" and the OBR "could do more to explain the net impact of that and why that's changing".⁹⁴

69. In response to these points, the OBR said that "it's something we would need to have more interaction with the Treasury during the process ... because we don't set any part of the block grant" and agreed to look into the issue further.⁹⁵

70. The Minister's official explained that block grant adjustments are calculated jointly by the Welsh Government and the Treasury and does not require the kind of independent judgement that OBR exercises in relation to the forecast. However, he noted that "the OBR could do it and it wouldn't be a big job for them to do it, so maybe we could look at that".⁹⁶

71. When asked whether it would be more cost-effective for the OBR to provide such calculations as part of its agreement with the Welsh Government, or if it would be something that could be undertaken by Welsh Government, the Minister told the Committee that she is "open always to finding more ways in which to be transparent and open with the information that we provide"⁹⁷.

Devolution of further taxation powers

72. On 15 December 2022, the Scottish Government announced plans to increase the higher and top rate of Scottish income tax to 42 pence and 47 pence respectively for 2023-24.⁹⁸ In doing so, the Scottish Government also introduced a

⁹³ Finance Committee, RoP, 12 January 2023, paragraphs 99-102

⁹⁴ Finance Committee, RoP, 12 January 2023, paragraph 104

⁹⁵ Finance Committee, RoP, 12 January 2023, paragraph 362

⁹⁶ Finance Committee, RoP, 19 January 2023, paragraph 307

⁹⁷ Finance Committee, RoP, 19 January 2023, paragraph 305

⁹⁸ [SPICe Spotlight, Scottish Budget 2023-24: Pulling the income tax lever, 16 December 2022](#)

starter rate and an intermediate rate to protect lower earners from the income tax rise.⁹⁹ The Welsh Government's taxation powers in comparison are limited. This is because WRIT is not a fully devolved tax: it forms a part of the UK income tax system and therefore the Welsh Government is unable to change bands and/or introduce new thresholds.

73. WFA considered the practical constraints this places on the Welsh Government, noting that it “could raise the basic rate of income tax” but that, without the ability to introduce new thresholds, this would also mean “an income tax increase for people on lower incomes over the personal allowance”.¹⁰⁰

74. When asked whether it would be better if the Welsh Government had the same tax powers as the Scottish Government, the Minister stated that it “would certainly give us more options, and there could be benefits to that” but felt that she would “also have to look at that alongside the potential risks that there might be as well”.¹⁰¹ Her official elaborated on this point:

“If we were to be exposed to that much greater tax base risk, we would need better tools to manage the risk, for example, in terms of borrowing and scope to smooth unpredictable changes in the tax base ... Yes, you'd get more policy flexibility, but you'd take more risk at the same time, and that balance needs to be thought about.”¹⁰²

75. However, the Minister acknowledged that the Welsh Government had not “really gone into that kind of depth” in terms of assessing the impact that making such changes would have on devolved funding, concluding that it is “possible for the future, but it depends on the appetite for risk”.¹⁰³

76. In terms of progress in relation to the Welsh Government's longstanding attempts to devolve powers to introduce a vacant land tax, the Minister told the Committee that:

“We have done everything that's required of us through the process that is set out in terms of making the case for the devolution of a vacant land tax—the powers for a vacant land tax—but we've stalled because the UK Government wants to know in great detail how we would use that tax, and that's

⁹⁹ [SPICe Spotlight, Scottish Budget 2023-24: Pulling the income tax lever, 16 December 2022](#)

¹⁰⁰ Finance Committee, RoP, 12 January 2023, paragraph 122

¹⁰¹ Finance Committee, RoP, 19 January 2023, paragraph 310

¹⁰² Finance Committee, RoP, 19 January 2023, paragraph 313

¹⁰³ Finance Committee, RoP, 19 January 2023, paragraph 327

*really a matter for the Senedd rather than the UK Government, and it shouldn't really be a factor in the UK Government's consideration as to whether or not they like things that we're proposing.*¹⁰⁴

77. The Minister subsequently confirmed that she would be seeking to further progress this issue with the UK Government through the new intergovernmental relations arrangements.¹⁰⁵

Public attitudes and awareness

78. A summary of attitudes towards the Welsh Government's taxation policies were incorporated within the Engagement Findings report produced by the Senedd's Citizen's Engagement Team and based on focus groups conducted in June 2022.¹⁰⁶

79. The report noted that all participants had some awareness of the taxes that had been devolved, but not of the specific amounts raised. In terms of views on taxation, all those that took part were against increasing income tax for people who were struggling financially already and felt that any increase in taxes should be progressive and directed at those with higher incomes or large businesses.¹⁰⁷ One participant stated that:

*"I think increasing taxes that are based on income so that the more wealthy people pay, I think that's the fairest way to do it."*¹⁰⁸

80. Taxation policies were also raised during the Committee's stakeholder event in Llanhilleth and in the engagement session with Members of the Welsh Youth Parliament (WYP). Although not all WYP Members were aware that the Welsh Government is responsible for some of its own taxes, there was a strong feeling that increasing taxes in the current climate was not a good idea, given that it might exacerbate the cost of living crisis that many are already facing.¹⁰⁹

¹⁰⁴ Finance Committee, RoP, 14 December 2022, paragraph 109

¹⁰⁵ [Letter](#) from the Minister for Finance and Local Government to the Finance Committee, 17 January 2023

¹⁰⁶ [Senedd Cymru, Citizens Engagement Report, June 2022](#)

¹⁰⁷ [Senedd Cymru, Citizens Engagement Report, June 2022, paragraph 57](#)

¹⁰⁸ [Senedd Cymru, Citizens Engagement Report, June 2022, paragraph 58](#)

¹⁰⁹ [Finance Committee, Summary Engagement Report Welsh Government Draft Budget 2023-24, July 2022, paragraphs 39-40](#)

Other Fiscal Levers

Capital

81. In its Autumn Statement, the UK Government included a commitment to maintain capital spending in cash terms until 2027-28.¹¹⁰ The Draft Budget narrative confirms that the Welsh Government's "Capital DEL did not change as a result of the Autumn Statement".¹¹¹ However, as noted in the previous Chapter, the Welsh Government expects its capital budget will be 8.1 per cent lower in real terms in 2024-25 than 2022-23 due to inflationary pressures.¹¹²

82. The Welsh Government has continued its "overprogramming" approach to budgeting for capital from last year, with £98.5 million more general capital allocated in the Draft Budget than the funding available. The full annual capital borrowing of £150 million is also included in the Welsh Government's plans.¹¹³

83. WFA considered the outlook for the Welsh Government's capital budget to be "gloomy" given that capital spending plans to 2024-25 have not been revised upwards, despite higher inflation, and "real terms cuts in capital spending have been pencilled in beyond 2027-28".¹¹⁴

84. The IFS also noted that the capital settlement in the Draft Budget was hampered by a number of factors:

*"... whilst there was some top-up to the resource budgets in the short term to partly address higher inflation in the autumn statement, there wasn't that on the capital side, so the increase in inflation and ... in borrowing costs, will have an effect on capital that's not being offset at all. And then, in the longer run, there were cuts, obviously, to the resource spending plans for 2025 onwards, but the cuts to the capital spending plans were even greater, proportionately speaking."*¹¹⁵

85. The Welsh Government also allocates capital funding to local authorities, with general capital funding rising to £180 million in 2023-24, from £150 million in

¹¹⁰ HM Treasury, Policy Paper: Autumn Statement 2022, 17 November 2022

¹¹¹ Welsh Government, Draft Budget 2023-24 – A Budget in Hard Times, December 2022, page 5

¹¹² Welsh Government, Written Statement: Welsh Government response to the UK Autumn Statement 2022, 17 November 2022

¹¹³ Welsh Government, Draft Budget 2022-23 – A Budget to build a stronger, fairer and greener Wales, December 2021, page 20

¹¹⁴ Wales Fiscal Analysis, Wales Budget Outlook 2022, December 2022, page 14

¹¹⁵ Finance Committee, RoP, 12 January 2023, paragraph 48

2022-23.¹¹⁶ The WLGA welcomed these figures as a return to historical capital levels,¹¹⁷ although it was also noted that its “value had disappeared”.¹¹⁸ They added “the capital simply isn’t sufficient”,¹¹⁹ and said “the purchasing power that authorities have with the capital available has been diminished”.¹²⁰

86. The Minister’s official confirmed that “inflation is having a big effect on our investment programme” and particularly “impacting on capital funding programmes, and it’s certainly affecting the price of all infrastructure”.¹²¹

Financial Transactions Capital

87. Financial Transactions Capital (FTC) relates to a part of the Welsh Government’s budget that can only be used for loans and equity investments to third parties in the private sector, for example to support businesses and the housing sector, with funding usually needing to be repaid to the Treasury. Plans for FTC has not been included in this Draft Budget leaving £57.8 million unallocated¹²², however, the budget narrative commits to ensuring original FTC investment plans are maintained and that:

“In addition to updating the position of this existing funding, we are planning to make further allocations in the 2023-24 Final Budget.”¹²³

88. This follows a similar approach adopted by the Welsh Government during the consideration of the Draft Budget 2022-23. The Committee’s report last year called on the Minister to provide an update for FTC allocations before the Final Budget was laid before the Senedd.¹²⁴ In her response, the Minister stated that:

“It is not intended that this will create a precedent for future years, with the intention that future FT capital allocations will

¹¹⁶ [Welsh Government, Local government revenue and capital settlement: provisional 2023 to 2024, 14 December 2022](#)

¹¹⁷ Finance Committee, RoP, 19 January 2023, paragraph 201

¹¹⁸ Finance Committee, RoP, 19 January 2023, paragraph 202

¹¹⁹ Local Government and Housing Committee, RoP, 12 January 2023, paragraph 64

¹²⁰ Local Government and Housing Committee, RoP, 12 January 2023, paragraph 66

¹²¹ Finance Committee, RoP, 19 January 2023, paragraph 350

¹²² [Welsh Government, Tables supporting spending plans, December 2022](#)

¹²³ [Welsh Government, Welsh Government Draft Budget 2023-24: A Budget in Hard Times, December 2022, page 5](#)

¹²⁴ [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2022-23, February 2022, Recommendation 12](#)

*be considered as part of the usual Draft Budget processes in future.*¹²⁵

89. When questioned on the timescales for allocating FTC for 2023-24, the Minister said:

*“...we’re still working through those issues relating to the reclassification of the Development Bank of Wales and trying to understand what exactly that means for the FT requirements of the bank ... and that then will determine the level of funding that we have available”.*¹²⁶

90. The Minister’s official told the Committee that FTC accounted for approximately £100 million within the Draft Budget for 2023-24”.¹²⁷

Draw down from reserves, borrowing and unallocated funding

91. The Minister stressed that this is “an extremely thinly stretched budget”, adding that the Welsh Government had “allocated everything that we can possibly allocate” within its departmental allocations and that she “wouldn’t expect to make further allocations now before the final budget, just because things are so tight for next year”.¹²⁸

92. However, the Minister confirmed that “we do have the ability to draw more down from the Wales reserve if we need to. So, that’s how we’ll manage things next year”.¹²⁹ At present the Welsh Government plans to only draw down £38 million revenue funding from the Wales reserve.¹³⁰ The maximum annual drawdown is £125 million revenue and £50 million capital.

93. The Committee also heard evidence about the use of reserves by local authorities. The WLGA suggested local authorities were considering the use of reserves to manage overspends¹³¹ and felt that local authority reserves were unequally spread across Wales, adding that it is “very difficult to predict what is an appropriate use of reserves”.¹³²

¹²⁵ [Letter from the Minister for Finance and Local Government to Finance Committee, 4 March 2022](#)

¹²⁶ Finance Committee, RoP, 19 January 2023, paragraph 335

¹²⁷ Finance Committee, RoP, 19 January 2023, paragraph 342

¹²⁸ Finance Committee, RoP, 14 December 2022, paragraph 42

¹²⁹ Finance Committee, RoP, 14 December 2022, paragraph 45

¹³⁰ Finance Committee, RoP, 14 December 2022, paragraph 42

¹³¹ [Local Government and Housing Committee, RoP, 12 January 2023, paragraph 4](#)

¹³² Finance Committee, RoP, 19 January 2023, paragraph 180

94. When questioned on this point, the Minister acknowledged that local authorities needed to use their reserves this year in order to deal with the pressures they face but made it clear that “it’s for local authorities to set their reserves”.¹³³

95. In terms of borrowing, the Minister confirmed that “it’s our intention to borrow the maximum available to us”¹³⁴ but that the rules around borrowing is “very specific” and that “we can’t factor it into our spending plans”.¹³⁵ The Minister elaborated on this point:

*“the size of our Wales reserve, and the limits that we have on drawdown, haven’t changed at all since that reserve was set up. And, at the very least, they should move in line with inflation.”*¹³⁶

96. Respondents to the Committee’s consultation also noted the limitations of the Welsh Government’s borrowing powers. Cwmpas pointed to the Institute of Welsh Affairs’ recently published paper¹³⁷ on expanding government borrowing powers to facilitate necessary investment for transformational policy in Wales.¹³⁸

Devolution of the administration of benefits

97. When asked for a view on the devolution of the administration of benefits to Wales, similar to that already devolved to Scotland, the Minister said it was something that “we need to explore fully”¹³⁹ adding that:

*“One of the challenges is that you end up implementing UK Government cuts, but if we were able to have those powers, we could potentially do that in a fairer way.”*¹⁴⁰

98. However, the Minister also stated that “realistically, with this current [UK] Government, there’s almost no prospect of anything further being devolved in terms of powers”.¹⁴¹

99. The IFS noted how these arrangements operate in Scotland where the Scottish Government needs to transfer funding from other services to pay for their

¹³³ Finance Committee, RoP, 19 January 2023, paragraph 465

¹³⁴ Finance Committee, RoP, 14 December 2022, paragraph 73

¹³⁵ Finance Committee, RoP, 14 December 2022, paragraph 79

¹³⁶ Finance Committee, RoP, 19 January 2023, paragraph 330

¹³⁷ [Institute of Welsh Affairs, Fiscal Firepower: Effective Policy-Making in Wales, 11 October 2022](#)

¹³⁸ [Finance Committee, Consultation Response: Cwmpas](#)

¹³⁹ Finance Committee, RoP, 14 December 2022, paragraph 179

¹⁴⁰ Finance Committee, RoP, 14 December 2022, paragraph 177

¹⁴¹ Finance Committee, RoP, 14 December 2022, paragraph 177

social security benefit policies and also that the costs of the Scottish Government's policies are higher than consequential received from the UK Government. WFA stated that taking such a step "wouldn't be financially unsustainable" but that "it depends on negotiations between both Governments, when they are devolved, how exactly you'd adjust the block grant to fund the powers".¹⁴²

100. The IFS added that introducing new benefits "adds quite a lot of additional risk into the budget process" because "you're not sure what the take-up will be, what the eligibility will be, those could change quite a lot, and that is something that will impact the volatility of the fiscal framework, and that might require additional borrowing powers".¹⁴³

Committee View

101. The Committee is heartened by evidence from its citizen engagement work which suggests that the public is aware of devolved taxes and how they are used. However, it is disappointing that younger participants showed a lack of knowledge on the types of taxes that have been devolved and the amounts of revenues raised. The Committee will continue to assess the views of its stakeholders on devolved taxes, as well as other issues relating to the Draft Budget, as part of its engagement work ahead of the 2024-25 budget round.

102. The Committee notes the views expressed on varying the WRIT and the amounts of revenue that changing the rates would generate for the Welsh Government. However, although the decision not to raise WRIT for 2023-24 is understandable, the Committee is disappointed that the Minister and her officials have not undertaken a comprehensive analysis of the behavioural impact that raising and/or lowering the WRIT would have.

103. It is crucial that any decisions regarding devolved tax rates are informed by accurate and comprehensive data. The Welsh Government's decision not to conduct such assessments during this budget round suggests that the Minister had not seriously considered changing tax rates for 2023-24 and that there are gaps in the data it collects and its understanding of how tax operates in the Welsh context. As a result, the Committee calls for more to be done to gain a fuller understanding of the impact that changing WRIT rates would have.

104. The Committee notes the views expressed by stakeholders on the differences between tax powers in Scotland and Wales and particularly the ability of the Scottish Government to introduce new income tax bands and thresholds.

¹⁴² Finance Committee, RoP, 12 January 2023, paragraph 136

¹⁴³ Finance Committee, RoP, 12 January 2023, paragraph 138

Although the Committee accepts that replicating such powers in a Welsh context is not straightforward and would carry certain risks, we would welcome the Minister looking into this issue further. We strongly believe that the Welsh Government should explore whether its taxation powers are sufficient to allow the development of a distinct devolved tax policy that can meet Welsh needs.

105. Similarly, the Committee notes the Minister's views on the devolution of powers relating to the administration of benefits and, again, the risks involved in doing so. As with devolving powers to modify tax bands and thresholds, the Committee believes that more work is needed in this area to assess its likely impact on Wales, including whether the block grant would need to be adjusted.

106. The Committee notes the positive views from witnesses on the quality of the forecasts produced in relation to Welsh taxes. However, we also heard evidence that the presentation of information within the forecasts could be improved, particularly the calculations relating to the block grant adjustment.

107. The Committee welcomes the Minister's willingness to find ways to be more transparent and open with the information that is provided on block grant adjustments as part of the Welsh Government's forecasting work. We agree that providing calculations alongside the Draft Budget as well as outlining the reasons behind such adjustments would provide much needed clarity on the Welsh Government's funding position. Doing so would explain more clearly how revenue forecasts associated with devolved taxes impact on the overall budgetary picture and make it far easier for stakeholders to assess the impact of taxation in a Welsh context.

108. The Committee notes the evidence from witnesses and the Minister that inflationary costs in relation to construction and capital programmes within the Draft Budget are particularly high and that the Welsh Government's capital budget for 2023-24 is particularly constrained.

109. Whilst the Committee welcomes the increase in capital funding for local authorities provided through the Draft Budget, it is clear that, due to inflation, less will be able to be delivered than anticipated. The Committee notes that the Minister was able to describe in general terms how projects would need to be phased or taken forward at a slower pace, however, we believe that greater clarity is needed regarding those projects that will be affected. We would also like to know how the Welsh Government's priorities, as outlined in the Programme for Government, will change as a result of a constrained outlook on capital.

110. Whilst the Committee acknowledges the Minister's comments in relation to the allocation of FTC for 2023-24, it is disappointing that such allocations were not included in the Draft Budget once again this year. The Minister told the Committee that the Welsh Government's late approach to allocating FTC in 2022-23 would not create a precedent. We therefore call on the Minister to provide clarity on the Welsh Government's ability to provide information about FTC for future years at the Draft Budget stage before final allocations are made.

111. The Committee believes that the Welsh Government's fiscal levers have been particularly hampered by Treasury rules around borrowing and the limits placed on the how much funds it can draw down from its reserves, and notes that these have not been updated since the fiscal framework was put in place in 2016. The Committee finds this startling and regrets that this position has not changed over time. We therefore support the Minister in pursuing changes with the UK Government that would boost the Welsh Government's borrowing powers and provide the Minister with better tools to deal with the economic circumstances being faced.

112. The Committee notes the evidence received regarding the use of reserves by local authorities, particularly the view that reserves were spread unevenly across Wales and that uncertainties exist around the appropriate use of such reserves. Although the Committee agrees with the Minister that it is for local authorities to set their reserves, we sympathise with local authorities on this point and believe that the Welsh Government should do more to monitor levels of reserves in local authorities to ensure levels are equitable and appropriate.

Recommendation 5. The Committee recommends that the Welsh Government carries out detailed work to model the behavioural impact of varying Welsh rates of income tax across all bands to ensure the decision-making process around setting tax rates is supported by robust evidence.

Recommendation 6. The Committee recommends that the Welsh Government undertakes foundational work into the benefits and risks associated with devolving powers to modify Welsh rates of income tax bands and thresholds and provides the Committee with an update on progress before the Committee's annual budget priorities Plenary debate in July.

Recommendation 7. The Committee recommends that the Welsh Government conducts an assessment of the benefits and risks involved with devolving powers to administer benefits in Wales and provides the Committee with periodical updates on progress.

Recommendation 8. The Committee recommends that the Welsh Government publishes detailed calculations relating to the block grant adjustment alongside the Draft Budget, either as part of the budget narrative or by inclusion in the Office for Budget Responsibility's Welsh Taxes Outlook, to show how each devolved tax affects the block grant and the Welsh Government's overall funding position.

Recommendation 9. The Committee recommends that the Minister provides more detail, both in response to this report and alongside supplementary budgets, on how its capital programme will be affected by constrained budgets and inflationary pressures, including:

- which projects will be prioritised over the coming financial year and which ones will lose out; and
- what impact such pressures will have on delivering the Welsh Government's Programme for Government priorities.

Recommendation 10. The Committee recommends that the Welsh Government provides an update on Financial Transactions Capital allocations before the Final Budget is laid and explains why such allocations could not be included at the Draft Budget stage for the second year running.

Recommendation 11. The Committee recommends that the Welsh Government calls on the UK Government to increase overall and annual limits for borrowing and reserves, at least in line with inflation, and that these limits should be reviewed regularly so as not to reduce its value in real terms over time.

Recommendation 12. The Committee recommends that the Welsh Government monitors the levels of reserves in local authorities to ensure that they are equitable, used appropriately and at sufficient levels to deal with the pressures being faced.

4. Budget Presentation

Prioritisation

113. The Welsh Government has undertaken a reprioritisation exercise as part of the budget process, resulting in £87.4 million being refocused on areas of greatest need. The reprioritisation exercise was based on the principles of: “protecting frontline public services and our ambitions for the future; continuing to provide help to those most affected by the crises we face; and supporting our economy through recessionary times”.¹⁴⁴

114. While acknowledging that the capital investment plans published alongside the Draft Budget provide “a lot of detail on what is being planned”, the IFS said:

*“...there isn’t that information on, ‘Well, given the impact of higher inflation reducing the real value of this, what’s been scaled back? What’s been delayed? What’s been shelved entirely?’ At least, I couldn’t see that in the documentation.”*¹⁴⁵

115. The IFS warned that, while reprioritising funding in difficult circumstances is necessary, there is a risk that postponing plans for action could “just push the can down the road” if the financial situation remains as challenging.¹⁴⁶

116. The Draft Budget recognises that there “may be negative impacts where funding has been reprioritised”, with details about the choices made being “outlined as part of individual Ministers’ responses to their respective Senedd scrutiny committees”.¹⁴⁷

117. Addressing the impact of deprioritising funding next year, the Minister said it would mean “either just delivering less when there’s a fixed budget, or delivering things over a longer time frame when we’re able to do that”.¹⁴⁸

118. To illustrate the implications of the reprioritisation exercise, the Minister used the reduction to the rural economic and sustainability BEL as an example:

“...that main expenditure group has a £63 million uplift through the multi-year settlement in 2022, but that’s now been reduced

¹⁴⁴ [Welsh Government, Draft Budget 2023-24: A Budget in Hard Times, December 2022, pages 18 and 30](#)

¹⁴⁵ Finance Committee, RoP, 12 January 2023, paragraph 58

¹⁴⁶ Finance Committee, RoP, 12 January 2023, paragraph 86

¹⁴⁷ [Welsh Government, Draft Budget 2023-24: A Budget in Hard Times, December 2022, page 18](#)

¹⁴⁸ Finance Committee, RoP, 14 December 2022, paragraph 24

by just under £9 million to £54 million. So, I know that Lesley Griffiths is now working through what that means for the specific things that she'll be able to support through that MEG, and I think that she gave evidence to the environment committee yesterday exploring in a bit more detail some of the difficult choices that she'll have to make in that space.”¹⁴⁹

119. In response to feedback that it is difficult to understand the consequences of the reprioritisation exercise from the Draft Budget documentation, the Minister suggested the BEL tables “are really helpful in showing where money has been moved away from through the budget setting process” as well as the subsequent written and oral evidence provided by individual Ministers. She continued:

“...one thing that we have done in recent years is pull together the committee evidence—the papers particularly—and publish them as a single document, so that there's a greater level of transparency. And I think that the third sector, particularly, has found those helpful, so that they're able to see all of the evidence together and then look for those kind of cross-Government implications of choices that have been made.”¹⁵⁰

120. The Minister referred to publishing “a huge amount” of information on the Draft Budget and said the Welsh Government is always trying to find new ways to improve budget processes, adding:

“...if there are different things that you want to see us try, even if it's just experimenting for one year, we're very open to that.”¹⁵¹

Well-being of Future Generations (Wales) Act 2015

121. The Well-being of Future Generations (Wales) Act 2015 (“the WFG Act”)¹⁵² requires public bodies in Wales to “think about the long-term impact of their decisions, to work better with people, communities and each other, and to prevent persistent problems such as poverty, health inequalities and climate change”.¹⁵³

122. The Welsh Government says the Draft Budget has been guided by “the principles embedded in the Well-being of Future Generations Act” and has “tried

¹⁴⁹ Finance Committee, RoP, 19 January 2023, paragraph 368

¹⁵⁰ Finance Committee, RoP, 19 January 2023, paragraph 378

¹⁵¹ Finance Committee, RoP, 19 January 2023, paragraphs 385-386

¹⁵² [Well-being of Future Generation \(Wales\) Act 2015](#)

¹⁵³ [Future Generations Commissioner for Wales: Well-being of Future Generations \(Wales\) Act 2015](#)

to balance supporting the needs of people affected by the current cost of living crisis with the longer-term sustainability of public services”.¹⁵⁴

123. Appearing before the Committee for the final time, the inaugural Future Generations Commissioner for Wales (‘the Commissioner’) reflected on the alignment of the budget setting process with the WFG Act during her time in office. She acknowledged a number of improvements, such as developing a definition of ‘preventative spend’, spending on decarbonisation, and better links between the budget process, narrative and well-being objectives. However, she stressed that further work is needed to detail how the Welsh Government is applying the five ways of working and undertaking in-depth analysis across the well-being objectives.¹⁵⁵

124. The Commissioner acknowledged “some really significant long-term spending interventions aligned with well-being objectives”, such as in transport and universal basic income, but added:

*“...we need to see that analysis across every aspect of the Government’s spend. So, I suppose my report card would be essentially what I said in the section 20 report, which is, ‘Good, a fair amount of progress being made, but we’re still not doing exactly what we need to do’.”*¹⁵⁶

125. The Commissioner felt analysis is needed to enable the Welsh Government to see where there are gaps, and to identify what it is not being funded or progressing in its budget commitments.¹⁵⁷

126. In her written evidence, the Commissioner noted an increase of 4.4 per cent in the area of decarbonisation, with a prioritisation of funding for rail through Transport for Wales. However, she cautioned that “some of this seems to be simply re-allocation from other budget lines, most notably from funding for nature and natural resources”.¹⁵⁸

127. While welcoming the prioritisation of funding for the climate emergency, the Commissioner’s written evidence highlighted that future generations also face a biodiversity crisis and that “addressing one should not come at the expense of the other”.¹⁵⁹

¹⁵⁴ [Welsh Government, Draft Budget 2023-24: A Budget in Hard Times, December 2022, page ii](#)

¹⁵⁵ Finance Committee, RoP, 12 January 2023, paragraph 151

¹⁵⁶ Finance Committee, RoP, 12 January 2023, paragraph 195

¹⁵⁷ Finance Committee, RoP, 12 January 2023, paragraph 194

¹⁵⁸ [Written evidence: Future Generations Commissioner for Wales](#)

¹⁵⁹ [Written evidence: Future Generations Commissioner for Wales](#)

128. The Commissioner told the Committee that her office had not had time to fully map the budget against the Net Zero Wales plan due to the limited time available since the Draft Budget was published, adding:

“...that is made more difficult because the Welsh Government itself doesn’t map or reference particularly extensively in the budget narrative the links back to the Net Zero Wales plan.”¹⁶⁰

129. Responding to the Commissioner’s assessment that funding to support biodiversity has been reduced, the Minister’s official said:

“I don’t think we would recognise that funding for biodiversity has been reduced; it certainly hasn’t been increased in line with inflation and maybe that’s what is meant by the point. And just going back to that general point, particularly on the capital side—that we just haven’t had any additional funding available to allocate. So, as a result, yes, the real value of some of these programmes has fallen a bit. But as the Minister pointed out, these are three-year spending plans set last year and there is growth built into some of those programmes. So, for example, the biodiversity budget line is part of a wider action, which is to deliver nature, conservation and forestry policies and local environmental improvement and the budget for that—the capital budget for that—is rising from £30 million this year to £50 million next year. So, we haven’t been able to increase those allocations from last time around, but they are on an upward path.”¹⁶¹

130. The Minister acknowledged that stakeholders have interpreted an unchanged budget as a budget cut, given the effects of inflation, but that it could also be viewed as being protected from the reprioritisation exercise.¹⁶²

131. The Commissioner believed that real terms reduction in capital budgets “basically means that the Government is likely to be able to do less” and that this could have “a direct impact in terms of decarbonisation plans”.¹⁶³

132. The WLGA also stated that a “tightened revenue settlement will impact capital programmes” and raised concerns about significant additional costs to

¹⁶⁰ Finance Committee, RoP, 12 January 2023, paragraph 187

¹⁶¹ Finance Committee, RoP, 19 January 2023, paragraph 400

¹⁶² Finance Committee, RoP, 19 January 2023, paragraphs 409 and 411

¹⁶³ Finance Committee, RoP, 12 January 2023, paragraph 159

meet 2030 net zero requirements, especially for 21st Century Schools.¹⁶⁴ It highlighted that a new school in the Vale of Glamorgan “has doubled in price to get it off the drawing board”.¹⁶⁵

133. The Minister’s official illustrated the impact of inflationary pressures on capital investment in relation to school construction, indicating that cost pressures “means you’re getting 15 per cent less school for your money” than this time last year.¹⁶⁶

134. In terms of the impact of inflation on the Welsh Government’s ability to deliver the net zero objectives it set out last year, the Minister said all new school build and major refurbishment projects “are required to be delivered as net-zero carbon in operation” but added:

“...inevitably, we will be doing fewer new builds as a result of inflation. So, in that sense, what we will achieve overall... will be less.”¹⁶⁷

Prevention

135. In her written evidence, the Commissioner noted that work around prevention “has been in train for several years now with little progress”.¹⁶⁸ The Commissioner previously worked with the Welsh Government on a definition of prevention and preventative spend.¹⁶⁹

136. The Commissioner said she could see some good preventative interventions in the Draft Budget, but went on to say:

“That’s the kind of general approach and application rather than really technically making sure that everyone understands the definitions of the different forms of prevention and is really analysing all of their budget lines against those definitions of prevention. I think that that really needs to be the next iteration for Government in terms of the budget improvement plan.”¹⁷⁰

137. Whilst the Commissioner felt some significant progress was made on prevention in the year before the pandemic, she suggested that perhaps some of

¹⁶⁴ Written evidence: Welsh Local Government Association

¹⁶⁵ Finance Committee, RoP, 19 January 2023, paragraph 210

¹⁶⁶ Finance Committee, RoP, 14 December 2022, paragraph 30

¹⁶⁷ Finance Committee, RoP, 19 January 2023, paragraphs 420 and 424

¹⁶⁸ Written evidence: Future Generations Commissioner for Wales

¹⁶⁹ Future Generations Commissioner: Budget process and preventative spend

¹⁷⁰ Finance Committee, RoP, 12 January 2023, paragraph 202

that progress and the capacity in the system took a step back as a result of the COVID crisis.¹⁷¹

138. The Budget Improvement Plan published alongside the Draft Budget states:

*“Due to the extensive work that the Budget Improvement Impact Advisory Group (BIIAG) carried out on the Strategic Integrated Impact Assessment we were unable to proceed with the prevention work we had planned. Prevention work will be prioritised within BIIAG’s 2023 work plan”.*¹⁷²

139. The Minister told the Committee that officials are “actively considering” how to take forward the work on prevention, working with the Budget Improvement Impact Advisory Group (BIIAG) “to understand how we can better embed prevention in our budget and tax processes”.¹⁷³

Assessing the impact of the budget

140. In its report on the Draft Budget 2022-23, the Committee recommended that:

*“...consideration is given to how budgetary information is presented so that it is linked to outputs and impacts in order to help the Welsh Government’s own evaluation as well as to increase the public and Senedd’s ability to hold the Welsh Government’s budget plans to account.”*¹⁷⁴

141. In response to this recommendation, the Minister referred to outcomes being reported through the national milestones for Wales and the Programme for Government Annual Reports but said “through our Budget Improvement Plan we remain committed to build on both the use of evaluation and improving transparency on our Spending Decisions”.¹⁷⁵

142. WFA and the IFS discussed the difficulties in moving towards an outcome-based budgeting approach, suggesting that it will not always possible to have the evidence base available before making policy choices.¹⁷⁶ WFA added:

¹⁷¹ Finance Committee, RoP, 12 January 2023, paragraph 203

¹⁷² [Welsh Government, Budget Improvement Plan, page 7](#)

¹⁷³ Finance Committee, RoP, 19 January 2023, paragraph 392

¹⁷⁴ [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2022-23, February 2022, Recommendation 3](#)

¹⁷⁵ [Welsh Government, Response to the Finance Committee’s report on the Draft Budget 2022-23](#)

¹⁷⁶ Finance Committee, RoP, 12 January 2023, paragraphs 64 and 73

“What that doesn’t excuse is that you can still do performance evaluation; it just doesn’t have to take place in the budget process, particularly for very large organisations and particularly at the moment when we have the impact of inflation, of pay awards, of energy-cost inflation—these things are going to massively change the inputs that we need to provide to get to the output, regardless of the performance data.”¹⁷⁷

Strategic Integrated Impact Assessment

143. The Draft Budget includes a Strategic Integrated Impact Assessment (SIIA). Its stated purpose is:

“...to identify key trends, strategic and cumulative impacts at portfolio level, across a range of areas, including giving due consideration across the statutory requirements.”¹⁷⁸

144. The IFS said it was good to see some information on the impact evaluations of particular policies and felt that the SIIA “intuitively” links evidence and priorities, although it does not necessarily mean that the policies and funding identified will address those problems.¹⁷⁹

145. The Commissioner noted improvements in the SIIA’s presentation of trends in each section and key funding allocations linked to trends. However, she said there is “still a fair bit of work to do” as the “key strategic impacts are just the trends in the stats; they’re not actually the impact”, adding:

“...what the strategic impact assessment needs to do is really look at that in a cumulative way to say, ‘Overall, is this helping or hindering us in getting towards our well-being objectives?’ and, ‘Should there be different things that we do and prioritise?’”¹⁸⁰

146. The Commissioner emphasised that the biggest challenge is resourcing this work and the fact that staff are “just constantly responding to crises”.¹⁸¹

¹⁷⁷ Finance Committee, RoP, 12 January 2023, paragraph 64

¹⁷⁸ Welsh Government, Draft Budget 2023-24: A Budget in Hard Times, December 2022, page 27

¹⁷⁹ Finance Committee, RoP, 12 January 2023, paragraphs 72-73

¹⁸⁰ Finance Committee, RoP, 12 January 2023, paragraphs 197 and 199

¹⁸¹ Finance Committee, RoP, 12 January 2023, paragraph 200

147. The Minister agreed that the team “has been extremely stretched over recent years”, citing the preparation for Brexit and then managing the financial response to the pandemic and the cost of living crisis. She added:

*“...I think that any finance Minister would say that they need a bigger team and more resources, both human resources and definitely financial resources as well, but I think with what we’ve got, we do well.”*¹⁸²

148. Chwarae Teg welcomed improvements to the SIIA, which it suggested “does a better job of being an impact assessment in that it actually discusses the potential impacts of the decisions that are highlighted in the budget narrative”. However, going forward it called for more “evidence that analysis and assessment of impact is informing decision making at all parts of Government”.¹⁸³

149. The Minister’s official referred to the BIIAG’s work on the SIIA, highlighting its interest in focusing “on fewer case studies, but delving deeper into those to look at the fuller impact” and drawing attention to a reduction in the number of case studies included in this Draft Budget.¹⁸⁴

150. Last year, the Committee welcomed the extended ‘Distributional Analysis of Devolved Public Spending in Wales 2022 to 2023’ published alongside the Draft Budget 2022-23¹⁸⁵ and recommended that it “is further developed in future years so that it is linked with policy evaluation on the effectiveness of spend”.¹⁸⁶

151. Responding to this recommendation, the Minister indicated that the current distributional analysis model would be maintained over the next three years and take account of new and/or improved data sources, with ongoing consideration given to the usefulness of the model and frequency of publication.¹⁸⁷

152. In relation to the Draft Budget 2023-24, the Minister said the distributional impact assessment published alongside the previous Draft Budget 2022-23 remains valid “given that things haven’t really changed in that space since last year”.¹⁸⁸

¹⁸² Finance Committee, RoP, 19 January 2022, paragraph 390

¹⁸³ Finance Committee, RoP, 12 January 2023, paragraphs 307-308

¹⁸⁴ Finance Committee, RoP, 14 December 2022, paragraph 118

¹⁸⁵ [Welsh Government, Distributional analysis of devolved public spending in Wales 2022 to 2023](#)

¹⁸⁶ [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2022-23, February 2022, Recommendation 4](#)

¹⁸⁷ [Welsh Government, Response to the Finance Committee’s report on the Draft Budget 2022-23](#)

¹⁸⁸ Finance Committee, RoP, 14 December 2022, paragraph 113

Gender budgeting

153. Last year, the Committee called on the Welsh Government to widen its gender sensitive approach to budgeting beyond small discrete pilot projects and incorporate it into general policy and spending decision-making across portfolios.¹⁸⁹ In response, the Minister committed to working with the BIIAG and wider stakeholders to “explore what further action we can take beyond our three pilot areas”.¹⁹⁰

154. Chwarae Teg expressed frustration that the full evaluation of the initial Personal Learning Account pilot is not yet publicly available but welcomed that the Budget Improvement Plan says the lessons learned are informing the new pilots.¹⁹¹

155. Chwarae Teg highlighted that the Budget Improvement Plan talks about moving out of pilot phase, as well as noting the details regarding ongoing pilots relating to the Young Person’s Guarantee and the e-bike scheme. While noting that the Welsh Government appears to have undertaken some work to assess who is benefitting from these schemes, it suggested the next phase needs to use tools like the gender policy appraisal to “actually inform delivery”, adding:

“I wouldn’t necessarily want to see us moving into yet another phase of pilots; I would want to see us saying, ‘Right, how is this going to be implemented now across Government’—Welsh Government as a starting point, and then, ideally, out into the wider public sector as well.”¹⁹²

156. In terms of developments, the Minister said the Welsh Government is working to embed gender budgeting in its processes, referring to working through the “well-being governments network” and learning from “countries that have gone much further down the road of gender budgeting”.¹⁹³

Carbon impact

157. The Committee has been calling for a deeper understanding of the carbon impact of spending decisions. Last year, it recommended:

¹⁸⁹ Finance Committee, Scrutiny of the Welsh Government Draft Budget 2022-23, February 2022, Recommendation 6

¹⁹⁰ Welsh Government, Response to the Finance Committee’s report on the Draft Budget 2022-23

¹⁹¹ Finance Committee, RoP, 12 January 2023, paragraph 311

¹⁹² Finance Committee, RoP, 12 January 2023, paragraph 312

¹⁹³ Finance Committee, RoP, 14 December 2022, paragraph 113

“...that the Welsh Government prioritises evidencing how its carbon and finance budgets align in future budgets. The Draft Budget next year must go further in demonstrating the carbon impact of the budget.”¹⁹⁴

158. In response, the Minister said the Welsh Government will evolve its approach “as the evidence base of where we can best invest to tackle climate change further develops” and will “continue to build on the models underpinning the carbon assessment of our spending decisions”.¹⁹⁵

159. The Commissioner said that the Welsh Government “absolutely must” publish an assessment of the carbon impact of its budget, adding:

“I’ve been saying that for at least the last four, if not many more, years. We’re still not seeing that full assessment... I think the Government recognises that it needs to do it, but it’s constantly in a kind of crisis mode where they don’t have the capacity, time or resources, quite frankly, to be able to do some of the work that is absolutely necessary, and that’s a problem.”¹⁹⁶

160. When questioned on the carbon impact of the Draft Budget, the Minister told the Committee it is difficult to make a carbon impact assessment of the whole budget. The Minister went on to outline work previously undertaken for the 2022-23 Draft Budget, looking particularly at Health and Social Care, which she suggested “still remains valid”.¹⁹⁷

161. In terms of being satisfied that all new actions identified in the Draft Budget contribute to the Welsh Government’s net zero goals, the Minister said:

“...I think that the work we did to do that carbon work still remains valid in the sense that we didn’t have any additional capital to allocate this time and we haven’t changed our capital plans beyond perhaps not delivering as much as we previously would have because of inflation. I suppose that will have a carbon impact in itself—a negative one.”¹⁹⁸

¹⁹⁴ Finance Committee, Scrutiny of the Welsh Government Draft Budget 2022-23, February 2022, Recommendation 37

¹⁹⁵ Welsh Government, Response to the Finance Committee’s report on the Draft Budget 2022-23

¹⁹⁶ Finance Committee, RoP, 12 January 2023, paragraph 189

¹⁹⁷ Finance Committee, RoP, 14 December 2022, paragraph 133

¹⁹⁸ Finance Committee, RoP, 19 January 2022, paragraph 397

Committee view

162. In the Draft Budget narrative, the Minister says this budget is “one of the toughest we have ever made”, talks about funding being reprioritised from within existing plans to “refocus it into areas where it can have the greatest impact” and describes facing “difficult choices” during the budget process.¹⁹⁹ Being able to identify the consequences of funding decisions is a fundamental purpose of the budget process. This is even more important this year given the statements around how tough those decisions have been. Regrettably, the Committee has struggled to ascertain the negative impacts of this budget.

163. For this reason, we believe that the Draft Budget narrative must provide an integrated assessment of the impacts of spending decisions across portfolios. Where the budget includes reprioritisation, as is the case in 2023-24, the consequences must also be set out. Even where there has not been reprioritisation, the impact of inflation means budgets will not go as far. It is not clear from the budget documentation how outcomes have changed due to inflationary pressures. Given the significant impact of inflation this year, freezing departmental budgets, or providing below inflation increases, should not be alluded to as protective measures. We believe the Welsh Government should be more candid in the way it presents its decisions in the Draft Budget.

164. The Committee believes that a continued shift in investment towards preventative activities is crucial to the sustainability of public services in the long term. We welcome that the BIIAG will prioritise work on prevention in its 2023 work plan. However, we are concerned that the budget documentation is still unable to demonstrate how spending is shifting from acute to tertiary, secondary and primary prevention. This is particularly important in the delivery of health and social care services and to recognise the preventative nature of many non-statutory local authority services.

165. We note the Minister’s position that the work undertaken to assess the carbon impact for the 2022-23 budget remains valid as no additional capital has been allocated in the Draft Budget. However, the Committee is disappointed that the Welsh Government has not updated or expanded on its previous assessment through this Draft Budget. Given that the Minister conducted a reprioritisation exercise as part of this budget round, the Committee would like to have seen how net zero considerations informed the difficult choices that had to be made. The Committee also notes evidence from witnesses, including the Welsh Government, that capital is not going as far due to inflation, but it is not clear how this is

¹⁹⁹ Welsh Government, Draft Budget 2023-24: A Budget in Hard Times, December 2022, Foreword

impacting outcomes. We urged the Minister to go further in demonstrating the carbon impact of the budget in our report last year and it is regrettable that such views were not taken on board when formulating this Draft Budget, particularly given net zero commitments and the Welsh Government's own declaration of a climate emergency in April 2019.

166. Similarly, the Minister told us that last year's Distributional Analysis of Devolved Public Spending in Wales also remained valid. However, as that analysis only accounted for around 70 per cent of devolved resource funding, as well as being updated, we believe there was an opportunity to consider extending it further this year.

167. The Committee recognises the considerable amount of information published alongside the Draft Budget and notes that the Minister is thinking critically about the length and content of the documents provided. The Committee's key concern is that the information provided is high quality, explains why and how decisions have been made and evidences both the positive and negative impacts of those decisions.

168. The Committee is pleased that the Welsh Government is progressing its gender sensitive approach to budgeting, but is disappointed that this remains limited to small discrete pilot projects, rather than being mainstreamed into general policy and spending decision-making across portfolios. While the Budget Improvement Plan mentions moving towards mainstreaming a gender budgeting approach, the Welsh Government's strategy and timescales for doing so remains frustratingly ambiguous. We therefore fully support the calls made by Chwarae Teg concerning the need to move away from pilots towards a universal gender policy appraisal to understand the impact of budgetary decisions on women, so that it informs decision-making across the Welsh Government.

169. The Committee notes the work undertaken by the BIIAG to develop the SIIA and acknowledges the positive feedback from stakeholders regarding the linkages between key funding allocations and trends. Nevertheless, the SIIA continues to lack evidence of how the Welsh Government has assessed the cumulative impact, both positive and negative, of spending decisions. We have been calling for improvements in this regard for a number of years and our experience scrutinising this budget demonstrates that improving transparency and the Welsh Government's evaluation of spending decisions must be prioritised for next year's budget. While the establishment of the BIIAG and its wealth of expertise is very much welcomed, it is not clear to the Committee what tangible improvements the Welsh Government is expecting the group to achieve or the timescales for delivery.

170. The Draft Budget narrative refers to further details about the choices made in the budget being “outlined as part of individual Ministers’ responses to their respective Senedd scrutiny committees”. Whilst the Committee welcomes this information, we have been unable to explore this evidence, as the responses were not published alongside the Draft Budget and only became available during detailed consideration of proposals by Senedd Committees in January. Taking this approach decreases the scrutiny time available and is particularly frustrating when that timetable has already been condensed. Furthermore, delaying key information at the time the budget is published, and subsequently publishing ministerial evidence papers in one document once scrutiny has taken place, does not demonstrate transparency.

Recommendation 13. The Committee recommends that the Welsh Government makes changes to the way it presents information in documentation published alongside the Draft Budget so that it provides:

- an assessment of the impact of spending decisions across portfolios, including the impact of reprioritisation exercises and clarity on the real terms effect of decisions within portfolios;
- an assessment of how the Welsh Government’s spending decisions are (or are not) supporting preventative measures.

Recommendation 14. The Committee recommends that the level of information provided at the 2024-25 Draft Budget is equivalent to the information provided at the 2022-23 Draft Budget.

Recommendation 15. The Committee recommends that the Welsh Government uses its gender budgeting pilots to inform and develop a wholesale gender policy appraisal of all Welsh Government budgetary decisions.

Recommendation 16. The Committee recommends that the Welsh Government provides details of the Budget Impact and Improvement Advisory Group’s forward work programme, including the tangible outputs its work will deliver for the 2024-25 Draft Budget.

Conclusion 1. We welcome the Minister’s willingness to consider ways in which budget documentation can be improved. While we have reflected our views above, the Committee has decided to consult Senedd committees on their experiences of scrutinising this year’s budget documentation and ways in which improvements can be made.

5. Cost of living: tackling poverty and inequality

Background

171. The Welsh Government has reprioritised its funding for 2023-24 to address three priorities, one of which is to continue to “provide help to those most affected by the crises we face”.²⁰⁰ As noted in Chapter 2 of this report, the Welsh Government faces a number of challenges in 2023-24 with the UK likely entering a recession which is expected to persist for over a year.

172. In October 2022, the Office for National Statistics (ONS) reported that the proportion of adults finding it difficult to afford energy bills, rent or mortgage payments has increased through 2022.²⁰¹ Next year households will see, on average, real post-tax incomes fall by around £800 per year, according to the Resolution Foundation.²⁰²

173. The Bevan Foundation reported that 45 per cent of Welsh households “never have enough money for anything other than the basics”. It stated this was a “significant deterioration from the position in May 2021” when the figure was 33 per cent.²⁰³

174. The Committee heard evidence from a number stakeholders on the impact that the rise in cost of living is having on the most vulnerable.

175. The WFA highlighted the “combination of energy and consumer inflation” means “the outlook for households is quite bleak”. It suggested that by 2027, real disposable incomes in Wales could be about “£10,000 lower than had the pre-financial crisis trend been sustained”.²⁰⁴

Welsh Benefit Charter

176. The Bevan Foundation highlighted the work it was undertaking as part of a stakeholder group helping the Welsh Government to draft a Benefit Charter. It said:

“Even before the pandemic, we had identified the huge number of different and extremely important devolved grants and

²⁰⁰ Welsh Government, Draft Budget 2023-24: A Budget in Hard Times, December 2022, page 33

²⁰¹ [Office for National Statistics: Impact of increased cost of living on adults across Great Britain: June to September 2022](#)

²⁰² [Resolution Foundation: The art of expectations management](#)

²⁰³ [Bevan Foundation: A snapshot of poverty in summer 2022, July 2022](#)

²⁰⁴ Finance Committee, RoP, 12 January 2023, paragraph 36

allowances that are administered by Welsh Government and local authorities, or third parties on the Welsh Government's behalf, and their value was overlooked, I think. They've really come to the fore as a result of the pandemic, and while there has been very widespread acceptance of the need to join them up and to streamline them, I think the progress in actually making it happen has been much slower than we would like to see. And that's all the more important now we've had lots more new schemes come into play as a result of responses to the cost of living."²⁰⁵

177. Additionally the Bevan Foundation suggested that a unified benefits scheme is “not just about integrating and streamlining the admin” but also an opportunity to take “a fresh look at the value of some of those schemes and look at some of the eligibility”. It highlighted that part-time workers and those who are self-employed and on a low income as examples of groups who either do not apply or are not eligible for Universal Credit.²⁰⁶

178. Chwarae Teg told the Committee that Universal Credit is the benefit that “opens the door for all of the other support that you're entitled to”.²⁰⁷ It said that anecdotal evidence suggests:

*“...people perhaps who look at the length of the application they need to go through for something like universal credit and might only get a very small amount through universal credit, but as a result of them not going through, they're not getting all of the other support that's on offer at the moment, which, again, increases that risk of falling into debt or relying on other sources of financial support.”*²⁰⁸

179. Citizen's Advice Cymru stated that “lots of our clients come up against all of the different systems, and that can be a struggle at the best of times”, adding:

*“It's confusing enough for those who work in it day in and day out, and I think, if we can learn anything from the cost-of-living crisis, it's that simplicity is our best friend.”*²⁰⁹

²⁰⁵ Finance Committee, RoP, 12 January 2023, paragraph 235

²⁰⁶ Finance Committee, RoP, 12 January 2023, paragraph 247

²⁰⁷ Finance Committee, RoP, 12 January 2023, paragraph 245

²⁰⁸ Finance Committee, RoP, 12 January 2023, paragraph 245

²⁰⁹ Finance Committee, RoP, 12 January 2023, paragraph 239

180. The Minister said she was “very committed” to having a single point of contact for people to access the Welsh benefits system and that her officials are currently working with the Centre for Digital Public Services to undertake “exploratory work to identify solutions, really, to streamline that process, so that we have a much more cohesive and unified system”.²¹⁰

181. The Minister acknowledged that the Bevan Foundation was also leading on separate research into the barriers for people taking up the Welsh benefits. She said:

*“when we introduce schemes, we find that take-up, sometimes, isn’t as good as we would have wanted, so we need to understand what’s behind all of that as well.”*²¹¹

182. The Minister said the Welsh Benefits Charter “is a central element of that, and that will be principles upon which our benefits system is built”. She confirmed the Minister for Social Justice “is doing some work on that, as we speak, in terms of the income maximisation group and what they are able to offer to that conversation as well. So it’s definitely an ongoing piece of work.”²¹²

183. The Minister said she was also “exploring with local government” how access to specific sources of funding could be “more streamlined and easily accessible”. She cited the Winter Fuel Support scheme as an example where some local authorities were able to pay that “almost automatically, very simply” whilst in other areas individuals had to proactively “search out and access that funding”.²¹³

Financial gender inequality

184. Chwarae Teg welcomed the Welsh Government’s “decision to focus on supporting front-line public services”, given that women are more likely to use and be employed in public services. It added that “the continued commitment around the real living wage for social care workers obviously has a positive gender impact”.²¹⁴

185. However, Chwarae Teg, felt there were a “couple of gaps that are a bit worrying” including the lack of “discussion of childcare”, which has “a huge

²¹⁰ Finance Committee, RoP, 19 January 2023, paragraph 429

²¹¹ Finance Committee, RoP, 19 January 2023, paragraph 429

²¹² Finance Committee, RoP, 19 January 2023, paragraph 430

²¹³ Finance Committee, RoP, 19 January 2023, paragraph 431

²¹⁴ Finance Committee, RoP, 12 January 2023, paragraph 227

financial pressure on households, particularly on women's incomes", stating that the cost of childcare is nearly 60 per cent of women's average pay.²¹⁵

186. Whilst Chwarae Teg welcomed the 30 hours provision of free childcare, it was worried that the:

"...budget looks to be flat for that this year, and if providers are under inflationary pressures, are they then going to have to pass costs on to other parents, who perhaps aren't accessing the offer, or through other ways?"²¹⁶

187. Expansion of the provision to two year olds was also welcomed by Chwarae Teg but it felt it was an "incredibly modest expansion" given that the expansion of free provisions is:

"...fewer than 20 hours a week. That's often spread across days of the week. That's not necessarily the most helpful model of childcare provision for people who are trying to balance work and caring responsibilities."²¹⁷

188. As a result, Chwarae Teg is concerned that "women might be having to make the decision whether it's actually affordable to go out to work. And I just don't think that's a situation we should be in in 2023".²¹⁸ Gender budgeting is explored further in Chapter 4.

189. Chwarae Teg felt the cost of inequality was "not necessarily talked about in enough detail in what we've seen around the budget". It added:

"...we talk about the disproportionate impact of the cost-of-living crisis on women; it's the same for a lot of other protected characteristic groups. That's not an inevitability—that's a direct result of the fact that we have inequality in existence..."²¹⁹

190. In response to whether the Draft Budget sufficiently prioritises policies that support protected groups and prevent households and individuals falling into crisis, the Minister stated:

"I think that you can see through the strategic impact assessment that we've done our best to understand the

²¹⁵ Finance Committee, RoP, 12 January 2023, paragraph 228

²¹⁶ Finance Committee, RoP, 12 January 2023, paragraph 282

²¹⁷ Finance Committee, RoP, 12 January 2023, paragraph 282

²¹⁸ Finance Committee, RoP, 12 January 2023, paragraph 282

²¹⁹ Finance Committee, RoP, 12 January 2023, paragraph 302

*implications of our budget. One of the things that we're very mindful of in terms of our core reasons for doing the budget is to put our money where it's needed most... Some of the additional funding that we've provided in this particular budget has been very much focused on public services. We know that people with protected characteristics are much more likely to rely on public services, so that in itself is a progressive and appropriate thing to do."*²²⁰

191. The Strategic Integrated Impact Assessment is covered in Chapter 4.

Education Maintenance Allowance

192. The Bevan Foundation highlighted concerns regarding the freeze on the allowance and its eligibility thresholds for the Education Maintenance Allowance (EMA).²²¹ It said:

*"And when we talked to young people before the pandemic, they were already telling us about learners who were quitting because they couldn't afford to carry on on £30 a week; they were getting jobs and helping their parents that way. We're now hearing stories about learners who are handing over the cash to their families to help pay the gas and electricity bills, and are going without meals or going without equipment."*²²²

193. As to whether EMA should be indexed, the Bevan Foundation said:

*"At a time when many people have urged the UK Government to uplift social security benefits by the rate of inflation—and they did for most of them—I think we have a strong expectation that the Welsh Government should similarly ensure its own grants and allowances keep the same rate. So, absolutely, yes, it should be indexed, and if it can't be done, at least this financial year, make a one-off payment: give all EMA current students £50."*²²³

194. In regard to EMA, the Minister's official said that the Welsh Government was maintaining the current budget of £17.4 million per annum to provide £30 per week of support. She explained that the modelling suggested approximately £8.2 million per annum would be required to increase the payment from £30 to £45

²²⁰ Finance Committee, RoP, 19 January 2023, paragraph 450

²²¹ Finance Committee, RoP, 12 January 2023, paragraph 284

²²² Finance Committee, RoP, 12 January 2023, paragraph 286

²²³ Finance Committee, RoP, 12 January 2023, paragraph 284

for the existing cohort, and a further £15 million per annum on top of that to increase the household income thresholds in line with those recommended by the Bevan Foundation. The official said that the additional cost of nearly £25 million is “not an insignificant amount that would be needed. But we do recognise the value of that allowance to individuals”.²²⁴

Winter Fuel Support Scheme

195. The Minister confirmed that the Winter Fuel Support (WFS) Scheme will not be available for 2023-24, telling the Committee that the scheme costs £90 million “so that was a very, very large investment, and it’s not something that we are able to afford to do next year”.²²⁵

196. The WFA said there had been a “good take-up of the winter fuel support scheme” and that out of the total number of eligible households of approximately 220,000; “the take-up was about 166,000. So that’s a take-up rate of 76 per cent”.²²⁶

197. The Committee heard evidence from the OBR that, while energy prices will be volatile due to the unpredictability of the impact and longevity of the Ukraine war, prices have fallen significantly over recent months.²²⁷ Estimates from Investec on 12 January 2023 suggested that the price cap could fall to £2,478 in July 2023.²²⁸

198. The WFA said that whilst “there’s been some better news” regarding energy prices in the past few months in terms of the “wholesale price coming down somewhat”, it added:

“but we’re still expecting an increase in the energy price cap, potentially not as far as the £3,000 cap that’s coming in in April—perhaps down to about £2,800 in the second half of this year, again due to those falling wholesale costs. But that’s still three times as much than the average household will be paying for energy than they did just three years ago. So, even though there’s better news on the front on wholesale costs, this is still an enormous impact on a household’s budget.”²²⁹

²²⁴ Finance Committee, RoP, 19 January 2023, paragraph 444

²²⁵ Finance Committee, RoP, 12 January 2023, paragraph 50

²²⁶ Finance Committee, RoP, 12 January 2023, paragraph 37

²²⁷ Finance Committee, RoP, 12 January 2023, paragraph 346

²²⁸ Energy Live News: Energy bills could fall faster than previously expected

²²⁹ Finance Committee, RoP, 12 January 2023, paragraph 34

199. Citizen's Advice Cymru said that, while the WFS Scheme may end, "the need will still be there and the need will be greater next Winter" and that "the gap is going to grow wider"²³⁰. It continued to highlight that this Draft Budget "doesn't invest a big way in energy efficiency" to offset the impact of the WFS Scheme ending.²³¹ It added:

*"We need to break this cycle of, every winter, needing to give people emergency payments or an emergency stopgap. We're not there yet. I see the ambition in the budget narrative, but I don't see how we get there in this budget."*²³²

200. The Bevan Foundation was "surprised that there hasn't been more of a focus on the need to really upscale and take the home insulation programme forward at significant pace".²³³

201. The Committee asked the Minister what support the Welsh Government would be providing to improve energy efficiency in homes across Wales. The Minister responded:

*"You'll remember that we committed to several interventions, allocating over £190 million to eliminate fuel poverty as part of the spending review that was conducted last year. In that, we announced an increase in the Warm Homes programme budget of £5 million, to £35 million in this financial year. The total budget for the three-year spending period up to 2024-25 is £100 million. That's quite a significant intervention in that space. And £70 million is also being provided per year for the optimised retrofit programme to prioritise investment in social housing decarbonisation. That's in 2023-24 and 2024-25 through the Minister for Climate Change's portfolio. Obviously, you'll be aware that, certainly in this financial year, we've had the winter fuel support scheme, which was very successful in being provided to around 290,000 properties."*²³⁴

Committee view

202. The Committee notes the Welsh Government's view that one of its three priorities has been to help those most affected by the cost of living crises,

²³⁰ Finance Committee, RoP, 12 January 2023, paragraph 225

²³¹ Finance Committee, RoP, 12 January 2023, paragraph 261

²³² Finance Committee, RoP, 12 January 2023, paragraph 263

²³³ Finance Committee, RoP, 12 January 2023, paragraph 266

²³⁴ Finance Committee, RoP, 19 January 2023, paragraph 441

however, we believe more could be done to help the most vulnerable. During last year's scrutiny of the Draft Budget for 2022-23, we highlighted the importance that Welsh benefits should be simplified and consolidated. In addition we called on the Welsh Government to take steps to improve awareness and accessibility of its grants and benefits systems and advocated for a "no wrong door" approach. It is therefore disappointing to hear that the work on establishing a Welsh Benefits Charter has been slow.

203. The Committee also supports the view of the Bevan Foundation that a unified benefits scheme is not just about integrating and streamlining the administration process but should also be an opportunity to consider the value and eligibility criteria for the schemes. It is essential that there is a unified Welsh support scheme, to prevent those most in need missing out on the support they require.

204. The Committee welcomes the Welsh Government's decision to focus on supporting front-line public services and the positive impact this will have on gender equality, given that women are more likely to use and/or be employed in public services. Nonetheless, we believe that the Welsh Government could do more to promote gender equality through its cost of living policies and calls for more childcare support to be provided, given the significant financial pressures on households, particularly women's incomes. It is shocking to hear that the cost of childcare is nearly 60 per cent of women's average pay and we heard evidence that suggests, women are forced to make a decision whether or not it is affordable to go to work. The Committee supports the expansion of the childcare provision to two-year olds through Flying Start. However, issues with the scheme were raised by witnesses who described the provision of 20 hours a week as modest, spread out across the week and not necessarily the most helpful model to support people trying to balance work and caring responsibilities.

205. The Committee strongly believes that the EMA is a key Welsh support scheme for young learners, and is disappointed that the eligibility thresholds and allowance has been frozen in this Draft Budget. In this current climate the need to address support for the most vulnerable learners is paramount. The Committee is therefore concerned that the lack of uplift in the EMA could lead to learners leaving education in pursuit of employment, often to help their families through this cost of living crisis.

206. The EMA value of £30 has remained unchanged since mid-2000s and eligibility thresholds were last changed around 2012. The Committee therefore believes that a review of the EMA thresholds is long overdue and should be undertaken urgently, with the current rate uplifted.

207. The Committee is disappointed that the WFS scheme will not be available for 2023-24, especially given the high take-up for 2022-23. Whilst there has been some positive news regarding the wholesale cost of energy coming down, prices are still volatile due to the on-going war in Ukraine and we have been told that energy costs are likely to be nearly three times as much as they were three years ago. As a Committee we see little in this Draft Budget to prevent households falling into hardship.

208. Additionally, whilst the WFS scheme has ended, there has been little update or progress on the Warm Homes programme and Nest. We heard of the importance of investment in energy efficiency initiatives as a method to cancel out the need for a WFS scheme which would also act as a preventative measure to stop households falling into fuel poverty. We therefore believe that the Welsh Government should do more in this area to help vulnerable people deal with rising energy costs.

Recommendation 17. The Committee recommends that the Welsh Government prioritises the streamlining of financial assistance schemes, under a proposed Welsh Benefits Charter, and fast-tracks the development of a unified application process for devolved grants and financial aid schemes.

Recommendation 18. In light of the rising cost of living, the Committee recommends that the Welsh Government undertakes a review of the current financial support schemes to ensure eligibility thresholds are suitable, fit for purpose and not excluding vulnerable people on the margins of support schemes.

Recommendation 19. The Committee recommends that the Welsh Government takes urgent steps to address the unequal gender impact of rising living costs and, in particular, conducts a review of the current free childcare model to assess its effectiveness and encourages its further expansion.

Recommendation 20. The Committee recommends that the Welsh Government:

- reviews the eligibility threshold of Education Maintenance Allowance; and
- considers increasing the value of Education Maintenance Allowance.

Recommendation 21. The Committee recommends that the Welsh Government prioritises the development of a replacement Warm Homes programme to improve the energy efficiency of homes and to prevent vulnerable people from falling into fuel poverty.

6. Protecting Public Services

Funding for NHS Wales and social care

209. In the Draft Budget narrative, the Welsh Government states its commitment to invest an additional £165 million in health and social care in 2023-24 which would be “baselined into 2024-25”. It added:

“Together with more than £9.4bn of existing funding, this will support our health service as it continues to respond to urgent and emergency care pressures and to reduce long waiting times, which built up during the pandemic. It will be doing this, while continuing to transform the way care is provided, with more services available closer to people’s homes in local communities. Even with this uplift in funding however, there will be difficult choices for the NHS as it seeks to protect frontline services amidst the twin pressures of high inflation and rising energy costs.”²³⁵

210. WFA reported that the additional £165 million for health and social care is “broadly in line with the additional consequentials received from higher health spending in England at the Autumn Statement”²³⁶. Spending on core NHS services is set to increase by £415 million in 2023-24 and by £615 million in 2024-25. However, these allocations are “significantly below” in real terms what was initially set and “historical average increases in health spending”.²³⁷

211. ADSS Cymru welcomed the increased uplift of £165 million and the recurrent £70 million for the Real Living Wage (RLW) but said it is “evident that very difficult choices will have to be made in relation to continued service provision”. It went on to say “we are conscious that this [the Draft Budget] is not going to put social care on a path to stability and sustainability”.²³⁸

212. The Welsh NHS Confederation agreed with the Welsh Government’s priority of protecting front-line services, but with the caveat “like most budgetary issues,

²³⁵ Welsh Government, Draft Budget 2023-24: A Budget in Hard Times, December 2022, page 22

²³⁶ Wales Fiscal Analysis, “A perfect storm” – an initial analysis of the Welsh Government’s Draft Budget for 2023-24, December 2022

²³⁷ Wales Fiscal Analysis, “A perfect storm” – an initial analysis of the Welsh Government’s Draft Budget for 2023-24, December 2022

²³⁸ Finance Committee, Written evidence: ADSS Cymru

the devil's in the detail". It also emphasised the particular importance in protecting future training and retention of the workforce.²³⁹

213. The Minister for Health and Social Services told the Health and Social Care Committee that she wants the NHS to "focus far more clearly on a smaller number of priorities"²⁴⁰, later identifying six priority areas²⁴¹.

214. In response to this statement, the Welsh NHS Confederation commented that "when everything is a priority, nothing is a priority" adding "it's still a very extensive list, and the things that sit under those headings are still very broad".²⁴²

215. The Welsh NHS Confederation also noted that there is a lack of clarity in how evidence is driving some Welsh Government priorities and that it is "not always clear how the relative prioritisation of Welsh Government objectives is determined and how budget allocations are applied".²⁴³

216. When asked if sufficient funding had been allocated in the Draft Budget to deliver the health priorities, the Minister said:

*"... if there was more funding to provide, we obviously would look to do that, because public services are our priority for the budget, but I think that we've again provided the best possible settlement for the health service that we could, in the conditions that we find ourselves in. That doesn't mean it's not going to be difficult—and, as I say, with more money we could always do more more quickly, and so on—but under the circumstances it's certainly the best that we could possibly do."*²⁴⁴

Financial sustainability

NHS Wales

217. In responding to the NHS waiting times data for October²⁴⁵ (which showed the first decrease in the number of patient pathways waiting to start treatment since April 2020), the Welsh NHS Confederation said:

²³⁹ Finance Committee, RoP, 19 January 2023, paragraph 13

²⁴⁰ [Health and Social Care Committee, RoP, 11 January 2023, paragraph 186](#)

²⁴¹ [Health and Social Care Committee, RoP, 11 January 2023, paragraph 121](#)

²⁴² Finance Committee, RoP, 19 January 2023, paragraph 24

²⁴³ [Finance Committee, Consultation response: Welsh NHS Confederation](#)

²⁴⁴ Finance Committee, RoP, 19 January 2023, paragraph 520

²⁴⁵ [Welsh Government, Press release: Welsh Government response to latest NHS Wales performance data, December 2022](#)

“There’s no hiding from the fact that the NHS in Wales is dealing with the most pressure it’s ever experienced ... With pressures building and as the impact of strike action is felt in the days and weeks that follow, we must expect statistics to worsen, with both patients and staff bearing the brunt.”²⁴⁶

218. The Welsh NHS Confederation said the NHS is facing its “greatest ever financial challenge. Inflation, the elective care backlog, rising energy costs and the ongoing costs of Covid have led to exceptional cost pressures, resulting in the NHS in Wales facing its biggest financial deficit”.²⁴⁷

219. The Welsh NHS Confederation told the Committee that “delayed transfers of care, high demand and high acuity” were further pressures faced by the NHS especially during the winter.²⁴⁸

220. The Welsh NHS Confederation reported that “continued pressures will make it difficult for organisations to maintain all current services”. The delivery of savings would “remain a challenge across NHS organisations” and, as a result, the “underlying financial position across NHS Wales as a whole will remain a significant issue”.²⁴⁹

Social Care

221. ADSS Cymru said local authorities are estimating a cumulative pressure for social services of £407.8 million for 2023-24 and 2024-25. This includes total commissioning costs and demand pressures of £288.4 million, with pay inflation pressure of £75.8 million over the two years.²⁵⁰

222. The WLGA said the pandemic exacerbated many of the existing challenges within social care, with increasing demand for services alongside increasing complexity of needs, insufficient funding and significant workforce pressures.²⁵¹

223. Addressing the difficult challenges and budgetary pressures faced by the social care sector, ADSS Cymru told the Committee:

“We probably remain in a position where budgets are under pressure, and probably what it means is, in practice, that we’ll

²⁴⁶ Welsh NHS Confederation, Performance stats show positive signs, but pressures have rocketed since December 2022

²⁴⁷ Finance Committee, Consultation response: Welsh NHS Confederation

²⁴⁸ Finance Committee, RoP, 19 January 2023, paragraph 39

²⁴⁹ Finance Committee, Consultation response: Welsh NHS Confederation

²⁵⁰ Finance Committee, Written evidence: ADSS Cymru

²⁵¹ Finance Committee, Consultation response: WLGA

have to consider where we are in relation to some statutory element of our delivery and whether we need to consider curtailing some services that we provide as a matter of course now.”²⁵²

224. ADSS Cymru noted that providers are continuing to get into financial difficulty and local authorities are “having to intervene further to avoid provider failures”. It also referred to “increasing concerns for unpaid carers”, without whom there would be “increased demand for support placed on already overstretched services in a fragile market”.²⁵³

225. However, the Minister said that overall “we’ve provided significant additional funding last year [for social care] through the spending review, and particularly in this year as well”.²⁵⁴

226. In relation to comments made by ADSS Cymru that the Draft Budget was not going to put “social care on a path to stability and sustainability”²⁵⁵, the Minister said:

“So, we definitely see this as being a step on that journey towards sustainability. So, the additional funding that we’ve provided through the three-year spending review and this year’s funding as well. And, as I say, it’s not all about funding; it’s about addressing some of that churn that we have in the system, some of the difficult pathways that people have. That’s part of the challenge, and that’s why we’ve provided £133 million through the regional integration fund. That really is about trying to have a sector that can sustain itself for the future, and that operates in a different way. So, I think that particular fund will, again, be helpful in this regard.”²⁵⁶

227. The Minister’s official noted the work that had been undertaken in the previous Senedd in relation to a social care levy “to fund the rising costs of social care provision, which are partly due to inflationary pressures but also demand pressures”. He said that work had been set to one side:

“...because the UK Government was planning on increasing UK taxes to increase funding. But things have played out a bit

²⁵² Finance Committee, RoP, 19 January 2023, paragraph 51

²⁵³ Finance Committee, Written evidence: ADSS Cymru

²⁵⁴ Finance Committee, RoP, 19 January 2023, paragraph 489

²⁵⁵ Finance Committee, Written evidence: ADSS Cymru

²⁵⁶ Finance Committee, RoP, 19 January 2023, paragraph 491

differently, perhaps, than were expected. So, that's an area that we're going to be picking up again."²⁵⁷

Local Government

228. The Welsh Government published its Provisional Local Government Settlement for 2023-24 (the Settlement) on 14 December 2022.²⁵⁸

229. After adjusting for transfers, overall core funding, known as Aggregate External Finance (AEF) for local government in 2023-24 is £5.5 billion, an increase of 7.9 per cent on a like-for-like basis compared to 2022-23.

230. The WLGA said local authorities would have to make "difficult decisions" to meet "spiralling budget gaps" from energy bills, inflation and pay costs, suggesting the Settlement covering "just over half of the pressure we face in the next financial year".²⁵⁹

231. In evidence to the Local Government and Housing Committee, the WLGA set out four key pressures on revenue budgets: inflation; energy costs; service demand; and pay pressures.²⁶⁰

232. The WLGA outlined the rapid increase in inflation, saying that, at the time of the last survey of local authorities in 2021, non-pay inflationary pressures for 2023-24 were estimated to be £65 million. The recent survey has seen this rise to £124 million, an estimated £58 million of additional pressure.²⁶¹

233. In the Minister's written evidence to the Local Government and Housing Committee, she stated:

*"Despite significant pressures reported by the Welsh Local Government Association across local authorities, our settlement from the UK Government did not enable us to meet these pressures arising from inflation and increased demand for services in full."*²⁶²

²⁵⁷ Finance Committee, RoP, 19 January 2023, paragraph 509

²⁵⁸ [Welsh Government, Written Statement: Provisional Local Government Settlement 2023-24, December 2022](#)

²⁵⁹ [WLGA, Welsh Government has supported councils with today's settlement, but tough decisions remain, says WLGA, December 2022](#)

²⁶⁰ [Local Government and Housing, RoP, 12 January 2023, paragraph 15](#)

²⁶¹ [Finance Committee, Consultation response: WLGA](#)

²⁶² [Local Government and Housing Committee, Written evidence: Welsh Government](#)

234. The WLGA said that every local authority is now reporting an “overspend in the current financial year and budget gaps in the future years”. Without additional funding, it stated:

“...the risks to all local government services including the larger ones of education and social care cannot be understated.”²⁶³

235. However, whilst recognising the huge pressures faced by public services, Councillor Anthony Hunt welcomed the Settlement as it gave local authorities a “fighting chance” in addressing those pressures.²⁶⁴ In relation to strategic planning in 2024-25, he added that the Settlement also “gives us a chance to focus on the long term”.²⁶⁵

236. In reference to local authorities making efficiency savings, Councillor Anthony Hunt said “there’s very little juice to squeeze from that particular lemon”, particularly after a decade of austerity.²⁶⁶

237. The Committee heard some encouraging evidence from the WLGA in terms of collaboration and “shared learning” between local authorities. Sharing experiences with other local authorities was viewed as much more effective “than just trying to plan in a vacuum”.²⁶⁷

238. The WLGA also emphasised the importance of ongoing dialogue with Ministers:

“I think Rebecca, and Julie before her, deserve great credit for the way they’ve engaged with us. I speak with English leaders quite often over the border, and they don’t have that kind of relationship.”²⁶⁸

Addressing public sector pressures

Efficiencies

239. The Welsh NHS Confederation acknowledged the recurrent efficiencies NHS Wales organisations have made but stated “we need to go beyond the delivery of traditional technical efficiencies to think innovatively and consider the efficiency

²⁶³ Finance Committee, Consultation response: WLGA

²⁶⁴ Finance Committee, RoP, 19 January 2023, paragraph 172

²⁶⁵ Finance Committee, RoP, 19 January 2023, paragraph 197

²⁶⁶ Finance Committee, RoP, 19 January 2023, paragraph 180

²⁶⁷ Finance Committee, RoP, 19 January 2023, paragraph 182

²⁶⁸ Finance Committee, RoP, 19 January 2023, paragraph 195

of our resource allocation, based on a better understanding of the outcomes of spending decisions”. It added:

“It is vital that the Welsh Government introduce a three-to-five-year efficiency programme to positively incentivise efficiency improvements, grounded in quality improvement data, better outcomes for citizens and Value-Based Healthcare.”²⁶⁹

240. The IFS told the Committee that:

“...a focus on preventative or early intervention might also be beneficial across the health system and a range of areas. It could include public health and access to primary care, including out-of-hours care, in order to reduce the pressure on emergency and other secondary care, which is often a lot more expensive to deliver.”²⁷⁰

241. The IFS said there were things that could be delivered more efficiently, particularly “big-ticket items such as health spending”.²⁷¹ It highlighted the work of the Nuffield Trust which found the “average stay in hospitals is substantially longer in Wales than in England so, around seven days as opposed to 4.3 days in England in 2020”.²⁷² The Nuffield Trust reported two possible causes for this: levels of funding; and performance, noting that “the NHS in Wales is less efficient or less focused on delivering timely care.” The Nuffield Trust concluded that there were “serious questions to ask here”.²⁷³

Transforming services and integrating health and social care

242. The Welsh Government said, in 2023-24, it is providing revenue funding of £144.6 million for the new five-year Health and Social Care Regional Integration Fund (RIF) and £50 million for the “newly established Integration and Rebalancing Capital Fund”.²⁷⁴

243. It is also supporting the Digital Priorities Investment Fund (DPIF) for which it has allocated £45 million in revenue and £20 million in capital in 2023-24. It said this will “deliver Digital Transformation within Health and Social Care sectors”.²⁷⁵

²⁶⁹ [Finance Committee, Consultation response: Welsh NHS Confederation](#)

²⁷⁰ [Finance Committee, RoP, 12 January 2023, paragraph 90](#)

²⁷¹ [Finance Committee, RoP, 12 January 2023, paragraph 87](#)

²⁷² [Finance Committee, RoP, 12 January 2023, paragraph 87](#)

²⁷³ [Nuffield Trust, How well is the NHS in Wales performing?, June 2022](#)

²⁷⁴ [Health and Social Care Committee, Written evidence: Welsh Government](#)

²⁷⁵ [Health and Social Care Committee, Written evidence: Welsh Government](#)

244. The Welsh NHS Confederation identified digital transformation as one of its 11 priority areas, and noted the need for a ten-year investment plan to “radically re-think how services are delivered to help support long-term sustainability”.

245. The WLGA told the Committee about the need for “a whole-system approach... between health and social care, because it is so interrelated”, adding “we need some open and constructive conversations between us and with Welsh Government as well”.²⁷⁶

246. In its report ‘A Picture of Social Care’, Audit Wales said “COVID-19 has made the need for change more pressing but transforming social care will be challenging”. It further noted:

“Despite the significant challenges ahead, there are opportunities to rebuild and deliver services differently, putting the user at the centre of services, and learning from the collective response to COVID-19.”²⁷⁷

247. ADSS Cymru noted that “a significant investment into social care” is needed to help resolve issues, such as delayed transfers of care and its impact on other health and social care issues. It stated:

“Sector transformation requires strong, collective, compassionate leadership, a resilient and respected workforce and these need to be backed up by a long-term and sustainable funding settlement for the health and social care system, which we have long been calling for.”²⁷⁸

248. The IFS suggested that more analysis needs to be undertaken to:

“...improve the efficiency of the NHS, and particularly learning, not just from England, but learning within Wales on best practice and then from other parts of the UK and elsewhere in the world, because the health service is the biggest single item of Welsh Government spending, and there could be opportunities for efficiencies that would go some way to address the budget pressures.”²⁷⁹

²⁷⁶ Finance Committee, RoP, 19 January 2023, paragraph 262

²⁷⁷ [Audit Wales, Report: A Picture of Social Care, October 2021](#)

²⁷⁸ [Finance Committee, Written evidence: ADSS Cymru](#)

²⁷⁹ Finance Committee, RoP, 12 January 2023, paragraph 91

Workforce

249. The Committee received evidence of workforce pressures across public bodies. In her response to the Committee’s report on the Scrutiny of the Welsh Government’s Draft Budget 2022-23, the Minister stated:

“Workforce capacity and planning remains a key focus for NHS Wales bodies at a local and regional level.”²⁸⁰

250. The Minister went on to say that the Welsh Government had increased its “core investment in the NHS by almost an additional £1.3bn”, and provided “significantly increased funding for local government” including funding for its commitment to the RLW.²⁸¹

251. The Welsh NHS Confederation said “100 per cent of NHS leaders agreed there is a crisis in the social care workforce, with a subsequent impact on patient care and safety”.²⁸² It added:

“We’re here today to talk about some of the limitations on resource, and the biggest limiting factor for the NHS is workforce, in terms of being tired, in terms of absolute numbers, in terms of training.”²⁸³

252. Public Health Wales said continuing efforts to address ongoing workforce challenges around training, recruitment and retention will be important and challenging.²⁸⁴

253. The Welsh Government said it is “providing a sustainable solution to Welsh NHS staffing by investing in the training of people for the future” and is making its “highest ever financial investment in workforce training” in 2023-24. However, it added:

“... we must also focus on ways to deploy our existing and future workforce more effectively. There are no quick fixes, however we must look at all innovative approaches to change not only our ways of working but also our ways of thinking.”²⁸⁵

²⁸⁰ [Welsh Government response: Finance Committee report - Scrutiny of the Welsh Government Draft Budget 2022-23, March 2022](#)

²⁸¹ [Welsh Government response: Finance Committee report - Scrutiny of the Welsh Government Draft Budget 2022-23, March 2022](#)

²⁸² [Finance Committee Consultation response: Welsh NHS Confederation](#)

²⁸³ Finance Committee, RoP, 19 January 2023, paragraph 23

²⁸⁴ [Finance Committee Consultation response: Public Health Wales](#)

²⁸⁵ [Health and Social Care Committee Written evidence: Welsh Government](#)

254. Whilst recognising the recent financial uncertainty faced by the Welsh and UK governments in relation to Brexit and the pandemic, the Welsh NHS Confederation told the Committee that it needed a “funded workforce plan” and “clarity, costing and acknowledgement from Government about what needs to happen across social care, across local government, the whole of the public service”.²⁸⁶

255. It noted that Health Education and Improvement Wales (HEIW) is developing an urgently needed long-term workforce plan, but to date, it has not seen it. It added that longer-term financial certainty was needed with a focus on training and development.²⁸⁷

256. The Minister for Health and Social Services subsequently published the National Workforce Implementation Plan for NHS Wales on 31 January 2023.²⁸⁸

257. In responding to the issues of staff recruitment and retention, the Welsh NHS Confederation welcomed the HEIW’s plans to recruit more nurses and train more GPs but said “support and development of people within the service is a challenge”. ADSS Cymru cited recruitment and retention (for both in-house and commissioned services) as the main reasons for a lack of capacity in social care, with the use of agency staff adding to financial pressures.²⁸⁹

258. Audit Wales reported that expenditure on agency staff by NHS Wales organisations has grown steadily over the last ten years.²⁹⁰

259. In written evidence to the Health and Social Care Committee, the Welsh Government noted that it was:

“...very concerned about the level of agency and locum expenditure and will be working with the relevant organisations to focus on managing this expenditure whilst working closely with trade unions. It is our aim for work to be carried out quickly to clearly understand the current position, reducing expenditure and reliance on agency and locum staff as soon as possible, and to ensure we are in a better position going forward.”²⁹¹

²⁸⁶ Finance Committee, RoP, 19 January 2023, paragraph 149

²⁸⁷ Finance Committee, RoP, 19 January 2023, paragraph 100

²⁸⁸ [Welsh Government, Written Statement: National Workforce Implementation Plan](#)

²⁸⁹ [Finance Committee, Written evidence: ADSS Cymru](#)

²⁹⁰ [Audit Wales: NHS Wales Finances Data Tool](#)

²⁹¹ [Health and Social Care Committee, Written evidence: Welsh Government](#)

260. On the need to use agency staff, the Welsh NHS Confederation said:

“...we are losing medical workforce significantly because of a UK-wide issue around the pension tax annual allowance issue. So, people get to a stage in their career where, actually, it is costing them to come to work and do additional sessions. So, we’re losing capacity there and seeing people retire early—we’re seeing people go in their fifties when they’ve got significantly more to offer for the rest of their careers, potentially”²⁹²

Pay

261. The Minister said the Settlement “included funding to enable authorities to continue to meet the additional costs of introducing the Real Living Wage for care workers”.²⁹³

262. However, ADSS Cymru said measures need to go beyond the RLW if “we really want to be able to offer ‘fair pay’ for those who are undertaking some of the most important roles in society”. It continues to call for an “urgent focus on parity of esteem with health in relation to pay, terms and conditions and career progression and this requires additional investment now and over the next 3 years”.²⁹⁴

263. Councillor Llinos Medi told the Committee that the pressure of recruitment is not just felt in social care but across local government and that working for “local government isn’t as attractive as it was years ago”.²⁹⁵

264. In its Budget Narrative, the Welsh Government said the “real terms pay squeeze is much more intense” in the public sector compared to the private sector and that public sector average weekly earnings “after taking inflation into account, are decreasing by more than 7%”.²⁹⁶

265. The WLGA outlined that the pay offer for 2022-23 put an additional 6.5 per cent to 7.5 per cent pressure on the local government pay bill. It stated that the majority of local authorities were anticipating a pay increase of around 3-4 per cent at the time of setting budgets (early 2022). It highlighted pressures from

²⁹² Finance Committee, RoP, 19 January 2023, paragraph 104

²⁹³ Welsh Government, Written Statement: Provisional Local Government Settlement 2023-24, December 2022

²⁹⁴ Finance Committee, Written evidence: ADSS Cymru

²⁹⁵ Finance Committee, RoP, 19 January 2023, paragraph 258

²⁹⁶ Welsh Government, Draft Budget 2023-24: A Budget in Hard Times, December 2022, page 9

teachers' pay too, with a similar assumption of 3-4 per cent made by most councils, but the actual offer being 5 per cent. The WLGA said:

*"...the unplanned increase in the wage bill in 22-23 comes to £109m: £32m for schools, £20m in social care and £57m in other council services."*²⁹⁷

Committee view

266. Even with the increases in funding in the Draft Budget, health, social care and local government all face difficult decisions about the services they provide in the coming year, given the significant financial pressures and challenges facing them. The Committee welcomes the funding for local government and notes from evidence that it gives local authorities a "fighting chance". However, the Committee is acutely aware of the challenges local authorities face in considering efficiencies, given changes to services over the last decade.

267. The Committee notes the Minister for Health and Social Services' request that NHS organisations focus on six priority areas to deal with pressures. Whilst these priorities are laudable, there is a danger they become meaningless if the Welsh Government cannot also explain which areas the NHS should deprioritise in order to focus resources elsewhere. As one witness told us, "when everything is a priority, nothing is a priority", and the Committee expects the Welsh Government to be clear and candid about its approach in this area.

268. The Minister must explain how these priority areas align with the allocations made in the Draft Budget, and how this will alleviate the operational and financial pressures on NHS bodies. Furthermore, the Committee asks the Welsh Government to explain how these priorities are reflected in the outcomes NHS organisations will be required to deliver in 2023-24 with the funding allocated.

269. The Committee recognises that the immense pressures faced by the NHS means the delivery of savings will be challenging and it will be particularly difficult for organisations to focus their attention on transforming how services are delivered, despite this being crucial to the long-term sustainability of services.

270. The Committee notes that the Welsh Government has allocated specific funding in the Draft Budget for transforming services and integrating health and social care, including the new RIF and the DPIF. However, it is not clear what this funding will deliver and how any lessons or changes will be mainstreamed as a result of it. Similarly, the Committee welcomes the additional funding for social

²⁹⁷ Finance Committee Consultation response: WLGA

care but is unclear on the Welsh Government's expectations in terms of service delivery for this funding.

271. The Committee is deeply concerned by the Nuffield Trust's findings that the NHS in Wales is less efficient or less focused on delivering timely care and that the average stay in hospitals is substantially longer in Wales than in England. The Committee recognises the work being done by NHS organisations in driving through efficiencies in difficult circumstances. However, we believe that the Welsh Government can and should do more to analyse the effectiveness of spend in this area to incentivise improvements that will reduce pressures in the long-term.

272. During the Committee's scrutiny of last year's budget it noted concerns about staff shortages and workforce pressures and called on the Welsh Government to explain how it was addressing such pressures.²⁹⁸ It is therefore highly disappointing that the position has not improved, with the workforce now being described as the "biggest limiting factor"²⁹⁹ for NHS Wales, with particular concerns over recruitment and retention. Similar concerns were raised about the social care and local government workforce. Pay and conditions play a part in this, and the Committee fully recognises that the real terms pay squeeze is much more intense in the public sector.

273. The Committee notes the Welsh Government's investment in workforce development for healthcare professionals through the Draft Budget and the potential impact this may have on future recruitment to the workforce. However, it is not clear what measures are in place to address the retention of the existing workforce. The pressure on public services will only increase if these fundamental issues around recruitment and retention are not addressed and whilst we recognise that there are no easy short term answers to these problems, we believe that the Welsh Government can do more to explain how its spending will bring about change in these areas.

274. The Committee shares the Welsh Government's concerns about the level of NHS expenditure on agency and locum staff, and the cost implications. It is also worrying to hear that due to the issues around the pension tax annual allowance, people are retiring early and the NHS is losing experienced capacity. These are critical issues to address if the pressures on the NHS are to be eased. We would therefore welcome an update from the Welsh Government once it has completed

²⁹⁸ [Finance Committee, Report: Scrutiny of the Welsh Government Draft Budget 2022-23, February 2022, Recommendation 24](#)

²⁹⁹ Finance Committee, RoP, 19 January 2023, paragraph 23

its review of the use of agency and locum staff by the NHS and developed measures to reduce the use.

275. The Committee welcomes that the Welsh Government is exploring different and innovative ways to fund the rising costs of social care provision and to alleviate workforce pressures, including looking again at introducing the social care levy. The previous Committee looked into this issue³⁰⁰ and we are interested in hearing more about the Welsh Government's work in this area.

276. The Committee welcomes the workforce plan developed by HEIW for healthcare professions and notes its publication. However, given the pressures identified, we also believe that a workforce plan should be developed for all public sector professions. The workforce is the backbone of our public services and if the people supporting those services are not looked after then any attempts at improvements will falter. The Committee therefore believes that detailed and strategic workforce planning is essential to the future sustainability and resilience of public services in Wales, and calls on the Welsh Government to work with public sector organisations as part of its development.

Recommendation 22. The Committee recommends that the Welsh Government explains how the funding allocated in the Draft Budget aligns with the six priorities for the NHS Wales identified by the Minister for Health and Social Services and which areas it will deprioritise as part of this process.

Recommendation 23. The Committee recommends that the Welsh Government provides information on the outcomes it expects to be delivered by NHS organisations and social care providers with the additional funding it has allocated for 2023-24.

Recommendation 24. The Committee recommends that the Welsh Government conducts an assessment of funding it has allocated to improve efficiencies in the NHS with a view to reducing pressures in the long-term.

Recommendation 25. The Committee recommends that the Welsh Government provides information to demonstrate how the allocations for 2023-24:

- alleviates immediate staffing pressures across the health, social care and local government sectors; and
- delivers improvements to the recruitment and retention issues faced within those areas.

³⁰⁰ Finance Committee (Fifth Senedd). Cost of caring for an ageing population. October 2018.

Recommendation 26. The Committee recommends that the Welsh Government provides:

- an update on the use of agency and locum staff by the NHS, including information about the measures it will adopt to reduce reliance on them and the expected impact of the actions on expenditure; and
- details of the actions being taken to address issues relating to the pension tax annual allowance given its significant impact on the NHS workforce.

Recommendation 27. The Committee recommends that the Minister provides an update on the work being conducted by the Welsh Government on introducing a social care levy to fund the rising cost of social care provision and to alleviate workforce pressures.

Recommendation 28. The Committee recommends that the Welsh Government works with public sector organisations to produce a comprehensive long-term public services workforce plan and provides an update on its development.

Annex A: List of oral evidence sessions.

The following witnesses provided oral evidence to the committee on the dates noted below. **Transcripts of all oral evidence sessions can be viewed on the Committee's website.**

Date	Name and Organisation
<u>14 December 2022</u>	Rebecca Evans MS, Minister for Finance and Local Government, Welsh Government Andrew Jeffreys, Director, Welsh Treasury, Welsh Government Emma Watkins, Deputy Director, Budget and Government Business Welsh Government
<u>12 January 2023</u>	David Phillips, Associate Director, Institute of Fiscal Studies Dr Ed Poole, Senior Lecturer, Wales Governance Centre (Wales Fiscal Analysis) Guto Ifan, Lecturer, Wales Governance Centre (Wales Fiscal Analysis) Sophie Howe, Future Generations Commissioner for Wales Office of the Future Generations Commissioner for Wales Rhiannon Hardiman, Change Maker: Climate Change and Decarbonisation, Office of the Future Generations Commissioner for Wales Alex Chapman, Senior Researcher, New Economics Foundation Victoria Winkler, Director, Bevan Foundation Luke Young, Assistant Director, Citizens Advice Cymru Natasha Davies, Policy and Research Lead, Chwarae Teg Richard Hughes, Chairman, Office for Budget Responsibility Andy King, Budget Responsibility Committee Member, Office for Budget Responsibility

Date	Name and Organisation
	<p>Professor David Miles, Budget Responsibility Committee Member, Office for Budget Responsibility</p>
<p>19 January 2023</p>	<p>Sally May, Executive Director of Finance, Cwm Taf Morgannwg University Health Board, Welsh NHS Confederation</p> <p>Darren Hughes, Board Director, Welsh NHS Confederation</p> <p>Alwyn Jones, President, Association of Directors of Social Services (ADSS) Cymru</p> <p>Dave Street, Director for Social Services, Caerphilly County Borough Council Representative for the Association of Directors of Social Services (ADSS) Cymru</p> <p>Jon Rae, Director of Resources, Welsh Local Government Association</p> <p>Councillor Anthony Hunt, Leader, Torfaen Country Borough Council Welsh Local Government Association (Spokesperson for Finance and Resources)</p> <p>Councillor Llinos Medi, Leader, Ynys Môn Council Welsh Local Government Association (Spokesperson for Finance and Resources)</p> <p>Councillor Lis Burnett Leader, Vale of Glamorgan Council Welsh Local Government Association (Spokesperson for Finance and Resources)</p> <p>Rebecca Evans MS, Minister for Finance and Local Government Welsh Government</p> <p>Andrew Jeffreys, Director, Welsh Treasury Welsh Government</p> <p>Emma Watkins, Deputy Director, Budget and Government Business, Welsh Government</p>

Annex B: List of written evidence

The following people and organisations provided written evidence to the Committee. **All Consultation responses and additional written information can be viewed on the Committee's website.**

Reference	Organisation
WGDB_23-24 01	Institute of Civil Engineers
WGDB_23-24 02	Recovery
WGDB_23-24 03	Royal Town Planning Institute (RTPI Cymru)
WGDB_23-24 04	Coleg Cymraeg Cenedlaethol
WGDB_23-24 05	Wales Council for Voluntary Action (WCVA)
WGDB_23-24 06	The Learned Society of Wales
WGDB_23-24 07	Public Health Wales
WGDB_23-24 08	Farmers' Union Wales
WGDB_23-24 09	Colleges Wales
WGDB_23-24 10	Chwarae Teg
WGDB_23-24 11	Wales Women's Budget Group
WGDB_23-24 12	Women's Equality Network (WEN) Wales
WGDB_23-24 13	Clinks
WGDB_23-24 14	Tŷ Hafan and Tŷ Gobaith
WGDB_23-24 15	Welsh Women's Aid
WGDB_23-24 16	Observatory on Human Rights of Children and Children's Legal Centre Wales
WGDB_23-24 17	Barnardo's Cymru
WGDB_23-24 18	Care and Repair Cymru
WGDB_23-24 19	Institute of Physics
WGDB_23-24 20	National Association of Head Teachers (NAHT) Cymru
WGDB_23-24 21	Climate Cymru

Reference	Organisation
WGDB_23-24 22	The Royal Society for the Protection of Birds (RSPB) Cymru
WGDB_23-24 23	Cwmpass
WGDB_23-24 24	Universities Wales
WGDB_23-24 25	The Construction Industry Training Board (CITB) Cymru
WGDB_23-24 26	Community Leisure UK Wales
WGDB_23-24 27	Community Housing Cymru
WGDB_23-24 28	Older People's Commissioner for Wales
WGDB_23-24 29	Welsh Local Government Association (WLGA)
WGDB_23-24 30	Welsh NHS Confederation
WGDB_23-24 31	British Heart Foundation (BHF) Cymru

Additional Information

Title	Date
<u>The Wallich</u>	January 2023
<u>Written evidence from the Future Generations Commissioner for Wales</u>	January 2023
<u>Written evidence from the Association of Directors of Social Services (ADSS) Cymru</u>	January 2023
<u>Written evidence from the Bevan Foundation</u>	December 2022