

Scrutiny of the Welsh Government Draft Budget 2020-2021

January 2020



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January 2020



About the Committee

The Committee was established on 22 June 2016. Its remit can be found at:
www.assembly.wales/SeneddFinance

Committee Chair:



Llyr Gruffydd AM
Plaid Cymru

Current Committee membership:



Rhun ap Iorwerth AM
Plaid Cymru



Alun Davies AM
Welsh Labour



Mike Hedges AM
Welsh Labour



Rhianon Passmore AM
Welsh Labour



Nick Ramsay AM
Welsh Conservatives



Mark Reckless AM
Brexit Party

The following Member attended as a substitute during this inquiry.



David Melding AM
Welsh Conservatives

Contents

Chair’s foreword	5
Recommendations	7
1. Introduction	11
2. Overview.....	18
3. Financial levers	27
4. Well-being of Future Generations (Wales) Act 2015	41
5. Measuring the impact of budget decisions.....	52
6. Climate change and decarbonisation.....	61
7. Preventative spend and service transformation.....	70
8. Poverty and economic inclusion.....	78
9. Brexit and the Welsh economy	87
Annex A: List of oral evidence sessions.....	98

Chair's foreword

This draft Budget has been produced and scrutinised under exceptional circumstances given Brexit, the UK General Election and delayed UK fiscal events. As such, the Finance Committee has made every effort to engage with stakeholders on this draft Budget. This began in June 2019 when we held a pre-budget stakeholder event in Aberystwyth. This formed the basis for a Finance Committee proposed debate in the Siambwr that followed in September 2019, allowing the Assembly an opportunity to debate the Welsh Government's spending priorities prior to publication of the budget.

Whilst we felt a debate this year was particularly pressing given the proposed timing of the draft Budget, we believe a debate should be facilitated on a permanent basis to provide an opportunity for the Assembly to influence budget priorities and allocations earlier in the process. We hope to work with the Welsh Government to schedule this debate into the timetable for the budget process in future.

The UK Government announced its Budget is set for 11 March 2020. This is after the debate on the Welsh Government Final Budget, which is scheduled for 3 March 2020. The Committee urges the Minister for Finance and Trefnydd to bring forward its First Supplementary Budget as early as possible if the UK Budget impacts significantly on the Welsh Government's Budget.

The Committee welcomes the 2.3 per cent increase in real terms funding in this draft Budget, which the Welsh Government has spread across all departments. However, we would have liked the Welsh Government's allocation of funding and prioritisation to have been more ambitious in terms of a focus on future sustainability and service transformation.

Witnesses told us that future investment in priority services such as health and social care will not be possible without higher borrowing or increases in taxation. The Welsh Government has said it is already pushing against the limits of its fiscal borrowing rules and has pledged not to raise income tax this Assembly term. The Committee agrees with stakeholders that a change in borrowing or taxation strategies will be required to ensure sufficient funding is available for investment in public services in future years. We've supported the Welsh Government's requirement for increased borrowing flexibility, and obviously changes in taxation will be a matter for all parties in their manifestos as we approach the 2021 Assembly Election.

The uncertainty surrounding Brexit and the future relationship between the UK and the EU will impact on the Welsh economy. The Committee is concerned that the EU transition period, up to the 31 December 2020, does raise the risk of trade deals not being in place, and if this leads to a period of uncertainty and disruption in trading patterns, further assistance would be required from the UK Government to minimise the impact on the Welsh economy.

The Committee firmly believes more action needs to be taken to reduce poverty in Wales. There are too many people in low skilled and/or low paid jobs. Upskilling the workforce and increasing employment will benefit the Welsh economy regardless of the outcome of Brexit. The Welsh Government should evaluate its investment in economic development and into work programmes to ensure they provide value for money.

The Welsh Government declared a 'Climate Emergency' in Wales. However, it is hard to identify how this draft Budget reflects this declaration and it is disappointing that a more radical approach to mitigate climate change has not been taken. There is a welcome allocation of £140 million capital investment to support the decarbonisation agenda but we are not convinced that the Welsh Government has a clear understanding of the carbon impact of its spending decisions.

Finally, I would like to thank Dr Edward Jones, a lecturer in Economics at Bangor University, who was appointed as the Committee's expert adviser. Ed was previously part of a team from Bangor University's Business School that was appointed by the Welsh Government to independently assess the devolved tax revenue forecasts that were included in the 2018-19 and 2019-20 budgets. Ed's knowledge brought a valuable contribution to our deliberations and we are grateful to him for his support.

Llyr Gruffydd AM
Chair, Finance Committee

Recommendations

Recommendation 1. The Committee recommends that the Welsh Government considers how a debate on spending priorities could be factored into the budget timetable, to provide an opportunity for the Assembly to influence budget priorities and allocations earlier in the process. Page 17

Recommendation 2. The Committee recommends that the Welsh Government continues to press the UK Government to examine the merits of different mechanisms for overseeing application of the Statement of Funding Policy, such as oversight by a body independent from government, possibly the Constitution, Democracy and Rights Commission. Page 26

Recommendation 3. The Committee recommends that the Welsh Government seeks commitments from the UK Government that UK fiscal events will normally take place by a specified date to ensure devolved administrations have sufficient time to carry out meaningful budget setting and scrutiny. Page 26

Recommendation 4. The Committee recommends that the Welsh Government continues to negotiate with the UK Government to secure more frequent and structured quadrilateral meetings of UK Finance Ministers. Page 26

Recommendation 5. The Committee recommends that an update is provided as soon as possible after the UK Budget detailing any impact of the UK macro-economic forecasts, particularly any impact on devolved tax revenues and the associated block grant adjustments. Page 40

Recommendation 6. The Committee recommends that the Welsh Government re-commences talks on new taxes with the UK Government as soon as possible in order to test the process, and provides an update to the Committee in due course. Page 40

Recommendation 7. The Committee recommends that the Welsh Government keeps under review new and emerging data sources, such as the Office for National Statistics Welsh Gross Domestic Product data, to improve the accuracy of Welsh economic and devolved tax forecasts. Page 40

Recommendation 8. The Committee notes the significant level of coding errors reported in relation to Welsh taxpayers by HMRC and recommends that the error

rate continues to be monitored by the Welsh Government and an update is provided to the Committee following the next scan..... Page 40

Recommendation 9. The Committee recommends that the Welsh Government considers ways in which it can improve the integration of well-being goals in the presentation of future budgets to demonstrate more consistently how the Well-being of Future Generations Act is embedded in its decision-making processes throughout departments and that this is reflected in the budget process... Page 50

Recommendation 10. The Committee recommends that the Welsh Government works with the Future Generations Commissioner and stakeholders to develop the Budget Improvement Plan..... Page 51

Recommendation 11. The Committee recommends that the Welsh Government lengthens the period of time covered in the Budget Improvement Plan to reflect the spirit of the Well-being of Future Generations Act and longer term transformational change..... Page 51

Recommendation 12. The Committee recommends that the Strategic Integrated Impact Assessment accompanying the 2021-22 budget, and future budgets, provide a transparent account of the negative as well as the positive impact of budget allocations, including the evidence base on which they draw. Page 60

Recommendation 13. The Committee recommends that the Welsh Government provides an update on the outcome of its discussions with the Scottish Government on the role of its Equality Budget Advisory Group and any changes in approach that may arise following these considerations..... Page 60

Recommendation 14. The Committee urges the Welsh Government to use evidence and best practice from work undertaken elsewhere as a basis for a gender sensitive budgeting approach, in order to mainstream a gender dimension into all aspects of the budget cycle without delay..... Page 60

Recommendation 15. The Committee recommends that the Welsh Government provides more detail in future years on how allocations and programmes will progress towards the commitment to be carbon neutral by 2050 and over what timescale this will be achieved.....Page 68

Recommendation 16. The Committee recommends that the Welsh Government develops an understanding of the carbon impact of the budget and its spending decisions, and looks at how it can meaningfully demonstrate the carbon impact of future budgets.....Page 69

Recommendation 17. The Committee encourages the Welsh Government to support the work being taken forward by the Future Generations Commissioner in relation to the development of a carbon impact account and explore other ways in which the Commissioner’s office, with its degree of independence, can provide further advice and support to help the Welsh Government achieve its decarbonisation ambitions and well-being objectives.Page 69

Recommendation 18. The Committee recommends that the Welsh Government clearly sets out in future budget documentation how it is applying its own definition of prevention to expenditure and provides as much information as possible on the outcomes it is aiming to deliver through its preventative strategies. Page 77

Recommendation 19. The Committee recommends that the Welsh Government provides an analysis of preventative spend within the budget and accelerates actions relating to prevention in its Budget Improvement Plan. Page 77

Recommendation 20. The Committee recommends that the Welsh Government engages with stakeholders to find better ways to evidence and communicate the process for identifying priorities and making budget decisions.Page 85

Recommendation 21. The Committee recommends that the Welsh Government develops a definition of poverty in a Welsh context and clearly sets out its vision for tackling poverty in Wales, including: distributional impacts, the intended outcomes of targeted poverty interventions, and steps to respond to the impact of UK Government decisions.Page 86

Recommendation 22. The Committee recommends that the Welsh Government develops new strategies to improve the education, skills and employment opportunities of the most disadvantaged members of society.Page 86

Recommendation 23. The Committee recommends that the Welsh Government considers ways to actively promote the real living wage to employers, particularly within the private sector, across Wales.Page 86

Recommendation 24. The Committee recommends that the Welsh Government provides evidence and additional details on how programmes aimed at improving the economy provide value for money whilst balancing investment to increase productivity and earnings, and to get people into employment.Page 96

Recommendation 25. The Committee recommends that the Welsh Government reviews its strategy for bus services, ensuring that available resources are effectively targeted to better connect those who rely on this method of transport to ensure inclusive economic growth..... Page 97

Recommendation 26. The Committee recommends that future Welsh Government Budgets should include flexibility and specific scenario planning to respond to economic shocks or uncertainty. Draft budgets should detail the response to negative effects or potential opportunities for different sectors of the Welsh economy..... Page 97

Recommendation 27. The Committee recommends that the Welsh Government provides confirmation that it has obtained assurance from the UK Government on the financial support available to the agricultural industry in Wales for every year of the Parliament..... Page 97

1. Introduction

The Committee

1. The Finance Committee (the Committee) is a cross party committee of the National Assembly for Wales (the Assembly), made up of Members from the political parties represented at the Assembly.
2. Under Standing Order 19, the Committee is responsible for considering and reporting on proposals laid before the Assembly by Welsh Ministers containing proposals for financing or the use of resources. The Committee can also consider and report on any other matter related to or affecting financing, or expenditure out of the Welsh Consolidated Fund (WCF).¹
3. The Committee appointed Dr Edward Jones, Lecturer in Economics, Bangor University as its expert adviser to assist with its scrutiny of the draft Budget.

Scrutinising the draft Budget

4. ~~On 21 June 2017, the Assembly agreed a new budget process.~~ This is the third draft budget to be scrutinised under the new process.
5. The new budget process sets out that two stages of information will be published by the Welsh Government:
 - 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.
6. The Wales Act 2014² devolved additional fiscal powers to the Assembly. In April 2018, two specific Welsh taxes came into force: Land Transaction Tax (LTT) and Landfill Disposal Tax (LDT). In April 2019, the Welsh Rate of Income Tax (WRIT) came into force.
7. The Committee will consider the overall strategic decision making and prioritisation behind the allocations within the outline draft Budget proposals,

¹ ~~Standing Orders~~ of the National Assembly for Wales, November 2019

² ~~Wales Act 2014~~

along with taxation and borrowing plans, against the backdrop of public finances and the wider economy.

Timing of the Welsh Government Budget and the UK Budget

8. The new budget process has been in place for three draft budget scrutiny cycles. During the previous two budget cycles the Committee has had the opportunity to consider the implications of the UK autumn budget as part of the draft budget scrutiny.

9. In its report on the Scrutiny of the Welsh Government Draft Budget 2019 – 2020, the Committee recommended that “the Welsh Government continues with its current practice of publishing its draft budget regardless of the timing of the UK Budget” (Rec 1).³

10. However, the Committee acknowledges the constraints the Welsh Government has been under this budget cycle, given the unprecedented circumstances faced with Brexit and the UK General Election.

11. On 5 July 2019, the Minister for Finance and Trefnydd (the Minister) wrote to the Committee to advise that the Welsh Government was planning to publish the outline and detailed draft Budgets together on 10 December 2019, and the final Budget on 3 March 2020. The Minister said that, given the unprecedented level of uncertainty regarding the UK Government’s intentions for a Comprehensive Spending Review, the date of which had not been announced, the Welsh Government did not have revenue figures for 2020-21 to base their budget on. The Minister acknowledged that this timetable may need to be revised.

12. On 4 September 2019, the Chancellor of the Exchequer’s announcement set out the UK Government’s Spending Round for one year (2020-2021).

13. Following the Chancellor’s announcement, the Minister wrote to the Committee on 13 September 2019 to consult on her proposal to bring the Budget forward, publishing the draft Budget on 19 November and the final Budget on 4 February 2020. Subsequently the Business Committee agreed the revised timetable.

14. However, following the announcement of a general election, the Minister again wrote to the Business Committee on 7 November 2019, stating that, given

³ Finance Committee report, Scrutiny of the Welsh Government Draft Budget 2019 – 2020

the exceptional circumstances, she proposed delaying publication of the Budget until after the UK General Election.

15. The outline and detailed Budget⁴ were published on 16 December 2019. The Minister said the Welsh Government had:

“crafted this budget in a period of real uncertainty...but what we have done is planned on the best information that we have, which is the UK Government spending round that it announced in September [2019].”⁵

16. It was announced on 7 January 2020 that the UK Budget is set for 11 March 2020, after the debate on the Welsh Government Final Budget, which is scheduled for 3 March 2020.

17. Prior to this announcement the Minister commented that the Welsh Government would need to be aware of changes by the end of January in order for them to be factored into the Final Budget, otherwise changes would be made through the first supplementary budget “which we could bring forward earlier in the year than we normally would”.⁶

18. However, she said:

“when we look ahead now to the next UK Government budget, obviously, it’ll be accompanied by a new economic and fiscal outlook from the OBR, and that then might have implications on the prospects of the devolved tax revenues and the associated block grant adjustments there as well. So, again, this is another one of those factors that give some uncertainty in terms of our final budget that we’ll be laying. But we wouldn’t expect that to be of any particular magnitude.”⁷

19. Following publication of this report, there will be a debate in Plenary on the draft Budget and subsequently there will be a final budget motion (the annual budget motion), as required by the Government of Wales Act 2006⁸.

⁴ Welsh Government, Draft Budget 2020-21 detailed proposals, 16 December 2019

⁵ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 5

⁶ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 5

⁷ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 15

⁸ [Government of Wales Act 2006](#)

20. While changes in the UK Budget are not known, the Minister stated that “if there is additional funding, our current expectation is that it’ll probably be capital rather than revenue”.⁹

21. Issues relating to the timing of the Welsh Government Budget and the UK Budget are further explored in Chapter 3 on Financial Levers.

Consultation

22. On 27 June 2019, the Committee visited the Marine Hotel, Aberystwyth to ask stakeholders what they thought the priority areas for the Welsh Government’s Budget should be and to invite comments on any issues relating to the Welsh Government’s budget allocations.

23. Stakeholders felt that prevention and early intervention should be at the heart of budget allocations. Stakeholders also raised concerns in the following areas:

- promoting the economy and businesses in Wales;
- education budget needed to be clarified and simplified;
- impact on health and well-being of reduced local services;
- impact on equality and vulnerable groups;
- taxation.

24. Additionally, the Committee issued a pre-budget consultation, inviting organisations and individuals to let the Committee know their expectations of the forthcoming draft Budget.

Budget focus

25. The Committee agreed to continue the approach followed in previous years, whereby budget scrutiny is 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?

⁹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 108

- Value for money – Are public bodies spending their allocations well – economically, efficiently and effectively? i.e. outcomes.
- Budget process – Are they effective and accessible? Is there integration between corporate and service planning, and performance and financial management?

26. Additionally, the Committee identified a number of areas that all committees should focus on:

- How the Welsh Government should use taxation and borrowing powers, particularly in relation to the Welsh Rate of Income Tax;
- Approach to preventative spending and how is this represented in resource allocation, particularly in relation to the financing of local health boards and health and social care services;
- Sustainability of public services, innovation and service transformation;
- Welsh Government policies to promote economic growth, reduce poverty, gender inequality and mitigate welfare reform;
- Welsh Government’s planning and preparedness for Brexit;
- How evidence is driving Welsh Government priority setting and budget allocations;
- How the Future Generations Act is influencing policy making;
- In declaring a “climate emergency”, is it clear how the Welsh Government intends to respond and resource that challenge.

Budget priorities 2020/21 Plenary debate

27. For some time the Committee has been concerned that the Assembly does not have the opportunity to influence the Welsh Government’s spending priorities prior to the draft Budget being laid. The Committee believes that a debate on spending priorities should happen prior to publication of the draft Budget.

28. On 12 July 2019, the Committee wrote to the Business Committee in relation to the draft Budget timetable and also sought approval to hold a debate on the Welsh Government’s spending priorities. A debate was held on 25 September 2019.

Committee view

29. The Committee acknowledges this budget cycle has been under “exceptional” circumstances. The Committee recognises that delayed UK fiscal events and the general uncertainty around the UK General Election and Brexit has impacted on the ability of both the Welsh Government and other stakeholders to plan. Additionally, the timing and changes have impacted on the Assembly’s ability to undertake effective scrutiny and this has caused concern for the Committee.

30. The Committee believes the Welsh Government’s approach to the timing of the draft Budget was practical in the circumstances and balanced the need to provide certainty as early as possible for local government and other public bodies, against providing time for scrutiny of draft Budget plans.

31. The Committee notes the announcement from the UK Government that the UK Budget is set for 11 March 2020. Given that the UK Budget will be announced after the debate on the Welsh Government’s Final Budget, which is scheduled for 3 March 2020, the Committee heard that changes would need to be introduced through the Welsh Government’s First Supplementary Budget. The Committee welcomes the Minister’s suggestion that she will bring this forward as early as possible. If the UK Budget includes significant additional in-year capital funding, the Committee would expect detail on how the Welsh Government would prioritise this funding.

32. Notwithstanding this, the Committee reaffirms its view that under “normal” circumstances, assuming the UK Spending Review is published in good time, the Welsh Government should continue to publish its draft Budget regardless of the timing of the UK Budget. The Committee believes the benefits of early funding certainty for public bodies outweighs the complexities that the publication of the UK Budget in the middle of draft budget scrutiny causes in Wales.

33. However, the Committee believes that in the longer term the budget process in Wales needs to be reviewed to consider whether the Assembly should be moving to a legislative process and how best practice could be incorporated into such a process. This will be considered further with the Minister in the spring term.

34. The Committee appreciates the views gathered from stakeholders during the session in Aberystwyth and in response to the Committee’s consultation. The Committee believes the Assembly should have the opportunity earlier in the scrutiny process to influence the Welsh Government’s spending priorities and welcomed the opportunity this year to hold a budget priorities debate prior to the

publication of the draft Budget. The Committee intends to continue to engage stakeholders as part of setting scrutiny priorities and believes scrutiny of the Welsh Government's spending priorities needs to be built on in following years.

Recommendation 1. The Committee recommends that the Welsh Government considers how a debate on spending priorities could be factored into the budget timetable, to provide an opportunity for the Assembly to influence budget priorities and allocations earlier in the process.

2. Overview

Transparency and presentation of the draft Budget

36. This is the third year of the draft Budget under the new budget process, although the timings meant it was not possible to have a two stage process.

37. On 16 December 2019, the Welsh Government provided the following budget documentation: [Budget motion](#); [Budget narrative \(including Strategic Integrated Impact Assessment\)](#); [Tax policy report 2019](#); and [Chief Economist's report](#).

38. For the first time, the documentation also included a [leaflet for children and young people](#) and a [Budget Improvement Plan](#). The OBR published [Welsh taxes outlook, December 2019](#).

39. The [Welsh tax policy report 2019](#) provided some detail in terms of understanding the Welsh Government's progress in implementing tax devolution, research that has been undertaken into changing existing taxes and also consideration into developing a new tax.

40. The [Chief Economist's report](#) provides analyses of projections for the UK and Welsh economies and demographic pressures to set the longer term context of the draft Budget.

The role of the Office for Budget Responsibility

41. The Office for Budget Responsibility (OBR) was established in 2010 to provide independent analysis of the UK's public finances. In the Welsh Government's Draft Budget 2019-20, the then Cabinet Secretary for Finance, Mark Drakeford AM, noted that "Welsh Government has entered into an arrangement with the OBR for the provision of Welsh tax revenue forecasts for the 2020-21 Welsh Government budget and beyond".

42. The Command Paper, Wales Bill: Financial Empowerment and Accountability – published alongside the Wales Bill in 2014 – requires forecasts on Welsh taxes to be published twice a year.

43. Chapter 3 on Financial Levers also covers the OBR's responsibilities.

44. In relation to the forecasts, the OBR said:

"we produced our last set of UK forecasts and accompanying devolved tax forecasts back in March [2019] of last year. And then, in producing

the material that we came out with in December [2019], were still based on the UK forecasts that were underpinning March.”¹⁰

45. However, the OBR stated that its March macro-economic forecasts for growth, inflation and unemployment rate are pretty close to the average of independent outside forecasts at the end of last year. So, the OBR did not think there had been a “game-changing shift” in its expectations of the medium-term outlook of the economy since March 2019 “that would make you worried about the potential disruption and the degree of change that you get in March [2020]”.¹¹

Welsh Government priorities

46. The Welsh block revenue rose by £593 million in 2020-21 compared to 2019-20, or 2.3 per cent in real terms. The Welsh Government is also able to draw £125 million from the £306 million held in the Welsh Reserve at the start on 2019-20.¹²

47. The Welsh Government highlights that, despite the increases in 2019-20 and 2020-21, revenue funding is still 3 per cent lower in real terms than in 2010-11.¹³

¹⁰ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 324

¹¹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 338

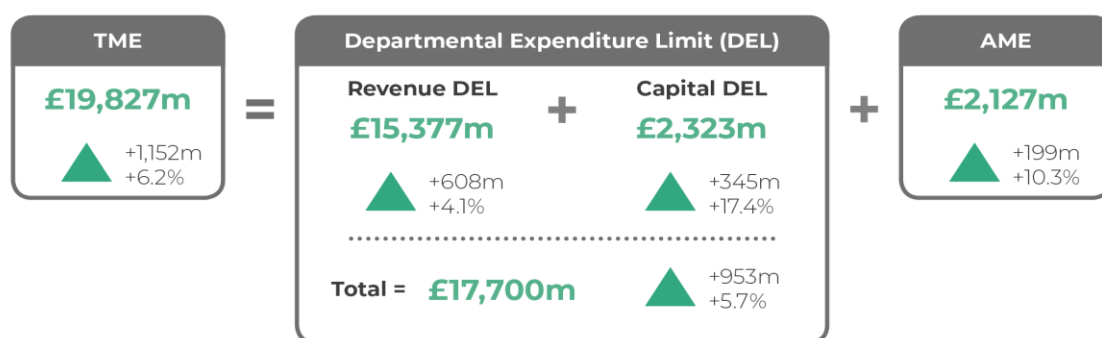
¹² Wales Fiscal Analysis, [Austerity is over – for now](#), December 2019

¹³ Wales Fiscal Analysis, [Austerity is over – for now](#), December 2019

48. This graphic shows overall changes, revenue plus capital.

Welsh Government First Draft Budget 2020-21

Headline figures from the draft budget (DB) 2020-21, showing changes from the first supplementary budget (FSB) 2019-20



	Total DEL allocation	Change from First Supplementary Budget 2019-20 to Draft Budget 2020-21
Health and Social Services	£8,741m	▲ +£367m +4.4%
Housing and Local Government*	£4,706m	▲ +£185m +4.1%
Education	£1,784m	▲ +£55m +3.2%
Economy and Transport	£1,518m	▲ +£227m +17.6%
Central Services and Administration	£387m	▲ +£31m +8.7%
Environment, Energy and Rural Affairs	£348m	▲ +£49m +16.5%
International Relations and the Welsh Language	£216m	▲ +£39m +22.2%

Total Managed Expenditure (TME): The total amount that the Government has to spend.

Departmental Expenditure Limit (DEL): This is the discretionary element of the budget, where the Government budget is allocated to, and spent by Government departments.

Annually Managed Expenditure (AME): Non-discretionary. Spent on demand-led programmes such as the issue of student loans.

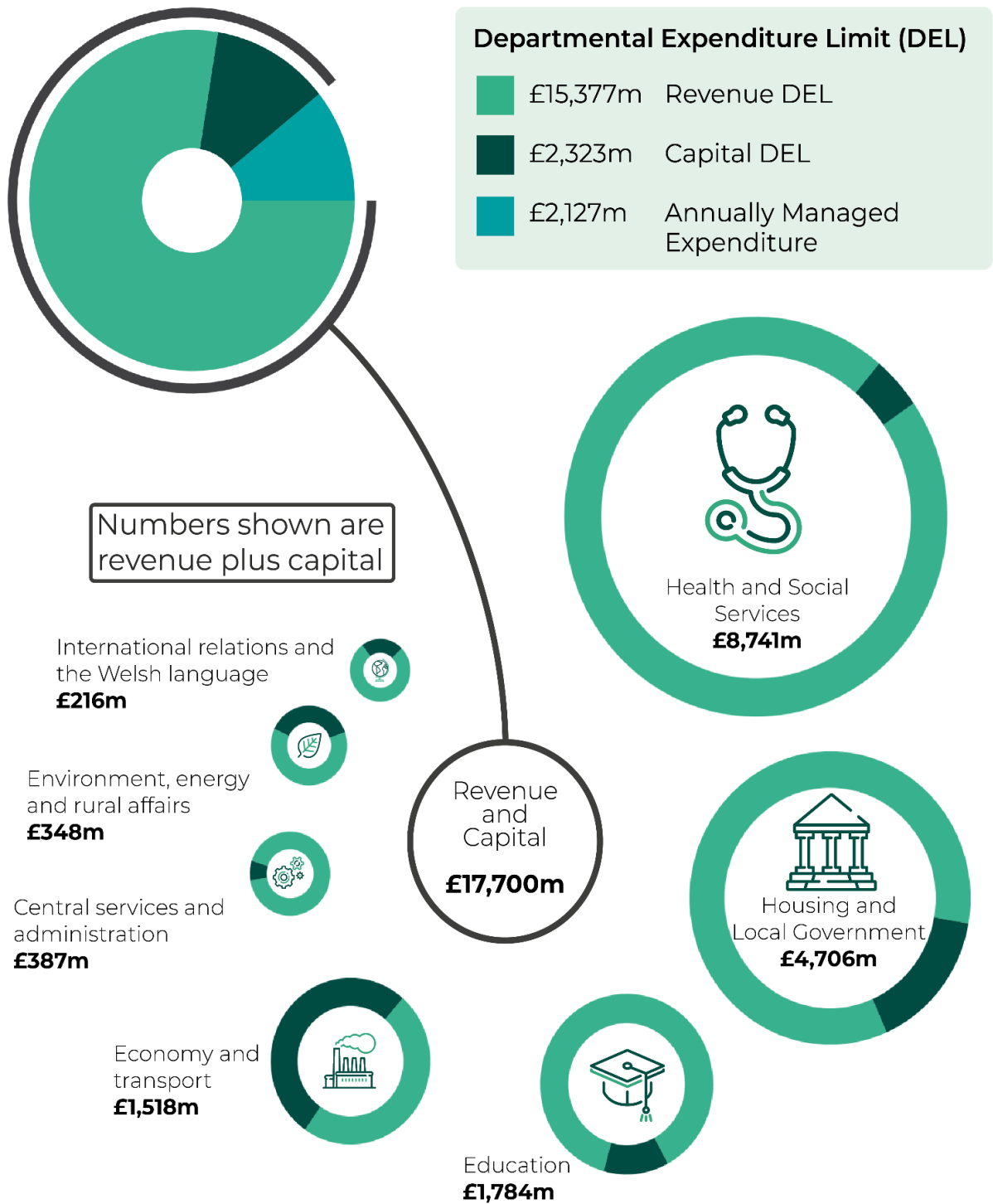
*Excludes £1.1bn non-domestic rates income



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Figures are rounded, please refer to the Welsh Government Draft Budget 2020-21 for exact figures.

49. This graphic shows departmental splits between revenue and capital.



50. The Minister confirmed that the draft Budget gives increases to all departments. She said:

“it gives a good and fair settlement to local government, it reflects the priority that we put on health—even within all of that, within Government there are still pressures that we have been unable to recognise. So, departments are going into the year in still quite difficult circumstances in some cases. In terms of the levels of reserves, in terms of revenue, we’re holding around £100 million, which, when you look at the size of the overall budget, is quite small. So, we’re holding that amount in reserve. And then, in terms of capital, we’re holding £37 million general capital, £46 million in financial transactions. Of the general capital, much of that is earmarked already for specific projects, such as the city and growth deals, but we’ve tried, really, to strike a balance between spending money that we need to spend in terms of maintaining our important public services and keeping a degree of flexibility as well.”¹⁴

51. The Bevan Foundation told the Committee “it is still difficult to link the Government’s ambitions with its allocation of funding”. It said the “raw figures are meaningless on their own.”¹⁵

52. The Bevan Foundation also said there could be some “radical changes” as a result of the UK Government’s Budget that could leave the Welsh Government and Welsh public bodies “completely unprepared” for what lies ahead.¹⁶

53. The Wales Governance Centre (WGC) said that this budget had seen the “biggest increase” for a decade, allowing the Welsh Government to “invest in many more areas and priorities”. However, it said:

“In the context of the cuts that have been made since 2010, we’re still well below where we were in real terms, particularly considering the ageing population and population growth in that period.”¹⁷

54. When asked how sustainable the increase is going forward, the WGC explained that the Budget was based on commitments made in the 2019 Spending Round. It said it would become clearer over the next year with a new

¹⁴ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 9

¹⁵ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 26

¹⁶ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 83

¹⁷ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 5

set of forecasts from the OBR and when the UK Government “sets out its priorities in terms of taxation and expenditure over the next two or three years”.¹⁸

55. The Institute for Fiscal Studies (IFS) agreed adding:

“I think that, if you look at the public finance forecast, it’s inherent—they’re not stated explicitly, the assumptions underlying them—but inherent in the forecast in the Conservatives’ manifesto is that, beyond 2020, once you take account of the increases for the NHS and what’s been announced for the next several years for schools, all other areas of day-to-day spending would effectively be frozen in real terms, if you wanted that to be consistent with what they’ve said on taxation and what they’ve said on the forecast deficit in the Conservative manifesto....

So, I think the question in terms of whether this is sustainable, these kinds of increases that we’re seeing, well, yes, but only if we see higher borrowing, which I think actually is risky given that the Conservatives are already planning to borrow about 3 per cent of GDP, when you add in their extra investment spending, or if we see tax rises. And they’ve hemmed themselves in there. So, if they happen, they will have to be in more roundabout ways than increasing one of the three big, main taxes.”¹⁹

The Fiscal Framework and Statement of Funding Policy

56. The Minister commented that the Fiscal Framework was “working well for Wales” in terms of additional funding. She added:

“the negotiations that the former finance Minister undertook with the UK Government did see an uplift to Welsh Government funding, and that will continue until we converge with the UK Government’s funding.”²⁰

57. The Minister’s official confirmed that the “funding floor has delivered around an additional £160 million to Wales”.²¹

58. The Minister’s official noted that the framework had not been in place for long but agreed that the system was working, despite it being put under

¹⁸ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 7

¹⁹ Finance Committee, Record of Proceedings, 15 January 2020, paragraphs 9 and 10

²⁰ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 13

²¹ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 33

“particular stress” due to the misalignment of various fiscal events in Wales and the UK.²² He explained:

“The fiscal framework now—. Rather than having the raw Barnett formula that we used to have, where we got a pure population share of changes in England, we now get a population share multiplied by 1.05. That was something that was agreed in 2016 and helps ensure funding in Wales continues to be closer to the level it needs to be relative to need.”²³

59. The Minister confirmed that there would be an opportunity to review the framework as part of the comprehensive spending review that will take place later in the year. In terms of potential improvements, she said she would like to see an increase to the annual draw-downs from the cash reserve to give the Welsh Government more flexibility to manage its budgets over a number of years, and in terms of borrowing, an increase to the aggregate borrowing limit and an increase or removal of the annual caps that the Welsh Government is subject to at present.²⁴

60. However, the Minister highlighted that she was more concerned with the Statement of Funding Policy and “the way in which the UK Government has applied it”.²⁵ She added:

“So, those issues are really about the way a Government makes a decision that has a financial impact on other Governments within the UK; the Government taking the decision that should fund those other Governments as a result. The teachers’ pension issue is a good example of that. So, those are the kinds of issues that we really do need to resolve.”²⁶

61. The Minister stated that the Welsh Government only received 85 per cent funding following the UK Government’s unilateral decision regarding teachers’ pensions, estimating the funding gap to be in the “region of £50 million this year”.²⁷

²² Finance Committee, Record of Proceedings, 18 December 2019, paragraph 13

²³ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 35

²⁴ Finance Committee, Record of Proceedings, 15 January 2020, paragraphs 114 and 115

²⁵ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 115

²⁶ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 115

²⁷ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 22

- 62.** However, the Minister’s official recognised that in this case, UK Government departments were not fully funded for the costs so “we’re not getting any less fairly treated than UK departments”.²⁸
- 63.** The Minister also raised the recent Ministerial direction that was issued regarding the NHS Pension Tax Proposal 2019 to 2020, which proposes bringing “NHS Wales in line with NHS England’s solution for 2019/20 to address the operational challenges arising as a consequence of current pension tax arrangements”²⁹.
- 64.** The First Minister stated that he has “fundamental disagreements with the solution which has been implemented in England”³⁰, but sees no option but to follow suit.
- 65.** The Minister said it could cost the Welsh Government up to £20 million but she could not put a “precise figure on it” because the costs would be directly dependent on the additional annual pension tax charges that senior clinicians will incur as a result of the amount of work that they undertake over the course of the winter period.³¹
- 66.** The Minister said this was a position “that we would prefer not to be in”, however the “extraordinary decision” was taken to ensure clinicians were not at a disadvantage in Wales and “more importantly” because “we need to keep those clinicians actively engaged within our own NHS in Wales”.³²
- 67.** In order to resolve some of these funding issues the Minister said she was trying to formalise the Finance Ministers’ quadrilateral meetings to review the Statement of Funding Policy.³³ She stated:

“I want to see those meetings more frequent, with more opportunities to decide things collectively, rather than opportunities just to bid in for the kind of things that you want to see. So, those relationships, I think, need to mature, and we are making some progress on that.”³⁴

²⁸ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 30

²⁹ Letter from the Permanent Secretary to Committee Chairs, 20 December 2019

³⁰ Letter from the First Minister to the Permanent Secretary, 18 December 2019

³¹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 92

³² Finance Committee, Record of Proceedings, 15 January 2020, paragraph 99

³³ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 116

³⁴ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 116

Committee view

68. The Committee welcomes the 2.3 per cent increase in real terms funding and notes that the Welsh Government has decided to spread increases to all departments.

69. However, with the public expenditure outlook over the medium-term not suggesting increases in areas outside of the NHS and schools, the Committee would have liked the Welsh Government's prioritisation to have been more ambitious in terms of a focus on future sustainability and service transformation.

70. The Committee is concerned that the UK Government is making decisions that have a significant impact on the Welsh Government, such as changes to public sector pensions, without associated funding being provided by the Treasury.

71. The Committee acknowledges the Minister's view that the Fiscal Framework is working well and the funding floor has delivered an additional circa. £160 million to Wales. However, the Committee intends to carry out its own scrutiny of the effectiveness of the Fiscal Framework in due course.

72. The Committee supports the Minister's intention to address issues that have arisen with regards the Fiscal Framework and Statement of Funding Policy in particular, ensuring that the impact of UK decisions are accompanied by appropriate funding. There should also be a more formal role for the Finance Ministers' quadrilateral meetings in the review of the Statement of Funding Policy.

Recommendation 2. The Committee recommends that the Welsh Government continues to press the UK Government to examine the merits of different mechanisms for overseeing application of the Statement of Funding Policy, such as oversight by a body independent from government, possibly the Constitution, Democracy and Rights Commission.

Recommendation 3. The Committee recommends that the Welsh Government seeks commitments from the UK Government that UK fiscal events will normally take place by a specified date to ensure devolved administrations have sufficient time to carry out meaningful budget setting and scrutiny.

Recommendation 4. The Committee recommends that the Welsh Government continues to negotiate with the UK Government to secure more frequent and structured quadrilateral meetings of UK Finance Ministers.

3. Financial levers

Background

73. The Welsh Tax Policy Report 2019³⁵ published alongside the 2020-21 Draft Budget outlines the Welsh Government's tax strategy, including:

- monitoring whether Welsh devolved taxes are operating as intended and building the evidence base to consider whether the Welsh taxes could be more efficient and proportionate.
- continuing to press the case with the UK Government for the devolution of Air Passenger Duty (APD) to Wales.
- developing proposals to build the Welsh tax-base over the medium to longer term.

74. The Welsh Government's draft Budget narrative states that:

“The OBR's longer-term fiscal projections indicate the UK's public finances are fiscally unsustainable, in the sense that meeting their central projections for the demand for public services without tax increases would result in ever-increasing public debt. Decisions by the incoming UK Government about levels of taxation and borrowing will determine the resources available to fund public services.”

75. The [Chief Economist's report](#) expands on this statement, referring to the OBR's long term public spending and tax revenue projections. Spending is projected on expected demand, whereas tax revenues are projected to maintain the historic average share of national income, resulting in an increase in public sector net debt towards 300 per cent of GDP towards the end of the 2060s.

Tax strategy

76. The Wales Centre for Public Policy's (WCPP) report on [The Welsh Tax Base](#) identified risks and opportunities after fiscal devolution. In terms of the Welsh Government's tax strategy, the report noted:

³⁵ [The Welsh Tax Base](#) 2019

“...the Welsh Government will need to take an integrated approach by considering devolved taxes on a collective basis, and in particular how other policy levers and objectives might interact.”³⁶

77. The Wales Governance Centre (WGC) voiced its concern that if taxes are not increased at a UK level and the Welsh Government does not utilise its income tax powers, then, given that health and schools are priority areas, local authorities could be in a position where they are not able to provide the same level of public services without further increases to council tax.³⁷

78. The WGC highlighted that the increase in council tax is likely to be around 4.5 per cent, which “still means that council tax is rising by twice the rate of inflation again this year”. The WGC suggested:

“...a more progressive way would be to introduce an income tax rise across Wales at a Welsh Government level, even if that is sub-optimal and it would be better if that happened at a UK level. I think that should be a key part of the debate over the next year.”³⁸

79. The Minister reiterated the Welsh Government’s commitment not to raise income tax during this Assembly.³⁹

80. Witnesses agreed that there were opportunities for the Welsh Government to raise income through alternative taxes, such as a possible tourist tax and vacant land tax.⁴⁰

81. However, the IFS recognised that these new taxes would raise some revenue but they would not be “game changers in the revenue-raising capabilities of the Welsh Government” and would not be a fiscal lever with the potential to really tackle spending pressures.⁴¹

82. The Minister provided an update on the possible new taxes, with the process for a vacant land tax proving to be more protracted and difficult than expected.⁴²

³⁶ **The Welsh Tax Base**

³⁷ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 23

³⁸ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 23

³⁹ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 86

⁴⁰ Finance Committee, Record of Proceedings, 15 January 2020, paragraphs 56 and 58

⁴¹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 66

⁴² Finance Committee, Record of Proceedings, 18 December 2019, paragraph 80

83. When asked why the Welsh Government was not implementing additional financial changes when faced with financial uncertainty, the Minister suggested that an upcoming comprehensive spending review would provide more certainty⁴³. The Minister continued:

“...given the levers that we have, they are relatively limited and we do depend in large part on the funding that we receive from the UK Government. You made the point that austerity seemed to be over, but, of course, if our budget had risen in line with public spending over the longer term, we would be £6 billion better off next year, and if it had risen in line with economic growth over the same period, we would be £4 billion better off next year as compared to 10 years ago. So, there’s lots in the mix and those figures themselves demonstrate that we are very much reliant on the bigger picture.”⁴⁴

The Office of Budget Responsibility

84. The Welsh Government [Tax Policy Report 2018](#) outlined the OBR’s role in providing independent tax forecasts:

“In support of the delivery of the Welsh Government’s Budget, the OBR will produce two reports. These will include forecasts for Welsh taxes – LTT and LDT – and Welsh rates of income tax, which will be based on the OBR’s most recent macro-economic forecasts and any relevant specific data for Wales. The OBR’s forecast will also take appropriate account of any Welsh Government tax policy changes. These reports will be published alongside the Welsh Government’s outline draft Budget and the final Budget.”⁴⁵

85. Alongside the draft Budget documentation provided in December 2019, the OBR provides a [Welsh taxes outlook](#). The OBR Welsh taxes outlook details that the OBR will not be producing a Welsh macro-economic forecast. The OBR’s role is to investigate whether there is a convergence or divergence between Wales and the rest of the UK in variables relevant to the taxes forecast and make any necessary adjustments to produce a central forecast. Additionally, the OBR provides commentary on changes to Welsh tax revenues and equivalent UK taxes that play a role in block grant adjustment calculations.

⁴³ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 90

⁴⁴ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 92

⁴⁵ [Welsh Tax Policy Report 2018](#)

OBR engagement

86. The Welsh Government Tax Policy Report 2019 highlights that the OBR “has, and will continue, to increase its presence in Wales by engaging more substantially with interested organisations and individuals, including the National Assembly’s Finance Committee”.⁴⁶

87. The OBR outlined that it had “as much useful interaction as we can do with the Welsh Government and with experts here, and with people with local knowledge to feed into that as best we can”.⁴⁷ The OBR added that there are different levels of engagement with various organisations such as HMRC, the Welsh Revenue Authority (WRA) and the Welsh Government.⁴⁸ Furthermore, the OBR identified that there is a review process that can be used should the process not work. However, due to the unusual circumstances, it is difficult to reach conclusions on what may need to be done differently.⁴⁹

88. The Minister said she was satisfied with the information received from the OBR and confirmed that the development of forecasts is an “iterative” process and whilst the OBR and the Welsh Government do share ideas, experience and learning, the OBR process is “entirely independent”.⁵⁰

Welsh tax forecasts

Who does the forecasting?

Income tax: OBR publishes forecasts on Welsh rates of income tax derived from HMRC’s income tax modelling. The Welsh Government / Welsh Treasury has its own model for the Welsh rate of income tax, used to model policy choices.

Landfill and Land Transaction Taxes: OBR forecasting models are populated and run by Welsh Treasury analysts. This information is then provided to the OBR.

Non-domestic rates: Forecasts are **not** within OBR’s remit.

⁴⁶ [Welsh Tax Policy Report 2019](#)

⁴⁷ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 314

⁴⁸ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 315

⁴⁹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 316

⁵⁰ Finance Committee, Record of Proceedings, 18 December 2019, paragraphs 12 and 44

89. The table below shows that the Welsh Government will control almost £2.5 billion of tax revenues in 2020-21, which would represent over an eighth of the total Welsh budget.

	£ million					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
LTT	228	226	245	268	294	322
LDT	44	38	36	35	35	35
WRIT	2,053	2,089	2,206	2,286	2,368	2,456
Total	2,325	2,353	2,487	2,589	2,697	2,813

Table 1. Total Welsh tax forecasts – December 2019⁵¹

90. The OBR expanded on the uncertainty around Brexit and the UK Budget timing in producing forecasts:

“... we produced our last set of UK forecasts and accompanying devolved tax forecasts back in March of last year. And then, in producing the material that we came out with in December, we’re still based on the UK forecasts that were underpinning March. Although, it was then possible to take on new outturn data and some judgments, for example, on what evidence has been suggested about house-price growth et cetera....”

Where we are now is that we are now just about to embark on the process of producing the forecast to accompany the UK budget on 11 March. We’re at the very, very, very early stages of that; we’re not near even a first draft or a first iteration of the economic or fiscal forecast there.”⁵²

91. However, the Bevan Foundation said there could be some “radical changes” as a result of the UK Government’s Budget that could leave the Welsh Government and Welsh public bodies completely unprepared for what lies ahead.⁵³

92. In relation to forecasting methodologies the OBR said:

“Land transactions, both in the UK context, in the Scottish context and the Welsh context—there are alternative methodologies that we’ve looked at and we’ve ended up with one that Wales went with first, I

⁵¹ Source: OBR - Note - Non Domestic Rates (NDR) not included

⁵² Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 324-325

⁵³ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 83

think, which works well and it works well given the nature of the data that we're able to get from the revenue authority. But those changes have not had hugely consequential quantitative effects, but they've been useful nonetheless."⁵⁴

93. The OBR outlined its relationship with the WRA:

"... in terms of the modelling process, they are turning the handle, so there will be discussions then in terms of what methodologies—is the methodology appropriate, is the toolkit appropriate, are there things that you need to do to that? And, ..., there are some areas of thinking about that toolkit that has been going on long before we had this, and, with the different methodologies that we've used on land transaction tax—this would be a case in point there—there are different approaches that you can take on that.

The other thing on the substance of how the tax system operates in practice would be compliance. So, again, there might be issues. If you're trying to look at explanations for why land disposals tax generated more—. Our forecasts, you know, things have been turning out pretty much in line with March 2019, but better than March 2018. Part of that could be because of relative compliance effort on the part of the Welsh Revenue Authority plus others. So, that's another area where it's useful to get a sense, in addition to just the nuts and bolts of what the spreadsheet looks like."⁵⁵

94. The OBR continued to discuss the uncertainties associated with property transactions:

"If I'm forecasting the income tax receipts we're going to get from everybody around this table, you're all, hopefully, going to be earning income year after year, and, therefore, that's a basis. Now, if you were trying to predict the amount of housing land transactions tax we would get out, you're not all going to buy and sell houses every year, so that same richness of data is not there. Is the information that you've got, or the judgments that you make about what's going to go on with the housing market as a whole, going to be an accurate reflection of the

⁵⁴ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 341

⁵⁵ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 383-384

particular sub-set of properties that are transacted on in a particular period?”⁵⁶

95. The OBR stated that the landfill forecasting is “less economically driven” and:

“There are judgements there about (a) what’s the quality of your starting data, but then, capacity; alternative ways of disposing of the waste; what’s the mix between the different sorts of waste, et cetera. So, you’ve got a very different set of things that you can get wrong around that, which are less related to an economic forecast and for which there is less data and less analysis available.”⁵⁷

96. With regard to income tax modelling, the OBR said in the UK context “you might feel reasonably confident about the amount of revenue that you got in last year”. However, in reference to Wales the OBR said there were different challenges “when you don’t know where you’re starting from”.⁵⁸ For example, the bigger problem in Scotland was that outturn data on flagged taxpayers was considerably different to the starting point used in the modelling.

97. The OBR said it was confident that it has a robust model⁵⁹ and, when asked if it was confident in the data provided by HMRC, the OBR said:

“HMRC are obviously partly seized of the Scottish experience, have devoted effort to this. There’s an opportunity to see where some of the difficulties arose there and you’ve also got the activities of the National Audit Office helping on the side as well. So, again, it’s hard to say quantitatively how confident you are, but work is focused in the right direction there. We wait to see with the outturn to what extent there’s a difference between the survey and the other measure. There’s obviously the possibility of behavioural responses, which you would be more concerned about if you were in a situation where you thought people were responding to either the reality or the expectation of very different sets of tax rates across the border, which would further complicate you and make you more worried about whether people would try to game the system by pretending to be on one side of the border rather than the other, or when they had a legitimate choice of being on one side of the border or the other if they owned two properties, for example,

⁵⁶ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 387

⁵⁷ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 338

⁵⁸ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 393

⁵⁹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 411

where they are, and actually people moving. So, in the absence of those sorts of large incentives you might be less anxious about that. Then there are the little technical issues of what do you do with properties that are bisected by the border. But there are 34 of those, so presumably we don't need to worry too much on that side."⁶⁰

98. The OBR confirmed that it had not done any comparative work on the Welsh Government's forecasts but it would not expect to see a big difference.⁶¹ The Welsh Government uses its own simplified model for the Welsh Rates of Income Tax (WRIT) to model policy choices, but the model is calibrated to produce similar outputs.⁶²

99. The Minister's official stated that the misalignment of the Welsh and UK Budgets:

"... has put particular stress on the mechanism of the fiscal framework this time around, because it's not really supposed to work in the kind of order that it's been working in. So, the OBR have had to produce block grant adjustment figures, for example, ahead of producing UK-wide forecasts for the period. So, I think, given the difficulties of this particular process, it's gone as well as could be expected in terms of its operation."⁶³

100. The Minister said having a full year of outturn information available for LDT and LTT has allowed for an evaluation of 2018 forecasts, and there is internal quality assurance of the models. The Minister continued:

"... the LDT model is now calibrated to outturn, because we have that information, and that means now that it uses the most recent available data and it minimises the chance of year-end revisions ... LTT models now use the latest outturn data, but they also use information on house prices across Wales, which we get from the Welsh Revenue Authority, and that captures the differences in transactions across Wales, making that a more useful set of data as well. So, as things are moving on and as the data that is available to us increases and improves, I think that we will see those models continue to perform well."⁶⁴

⁶⁰ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 409

⁶¹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 420

⁶² Finance Committee, Record of Proceedings, 18 December 2019, paragraphs 52, 53 and 57

⁶³ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 13

⁶⁴ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 126

Welsh Gross Domestic Product

101. The Office for National Statistics (ONS) published Gross Domestic Product (GDP) growth in Wales for the first time in September 2019. Between October and December 2018, GDP growth was 0.3 per cent. However, GDP decreased by 0.5 per cent in the first quarter of 2019. Both the Chief Economist’s Report and the OBR have reiterated that medium term growth forecasts are expected to remain below historical averages.

102. In relation to GDP, the OBR said:

“... you look at the sort of growth numbers we have, which, ..., are broadly consistent with the outside average, you’re looking at GDP growth of roughly 1.5 per cent a year over the medium term. In a historical context, that is relatively weak. It’s relatively weak for a period of economic recovery when you’re coming out of a hole, and it reflects primarily the defining puzzle that all economic forecasters have confronted since the financial crisis, which has been the weak growth of productivity, of output per hour worked in the economy, and the implications that you think that has for the underlying potential growth of the economy. So, that’s the key driver, particularly of living standards, real earnings growth, et cetera, and that is relatively weak by historical standards.”⁶⁵

103. In relation to the GDP forecasts from the ONS, the Minister welcomed the data, noting that it was “experimental” but it may be useful data in the future.⁶⁶

Block grant adjustment

104. The OBR was asked whether producing block grant adjustment figures in advance of the main macro-economic forecast being produced at a UK level caused any issues. The OBR said:

“The calculations that are required to do a block-grant adjustment you can do with any vintage of numbers, so we have annexed those to this document, and they use somewhat updated England and Northern Ireland numbers for the income tax and the other taxes and somewhat updated Welsh—. But they all run off the UK forecast from back in March. So, in a sense, they’re somewhat out of date. It’s not a problem

⁶⁵ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 358

⁶⁶ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 124

producing them, but it's a problem in interpreting them and thinking how they might change on 11 March."⁶⁷

105. The OBR expanded on the potential changes to forecasts ahead of the UK Budget:

"But there will be more months of information. There are big self-assessment income tax payments that come at the end of January, which we will know about for the March forecast but we didn't know about for this forecast. So, they are always likely to be revised, to some extent. I don't think it is a large risk for 2020-21, given the state of economic news since then, but the potential is there."⁶⁸

106. Referring to the fall in the WRIT forecast, the OBR said:

"... the largest source of change was the latest outturn data point for the Welsh share of total income tax. So, that boils down to how we projected from a survey year in the past, one year on, and how that compared to the outturn number. So, the outturn was slightly lower. The size of these forecast revisions is, I think, small, relative to, say, the Scottish experience with the first outturn. So, I think these are the kind of tens of millions on a £2 billion forecast that are to be expected. I think larger numbers are probably to be expected at times where either the economy moves more differently or there was a big policy change that needed more uncertain judgments."⁶⁹

107. Expanding on what happened in Scotland, the OBR said that experience had enabled the OBR to use supplementary data sources and HMRC had also "learned some lessons". The OBR did not believe that "there should be as big a surprise coming for Welsh rates of income tax as there was in the Scottish context".⁷⁰

108. The OBR continued to detail lessons learnt from the Scottish experience:

"So, the thing that we particularly did ... was to place more weight on the real-time information from the PAYE income tax system for projecting the past. So, we start with a survey that's a couple of years out of date. We know UK-wide revenue right now, and so it's how you triangulate between them to work out what in that is the Welsh rates

⁶⁷ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 335

⁶⁸ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 337

⁶⁹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 422

⁷⁰ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 395-396

component. We put more weight on RTI now. What we then do for the future is we look at what we know about projections for population, which we factor in, what we know about how the income tax system is changing and how that would have a different effect in Wales to the rest of the UK—so, particularly, the per capita cost of moving the personal allowance is higher in Wales because of the income distribution. We do not currently make any assumptions about differences in future rates of earnings growth or future rates of employment growth—history would tell you that those things move pretty much in line, most of the time...”⁷¹

109. Explaining the fall in landfill tax revenues, the OBR said:

“... there are two main changes there: one is that the outturn, the quarterly numbers, were slightly lower than we expected. Arithmetically, that is because the seasonal pattern differed from the seasonal pattern of the landfill tax over the preceding years and we had used that as the basis for the forecast. What we don’t know is whether that then means that the seasonal pattern in Wales will always be like it was last year or whether something happened somewhere that meant less got sent to landfill and more was dealt with in another way...

We did also make once change to a forecast judgment in relation to the pace at which non-local authority waste will decline over time, which is, basically, to use a shorter moving average than the one we had been doing.”⁷²

110. The Minister’s official said the Welsh Government is talking to HMRC about the identification of Welsh taxpayers and an acceptable error rate. He explained:

“You would probably expect it to be higher than zero, and I think in the Scottish context it’s running at roughly 1 per cent a year. You might expect the error rate in Wales to be a little bit higher because of the greater degree of movement between Wales and England in particular. The numbers that we’re looking at at the moment are way, way too high, but there probably is a level at which you shouldn’t expect it to get much below.”⁷³

⁷¹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 426

⁷² Finance Committee, Record of Proceedings, 9 January 2020, paragraph 428

⁷³ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 148

111. The Minister recognised that the OBR would need to produce new economic and fiscal outlooks to accompany the UK Budget and this “might have implications on the prospects of the devolved tax revenues and the associated block grant adjustments”.⁷⁴

Borrowing and reserves

112. The WGC noted that an increase in the interest rates for the Public Works Loan Board might impact on local authorities’ decisions on borrowing, as borrowing would now be more expensive.⁷⁵

113. However, the IFS noted that the pressure for council funding is not on capital investment but on resources, such as around social care, and local government cannot borrow for resources purposes.⁷⁶

114. The Minister’s official confirmed that the Welsh Government is not expecting the increase in interest rates for local government to impact on its borrowing from the National Loans Fund.⁷⁷

115. The Minister said she would like to see an increase in the Welsh Government’s “ability to increase the annual draw-downs from the cash reserve and also the overall size of that ... to give Welsh Government more flexibility to manage its budgets over a number of years”.⁷⁸

116. Additionally, the Minister would like to see an increase to the overall borrowing limit along with an increase in, or removal of, the annual borrowing caps.⁷⁹ The Minister said she intended to raise these issues during the comprehensive spending review and she had already written to the Chancellor indicating her intentions, although she did not have a precise figure on what borrowing limit the Welsh Government would like.⁸⁰

Committee view

117. The Committee welcomes the detail provided in the Welsh Tax Policy Report 2019. The document has helped to understand the Welsh Government’s progress

⁷⁴ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 15

⁷⁵ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 49

⁷⁶ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 50

⁷⁷ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 174

⁷⁸ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 114

⁷⁹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 115

⁸⁰ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 130

in implementing tax devolution and the Welsh Government's consideration into developing a new tax.

118. The Committee is concerned by the evidence that increases in future budgets will be unsustainable without higher borrowing or increases in taxation.

119. The Committee acknowledges the Welsh Government's view that it is already "pushing against" the limits of its fiscal rules in terms of borrowing, and its pledge not to raise income tax this Assembly term while also ensuring that tax rates do not diverge from UK rates. However, the Committee agrees with stakeholders that a change in strategy will be required if the Welsh Government wishes to ensure that sufficient funding is available for investment in public services in future years, by either borrowing or increased tax revenues.

120. The Minister believes that the upcoming spending review would provide certainty for future years and the Committee would welcome an update on this when negotiations are concluded. The Committee notes the Minister's evidence on the progress of new taxes and, whilst recognising that these taxes are more likely to influence behaviour rather than raising any substantial revenue, it is disappointing that there has not been more progress with these new taxes. The Committee hopes that the Minister is able to quickly progress talks with the UK Government on the process for new taxes in Wales.

121. The Committee recognises that despite the unusual timeframe, the OBR has been able to produce block grant adjustment figures (ahead of producing UK-wide forecasts for the period). Given the difficulties with the timing of fiscal events, this process appears to have worked well and the benefits received through the funding floor and the fiscal framework are positive for Wales.

122. The Committee welcomes the work of the OBR and Welsh Government teams who fed into the tax forecasts and, in particular, the analysis and explanations provided to the Committee concerning forecasts and public expenditure expectations in the short to medium term. The Committee recognises that the OBR forecasts of Welsh income tax revenue are slightly lower than those provided in March 2019 and that the lack of updated UK macro-economic forecasts until the UK Budget is published has added an additional level of uncertainty to these forecasts.

123. Notwithstanding the Minister's view that this is experimental data, the Committee believes the production of the GDP data by the ONS is important data as it provides an indication of the current direction of the Welsh economy.

124. The Committee notes the view of the OBR and the Minister that they are not expecting the UK Budget on the 11 March to significantly alter the Welsh position. However, the Committee believes the updated OBR economic and fiscal outlook might have implications on the devolved tax revenues and the associated block grant adjustments, and believes it would be prudent for the Welsh Government to be prepared.

125. There has been progress made by HMRC to reduce the high level of coding errors in relation to the identification of Welsh taxpayers. However, the Committee looks forward to hearing the Welsh Government's view on what an acceptable error rate for Wales would be with reference to rates in Scotland and being mindful of the different border Wales has with England. The Committee will follow up on this issue with HMRC when it attends Committee later this year.

126. The Minister said she will be asking to increase both the overall and annual borrowing limits and also the annual drawdown from reserves. Whilst the Committee recognises that central governments do have a need to oversee the overall level of borrowing by subnational and local governments, the Committee agrees that the Welsh Government should explore the possibility of more flexibility regarding the overall borrowing limit and annual drawdown. However, the Welsh Government should be particularly conscious of the future revenue cost of its borrowing,

Recommendation 5. The Committee recommends that an update is provided as soon as possible after the UK Budget detailing any impact of the UK macro-economic forecasts, particularly any impact on devolved tax revenues and the associated block grant adjustments.

Recommendation 6. The Committee recommends that the Welsh Government re-commences talks on new taxes with the UK Government as soon as possible in order to test the process, and provides an update to the Committee in due course.

Recommendation 7. The Committee recommends that the Welsh Government keeps under review new and emerging data sources, such as the Office for National Statistics Welsh Gross Domestic Product data, to improve the accuracy of Welsh economic and devolved tax forecasts

Recommendation 8. The Committee notes the significant level of coding errors reported in relation to Welsh taxpayers by HMRC and recommends that the error rate continues to be monitored by the Welsh Government and an update is provided to the Committee following the next scan.

4. Well-being of Future Generations (Wales) Act 2015

Embedding the Well-being of Future Generations (Wales) Act 2015 in the budget process

127. The draft Budget 2020-21 is the fourth to be published since the Well-being of Future Generations (Wales) Act 2015 (the Act) came into force.

128. The Committee has used the Act as a lens to assess the budget since its enactment. During last year's budget scrutiny, the Committee considered the extent to which the Welsh Government's decisions and budget planning were being driven by the requirements of the Act, as well as how decisions are evidenced more generally. The Committee's report on the draft Budget 2019-20 made the following recommendation relating specifically to embedding the Act in the budget process:

The Committee recommends that the Welsh Government continues to demonstrate how it embeds the Well-being of Future Generations Act in decision making throughout its organisation, engaging as fully as possible with the Future Generations Commissioner to deliver the cultural change necessary within the Welsh Government (Recommendation 9).⁸¹

129. The Welsh Government accepted this recommendation, acknowledging the value of the work and cooperation between Welsh Government officials and the Future Generations Commissioner's office and noted that the process of embedding the Act in the budget was "evolutionary".⁸²

130. In December 2018, the Future Generations Commissioner (the Commissioner) published 'Advice to the Welsh Government on taking account of the Act in the budget process'⁸³, which included ten recommendations for how

⁸¹ Finance Committee Report, [Scrutiny of the Welsh Government draft Budget 2019-20, November 2019](#)

⁸² Welsh Government, [Response to the Finance Committee's scrutiny of the Welsh Government draft Budget 2019-2020](#)

⁸³ Future Generations Commissioner, [Advice to Welsh Government on taking account of the Well-being of Future Generations Act in the budget process](#)

the Commissioner thought the Welsh Government could build on progress made in 2019-20.

131. In responding to the Committee’s consultation on the draft Budget 2020-21, the Commissioner noted that her work in relation to this year’s budget has focused on three areas:

- how the Welsh Government is investing in decarbonisation and funding the climate emergency
- the Welsh Government’s approach to preventative spending
- the development of a ‘journey checker’ about the budget process.⁸⁴

132. The Commissioner issued a briefing to Members following publication of the draft Budget 2020-21, based on the recommendations included in the advice she issued in December 2018.⁸⁵

133. In terms of the progress made by the Welsh Government to embed the Act into its decision making for 2020-21, the Commissioner’s official felt there had been a “visible shift” in relation to both decarbonisation and preventive spending. However, the official also said that there was “still considerable scope for progress” and, anticipating a UK spending review imminently, urged the Welsh Government to use that “as an opportunity to really be making more transformational strategic decisions”.⁸⁶

134. The Commissioner’s official told the Committee that they felt the Welsh Government had possibly taken “a backward step this year in terms of the structure of the budget”, shifting from the well-being objectives in **Prosperity for All**. She continued:

“...last year, it was structured according to well-being objectives, which are obviously one of the key elements of the well-being of future generations Act, and this year, this isn’t the case. This year, it’s structured by a more prosperous Wales, a greener Wales and a more equal Wales, which relate, to some extent, to the well-being objectives,

⁸⁴ Finance Committee, Consultation response: [WGDB_20-21 15 Future Generations Commissioner for Wales](#)

⁸⁵ Future Generations Commissioner, [Briefing to Assembly Members, December 2019](#)

⁸⁶ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 151-152 and 154

but aren't exactly there. So, we think that there's scope for that to be reconsidered as well."⁸⁷

135. The Commissioner's official also emphasised that their interest is in the entirety of the budget, rather than just new expenditure:

"We feel that four years into the well-being of future generations Act, we should be seeing considerable improvement in relation to existing spend, as well as new spend."⁸⁸

136. The Commissioner's office has approached its engagement differently this year:

"...we've consciously broadened out our engagement from just the finance Minister and her core budgeting team to the whole of Government, because I think we realised quite early on, in terms of decarbonisation and prevention, the scale of the cultural change that's needed, the finance ministry can only do so much there. So, we've consciously engaged across Government. The commissioner, as you probably know, has written to the whole of Cabinet several times specifically around the budget. She's met with a number of Ministers specifically about the budget too. And in terms of our conversations, we've also widened those out for officials across Government."⁸⁹

137. Officials explained that the Commissioner had focused on two issues (decarbonisation and prevention) this year, meaning those areas could be explored in "a lot more depth than previously".⁹⁰ They also referred to the publication of the Commissioner's 10 Point Plan as a "conscious decision to really start the conversation about responding to the climate emergency really early on" and the particular focus on the prevention of homelessness as a "lens to explore how the Welsh Government is working collaboratively to have those cross-departmental conversations about prevention".⁹¹

138. To support its engagement, the Committee heard that the Commissioner's office has focused 50-60 per cent more of its resource on the Welsh Government's budget this year, as well as resourcing expert input from the New Economics Foundation and Social Finance. However, officials acknowledged that

⁸⁷ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 155

⁸⁸ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 156

⁸⁹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 159

⁹⁰ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 160

⁹¹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 160

it was challenging for the Commissioner to resource such work in terms of the scope and remit of the office.⁹²

139. When asked how the budget process is guided by the Act, the Minister explained that at every meeting with Ministers they have “explicitly talked about the well-being of future generations Act and the need to not just be, obviously, working within the context of the Act, but being able to demonstrate that we’re able to do so as well”. The Minister continued:

“I’ve met with the commissioner a number of times this year, and she’s quite rightly very challenging to Government in terms of her expectations as to how we can demonstrate the Act is being brought to life in the decisions that we make. So, I think that the well-being of future generations Act has been at the forefront of our considerations and the way in which we’ve worked on this budget.”⁹³

140. Responding to the Commissioner’s view that the budget needs to further embed the Act, the Minister said:

“I think that’s very fair—that we do need to continue to further embed the Act in what we do. We’ve been clear that it’s an iterative process and we always want to make improvements in this area, which is why we work closely with the future generations commissioner. I had a number of meetings with her over the course of the year. I know that the team are in regular contact with her office as well, in terms of embedding the Act.”⁹⁴

Budget Improvement Plan

141. Last year the Commissioner told the Committee that she was developing a ‘journey checker’ that would help track, year on year, how and to what extent the Act is influencing decision making.

142. The Committee’s report on the draft Budget 2019-20 subsequently made the following recommendation:

The Committee is keen to understand how the “journey tracker” will be used by the Welsh Government to accelerate its implementation and integration of the objectives of the Well-being of Future

⁹² Finance Committee, Record of Proceedings, 9 January 2020, paragraph 164

⁹³ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 310

⁹⁴ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 162

*Generations Act and recommends that its use is reflected in the draft Budget 2020-21. (Recommendation 8).*⁹⁵

143. The Welsh Government accepted this recommendation in principle, noting that it intends to work closely with the Commissioner's office to consider how the journey tracker can support the budget process next year.⁹⁶

144. The Commissioner had recommended that the Welsh Government should work with her office to develop the journey checker, however, the Welsh Government has undertaken development of a tool internally. This work is reflected in the Budget Improvement Plan.⁹⁷

145. The draft Budget narrative says that the Budget Improvement Plan builds on the journey checker and sets out how the Welsh Government intends to change and improve the way it allocates funding. The Budget Improvement Plan outlines the Welsh Government's vision, including short-term and medium-term ambitions over the next five years, to improve budget and tax processes. The aim of the improvements will be to increase transparency in budget documentation and to show how the Act has influenced budget decisions.⁹⁸

146. The Budget Improvement Plan covers the following aspects of the budget:

- Spending Decisions
- Fiscal & Economic Analyses and Assessing Impact
- Infrastructure planning
- Supplementary Budgets
- Taxation Strategy
- Tax and Budget engagement.⁹⁹

147. The Budget Improvement Plan includes a timeline for activities in line with the above areas and spans a period of five years from 2019. Alongside the Budget

⁹⁵ Finance Committee Report, [Scrutiny of the Welsh Government draft Budget 2019-20. November 2019](#)

⁹⁶ Welsh Government, [Response to the Finance Committee's scrutiny of the Welsh Government draft Budget 2019-2020](#)

⁹⁷ Welsh Government, [Budget Improvement Plan](#)

⁹⁸ Welsh Government, [Draft Budget 2020-21 narrative. 16 December 2019.](#)

⁹⁹ Welsh Government, [Budget Improvement Plan](#)

Improvement Plan, the Welsh Government will establish a Budget Improvement Oversight Group to oversee and help shape planned improvements.¹⁰⁰

148. Whilst the development of the Budget Improvement Plan and the longer term perspective of spending decisions was welcomed by witnesses, the Wales Centre for Public Policy (WCPP) felt it needed to balance ambition with clear and realistic objectives. In the context of uncertainty, the WCPP emphasised the need to transcend the short term and bolster the capacity of the public sector to be able to plan and work towards longer-term goals.¹⁰¹

149. The Wales Council for Voluntary Action (WCVA) said it was not clear, in relation to some elements including prevention, that sufficient action was being taken and noted that the budget processes should be developed to look at scenario planning given the wider context of uncertainty.¹⁰² It also expressed an interest in working with the Welsh Government to consider how to involve people in the budget planning process and to build up an evidence base as:

“...we feel that sometimes really effective projects can be cut in difficult times when, actually, they are good preventative services, but without the evidence base...”¹⁰³

150. In terms of how sectors would respond to a more active budget planning and improvement process, in which the effective testing of public expenditure results in winners and losers, the Bevan Foundation acknowledged that “asking difficult questions has got to be part of the process”.¹⁰⁴

151. Whilst the Commissioner’s office welcomed the Budget Improvement Plan as “a vehicle for a much more robust understanding of year-on-year progress in relation to the budget”, the official also highlighted three main areas of weakness.¹⁰⁵

152. The first relates to raising the level of ambition and vision by “thinking about what a budget that fully embeds the well-being of future generations Act might

¹⁰⁰ Welsh Government, [Budget Improvement Plan](#)

¹⁰¹ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 88 and 136

¹⁰² Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 84 and 87

¹⁰³ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 143

¹⁰⁴ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 147

¹⁰⁵ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 151

look like and working back from that” rather than the approach the Welsh Government has taken “to look at where we are today and work forwards”.¹⁰⁶

153. Secondly, the Commissioner’s office believes that the Budget Improvement Plan should enable stakeholders to hold spending decisions to account and track transformational change. The Commissioner’s official drew parallels with the well-being budgeting approach adopted in New Zealand:

“...what they do there in relation to new spend is they select priorities and then cross-Government groups make spending proposals against these priorities with impact assessments alongside that. The Government then selects proposals and publishes the spending decisions that have changed as a result. So, it’s much more transparent and it’s much easier to see what’s actually changed. So, we think that Welsh Government should be doing something similar to that, at the very least in relation to new spending decisions, if not entire spending decisions.”¹⁰⁷

154. The Commissioner’s official explained that the third weakness they have identified relates to the five ways of working and the broader mechanics of the Act:

“...we think that the plan is relatively stronger in terms of collaboration, involvement and integration, which are three of the five ways of working, but there’s more to do potentially on prevention and long term. So, whilst there’s a section on prevention, we think that prevention isn’t reflected well enough through the entirety of the plan and, in terms of long term, we feel that not enough consideration is given firstly to the timeframe of the plan, because it’s only five years, but also to the ways in which Government could make different decisions to enable other organisations to make longer term decisions.”¹⁰⁸

155. The Commissioner’s officials went on to outline that, while the Budget Improvement Plan does have positive elements regarding prevention that were transformational, these were “too far down the line”:

“...the budget improvement plan is set around this five-year time frame, and the more transformational stuff, and the stuff we think should really be happening now and in the next year, is sort of 2023 plus—that

¹⁰⁶ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 173

¹⁰⁷ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 174-175

¹⁰⁸ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 176

sort of time frame—which, if you think about it, is seven years after the Act came into force. And we would argue that that sort of approach should be happening now.”¹⁰⁹

156. Officials also suggested that the Welsh Government’s focus for the plan was on budget process, whereas the Commissioner’s office believe “it should also be a vehicle to analyse and understand spending decisions”.¹¹⁰

157. The Committee asked the Minister how the Budget Improvement Plan has influenced the draft Budget 2020-21. The Minister explained:

“...the budget improvement plan sets out where we’ve got to today, and then it sets out the progress that we intend to make over the coming years as well.

...this is the first time it’s ever been published, and it was published alongside the draft budget this year. So, the work has been going on to get to the point of publishing the plan, rather than the plan influencing this year. What I have to say about the plan is that it is about the process of the budget and demonstrating how we’re embedding the well-being of future generations Act, for example, within that. It’s not a decision-making tool in itself, it’s a journey by which we can demonstrate the improved way in which we make decisions. The actual place for those decisions to be made is still within the normal budget-setting process.”¹¹¹

158. In relation to the Commissioner’s comments on the need to strengthen the Budget Improvement Plan, the Minister explained:

“In the spirit of collaboration that the Act requires, we’re really keen to work with stakeholders to understand how they would wish to see the plan improve for future years. So we’ll continue those discussions with the future generations commissioner but also wider stakeholders—BAGE, the budget advisory group on equality, and others.”¹¹²

159. The Minister also referred to the publication of evidence submitted by each Minister to their respective subject committees, suggesting that much of it “relates to the way in which we’re embedding the Act” as the Budget

¹⁰⁹ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 279

¹¹⁰ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 172

¹¹¹ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 304

¹¹² Finance Committee, Record of Proceedings, 15 January 2020, paragraph 160

Improvement Plan is a “short document and can only capture so much of the work that’s going on”.¹¹³

160. When asked why the decision was taken to develop its own tool internally, rather than the journey checker developed by the Commissioner, the Minister’s official said the Welsh Government has “embedded the spirit and the principles of the journey checker” but wanted to adopt a “more linear approach” to demonstrate the “time aspect of the nature of the change we’re attempting” and to reflect “the journey we’d been on as well”.¹¹⁴

161. The Minister told the Committee that the Welsh Government and the Commissioner had different views on the purpose of the Budget Improvement Plan:

“So, for us, it sets out how we seek to improve the process of the budget, whereas I think the commissioner would prefer to see the budget improvement plan as a place where decisions are taken. So, we think that there’s a difference between the budget and the budget process and budgeting, which obviously takes place in departments and can take place outside of the formal budget process.”¹¹⁵

Committee view

162. The Committee notes the change in presentation of the draft Budget this year, shifting from Prosperity for All to new cross-cutting themes, and the Commissioner’s view that the structure of the budget has taken a backwards step given its move away from the well-being objectives. The Committee also notes that there appears to be some inconsistency in the wider evidence it considered. The Committee recognises that embedding the Act is an evolutionary process but is disappointed that there is not a more integrated focus on well-being goals.

163. This is the fourth budget since the Act was implemented and the Committee believes that it is reasonable to expect to see obvious and tangible impacts from a cultural shift in the Welsh Government. It is not clear from the budget that this is the case. Whilst recognising the need to adapt spending priorities and change the focus of the budget each year, the inconsistent approach adopted by the Welsh Government makes it more challenging to demonstrate progress in this regard.

¹¹³ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 163

¹¹⁴ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 193

¹¹⁵ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 195

164. Whilst acknowledging the context of wider uncertainties, the Committee is disappointed that details of long term planning have been largely missed in this year's budget and reiterates last year's view that the Welsh Government should use the 2020 spending review as an opportunity to provide as long term a view as possible in future budgets.

165. The Committee acknowledges the work undertaken by the Welsh Government to produce the first Budget Improvement Plan but had hoped that it would have more of an influence on this year's budget allocations. The Committee would have expected the Budget Improvement Plan to be complemented by developments within the draft Budget narrative. However, the Committee heard that the budget narrative has in fact taken a step back this year in terms of diverging from the well-being objectives and not providing an analysis of preventative spending allocations.

166. The Committee's expectation of the Budget Improvement Plan is that, as well as identifying changes to the budget process, it also galvanises a transformational attitude within the Welsh Government with regard to the budget. This should support the Welsh Government in a shift towards taking actions and decision-making processes that have the well-being goals embedded within them. In this respect the Budget Improvement Oversight Group will have an important role in ensuring that change in process is backed up by cultural change.

167. The Committee agrees with the views of the Commissioner and other stakeholders that the Budget Improvement Plan could be strengthened and that budget processes should be developed to look at scenario planning given the context of uncertainty. The Committee encourages the Welsh Government to work with the Commissioner's office and other stakeholders to review, refine and develop the Budget Improvement Plan. The Committee also shares the Commissioner's concerns that the five year timeframe for the Budget Improvement Plan is too short.

Recommendation 9. The Committee recommends that the Welsh Government considers ways in which it can improve the integration of well-being goals in the presentation of future budgets to demonstrate more consistently how the Well-being of Future Generations Act is embedded in its decision-making processes throughout departments and that this is reflected in the budget process.

Recommendation 10. The Committee recommends that the Welsh Government works with the Future Generations Commissioner and stakeholders to develop the Budget Improvement Plan.

Recommendation 11. The Committee recommends that the Welsh Government lengthens the period of time covered in the Budget Improvement Plan to reflect the spirit of the Well-being of Future Generations Act and longer term transformational change.

5. Measuring the impact of budget decisions

168. The Committee's report on the draft Budget 2019-20 made the following recommendations relating to the recurring challenge of assessing the impact of budget decisions:

The Committee recommends that the Strategic Integrated Impact Assessment accompanying future draft budgets should clearly demonstrate how the Welsh Government has applied the principles of the Wellbeing of Future Generations Act and consider the Cumulative Impact Assessment approach recommended by the Equality and Human Rights Commission (Recommendation 11).

The Committee recommends that future impact assessments should clearly identify any negative impacts of decisions and different options that might have been considered in reaching spending decisions, rather than focusing on the positive aspects (Recommendation 12).

The Committee recommends that the Welsh Government provides an update on the outcome of its review of the new framework for integrated impact assessments (Recommendation 13).¹¹⁶

169. The Welsh Government accepted recommendations 12 and 13 and accepted recommendation 11 in principle.¹¹⁷

170. In 2018 the Committee also held a concurrent session with the Children, Young People and Education (CYPE) and Equality, Local Government and Communities (ELGC) Committees relating to budget impact assessments.¹¹⁸

171. The Committees concluded that there remained a fundamental need to establish a 'shared expectation and understanding of Strategic Integrated Impact Assessments (SIIAs), and the way that they interact with the existing legislative landscape...'. The Committees were concerned that SIIAs appeared to be used to reflect or justify decisions that have already been made and that there had been a

¹¹⁶ Finance Committee Report, [Scrutiny of the Welsh Government draft Budget 2019-20. November 2019](#)

¹¹⁷ Welsh Government, [Response to the Finance Committee's scrutiny of the Welsh Government draft Budget 2019-2020](#)

¹¹⁸ Concurrent Committee, [Assessing the impact of budget decisions, 15 November 2018](#)

growing tendency to pass responsibility for impact assessment to local bodies, such as health boards or local authorities.¹¹⁹

172. The report went on to say that to provide a credible foundation for scrutiny, impact assessments need to demonstrate clearly the evidence base on which they draw and provide a transparent account of the negative as well as the positive impact of budget allocations.¹²⁰

173. The Committees made four recommendations, including:

That the Welsh Government commit to using the Wellbeing of Future Generations Act as a framework for the SIIA. Given our committees' areas of focus, we believe that priority should be given to working with the Children's Commissioner and EHRC to ensure that the legislative requirements in relation to equality and children's rights are fully and effectively reflected in the assessment process (Recommendation 4).¹²¹

174. The Welsh Government accepted this recommendation, noting efforts it was making to embed the Act in its decision making and recognising that there was "further work to be done".¹²²

175. The 2020-21 SIIA is presented under the Welsh Government's ambitions for:

- a more equal Wales,
- a more prosperous Wales, and
- a greener Wales.¹²³

176. It seeks to reflect consideration of strategic spending decisions covering equalities, human rights, children's rights, Welsh language, climate change, rural proofing, health, biodiversity, economic development and socio-economic disadvantage.

¹¹⁹ Children, Young People and Education Committee (CYPE); Equality, Local Government and Communities Committee (ELGC); Finance Committee: [Joint report - Assessing the impact of budget decisions, March 2019](#)

¹²⁰ CYPE; ELGC; Finance Committee: [Joint report - Assessing the impact of budget decisions, March 2019](#)

¹²¹ CYPE; ELGC; Finance Committee: [Joint report - Assessing the impact of budget decisions, March 2019](#)

¹²² Welsh Government response, [Assessing the impact of budget decisions](#)

¹²³ Welsh Government, [Draft Budget 2020-21 narrative, 16 December 2019, SIIA](#)

177. It states that the sustainable development principle in the Act remains “an underpinning consideration in how our strategic Budget allocations improve the economic, social, environmental and cultural well-being of Wales”.¹²⁴

178. Last year, the joint report of the Finance, CYPE and ELGC Committees expressed concerns with the Welsh Government’s approach to assessing the impact of changes in funding it provides to certain bodies (such as health boards and local authorities). For local authorities, the budget states that they “are responsible for carrying out their own impact assessments as part of their decisions on local budgets”. The SIIA includes consideration of the potential issues facing local authorities and the potential impact of funding changes.¹²⁵

179. The SIIA outlines some of the evidence that has been used in decision making, including the Well-being of Wales 2018-19 Report, the Future Trends report and the Is Wales Fairer? 2018 report.

180. The Budget Improvement Plan indicates that, from 2023 onwards, the Welsh Government will:

“Implement an improved impact analysis of the Budget that effectively considers all the developments in previous years, in a way that more clearly demonstrates how the WFG Act underpins all these considerations. This will include addressing recommendations from a commissioned review.”

181. When the ELGC Committee questioned the proposed timeframe for delivering an improved impact analysis of the budget, the Deputy Minister and Chief Whip said:

“It shouldn’t be three or four years in order to get an improved impact assessment. No, absolutely not. Next year, you should see a better one.”¹²⁶

Equality and gender budgeting

182. In its response to the Committee’s consultation, the Women’s Equality Network (WEN) Wales argues that it is “impossible” to measure the impact of the Welsh Government’s 2019-20 budget on women due to “lack of consistent data

¹²⁴ Welsh Government, Draft Budget 2020-21 narrative, 16 December 2019, SIIA.

¹²⁵ Welsh Government, Draft Budget 2020-21 narrative, 16 December 2019, SIIA.

¹²⁶ Equality, Local Government and Communities Committee, Record of Proceedings, 9 January 2020, paragraph 275

and lack of a gender budgeting approach”. It adds that it is imperative that the Welsh Government’s plans for 2020-21 reflect learning from the Rapid Review on Gender Equality, including the implementation of a gender mainstreaming approach and gender-sensitive budgeting processes throughout the Welsh Government’s budgets and policies.¹²⁷

183. Oxfam presents similar arguments, referring to work it and other organisations have undertaken with the Welsh Government to incorporate a gender sensitive approach to the budget process.¹²⁸ Oxfam and Chwarae Teg¹²⁹ both expressed a desire for the 2020-21 budget to evidence progress in this regard, with Oxfam calling on the Welsh Government to demonstrate to what extent its budget and resource allocations “work for women as well as men”.¹³⁰

184. Oxfam¹³¹ and WEN¹³² both highlight investment in childcare as a priority, in terms of advancing gender equality and providing routes out of poverty.

185. The Equality and Human Rights Commission’s (EHRC) response to the Committee’s consultation highlighted the findings and recommendations from its appreciative inquiry around how equality impact assessments should be “ongoing and not a one off intervention”, and that equality considerations should be part of the day-to-day activity of all departments. This includes a recommendation that the Welsh Government needs to be clearer on what evidence has been used to make important strategic decisions and how these decisions impact on people with protected characteristics and groups facing socio-economic disadvantage.¹³³

186. Under ‘Equality and inclusion’, the draft Budget 2020-21 states:

“In 2020-21 our specific equality budget will increase by more than £700k bringing our equality and inclusion budget to more than £7m.

¹²⁷ Finance Committee, Consultation Response: [WGDB_20-21 11 Women’s Equality Network \(WEN\) Wales](#)

¹²⁸ Finance Committee, Consultation Response: [WGDB_20-21 12 Oxfam Cymru](#)

¹²⁹ Finance Committee, Consultation Response: [WGDB_20-21 16 Chwarae Teg](#)

¹³⁰ Finance Committee, Consultation Response: [WGDB_20-21 12 Oxfam Cymru](#)

¹³¹ Finance Committee, Consultation Response: [WGDB_20-21 12 Oxfam Cymru](#)

¹³² Finance Committee, Consultation Response: [WGDB_20-21 11 Women’s Equality Network \(WEN\) Wales](#)

¹³³ Finance Committee, Consultation Response: [WGDB_20-21 22 Equality and Human Rights Commission](#)

This will enable us to strengthen our work to promote equality of outcomes for people with protected characteristics.

This funding will progress action on the gender equality review, support the commencement of the socio-economic duty and provide support to equality and race organisations in Wales.”¹³⁴

187. The SIIA describes engagement with stakeholders to consider how resource allocation might be improved, including the involvement of the EHRC to understand their Cumulative Impact Assessment approach that has shaped the development of a distributional impact assessment approach, as well as Chwarae Teg and WCPP, to consider the gender budgeting approach.¹³⁵

188. The Welsh Government established the Budget Advisory Group on Equality (BAGE) in December 2012. It provides advice and good practice on equality issues during the budget process. The group comprises academics, charities, unions and umbrella bodies.

189. According to WEN Wales, “The way in which Welsh Government consults the Budgetary Advisory Group on Equalities (BAGE), on which WEN Wales sits, at the end of the budgetary process is insufficient”.¹³⁶

190. Whilst the Minister told the Committee that she felt this year’s meeting between the Welsh Government and BAGE had gone well, she acknowledged that there was a recognition that there would be a “different future” for this group as it is not giving the challenge required of the budget setting process. The Minister added that she is currently in discussion with colleagues in Scotland regarding the more economist-led approach of its Equality Budget Advisory Group.¹³⁷

191. In June 2019, Phase 2 of the Chwarae Teg Gender Equality Review was published. Phase Two consists of two key reports – Deeds not Words, and a Roadmap for Gender Equality in Wales. These both make recommendations to enshrine equality in the Welsh Government’s work and to make improvements in areas that would have the most impact on women’s lives. Chwarae Teg states that:

¹³⁴ Welsh Government, Draft Budget 2020-21 narrative, 16 December 2019.

¹³⁵ Welsh Government, Draft Budget 2020-21 narrative, 16 December 2019, SIIA.

¹³⁶ Finance Committee, Consultation Response: WGDB, 20-21 11. Women’s Equality Network (WEN) Wales

¹³⁷ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 257

“It is clear that to deliver lasting change, good intentions alone are not enough. To realise bold ambitions for gender equality, we need to radically change what we do and how we do things, and ensure that we are not continuing to develop policies that inadvertently reinforce longstanding inequality.”¹³⁸

192. The Chwarae Teg **Deeds Not Words** publication reviewed the integrated impact assessment tool. It states that the tool was developed with the primary goal of ensuring people take an integrated approach to assessing impact, and reducing complexity and duplication across the required impact assessments, as a means of tackling the perception of impact assessment being overly burdensome.

193. In the longer term, Chwarae Teg does not believe that the integrated impact assessment is fit for purpose. It reports:

“To be successful gender budgeting needs to be delivered as part of a wider equalities mainstreaming approach and will require political commitment and leadership, time, robust gendered data and the application of a range of analytical tools and processes to reveal the status quo and actions for change.”¹³⁹

194. The WCPP report on Tackling Inequality through Gender Budgeting states that:

“In the current context in Wales it is clear that there are a number of positive conditions that have the potential to drive the adoption and support the implementation of gender budgeting in Wales.”¹⁴⁰

195. The report highlights three key elements to gender budgeting:

- Gender-based assessment – gender impact assessments need to be supported by disaggregated and time-use data;
- Implementing changes based on gender analysis;
- Working with relevant actors within and outside government.¹⁴¹

¹³⁸ Chwarae Teg, **Gender Equality Review – Phase Two**

¹³⁹ Chwarae Teg, **Deeds Not Words – Summary report**

¹⁴⁰ Wales Centre for Public Policy, **Tackling Inequality through Gender Budgeting, September 2019**

¹⁴¹ Wales Centre for Public Policy, **Tackling Inequality through Gender Budgeting, September 2019**

196. WCPP commented on the Welsh Government’s approach to gender budgeting:

“Firstly, I would very much commend the commitment to gender budgeting with the pilot that’s being initiated and I think that’s a very welcome development. I would stress that it’s a long-term approach that’s being embarked on, and the evidence points to very much long term, having an openness to learning lessons, which is evident in Wales, which has been recognised as well. So, I think that in this budget some steps have been put in place to start the process, but it’s at such an early stage that I think it really is the initial first steps that are being taken.”¹⁴²

197. When asked how the Welsh Government could change the budget allocation process in order to meet its gender equality ambitions, WCPP said:

“In terms of the role of the advisory group on equalities, I think there are key opportunities for that group to be able to engage with experts and to feed in—so, establishing the depth of analyses at the right time in the budget process, which also raises a lot of challenges in terms of the willingness to be able to share the data with the experts and the proposed policy choices as well, at the right times in the budget process. So, I think there are a lot of challenges that need to be ironed out, but I think the importance—and, again, the evidence points to this—of working with a range of actors at key times can really enhance the analysis and allow the Government to make informed policy choices along the way.”¹⁴³

198. As a result of Chwarae Teg’s Gender Equality Review, the Welsh Government is taking forward a gender budgeting approach as part of a two-year Personal Learning Account pilot, providing £2 million (over two years, 2019-20 and 2020-21) a year for vocational training to help employed people move into industry sectors with skills shortages. The Minister added that the Welsh Government is particularly looking at “those areas where generally, traditionally women have not been well represented” and said the pilot has been informed by officials and an academic in Iceland who were “keen to impress on us that that actually was a

¹⁴² Finance Committee, Record of Proceedings, 9 January 2020, paragraph 113

¹⁴³ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 124

seven-year piece of work in order to get to the point where Iceland is now in terms of gender budgeting”.¹⁴⁴

199. The Minister’s official explained that it is taking forward the gender budgeting pilot because such gender budgeting approaches “can help you understand unintended impacts of decisions you have taken” and indicated that an evaluation of early emerging evidence has been built in to “make sure we’re not waiting for two years to be able to find out what it’s doing”.¹⁴⁵

Committee view

200. The Committee expected that its joint work last year with the CYPE and ELGC Committees would inform the development of the 2020-21 Budget, to ensure that robust and transparent processes are in place to assess the impact of spending decisions. Whilst acknowledging that the SIIA does outline some of the evidence that has been used in the Welsh Government’s decision making, it is still not clear whether alternative options were discounted or if negative impacts of providing certain funding have been considered. The SIIA does not advance on the SIIA last year and it is not clear what developments the Welsh Government has implemented in relation to this element of the budget.

201. The Committee believes that work to develop and improve the SIIA should be undertaken as a matter of urgency and considers the suggested implementation date of 2023 onwards to deliver an improved impact analysis of the budget unacceptable. The Committee will reflect on the views of other committees in considering what further steps to take.

202. The Committee believes that the timing of the Welsh Government’s consultation with the BAGE at the end of the budgetary process is not conducive to providing effective challenge and rigour but notes that the Welsh Government is reconsidering the nature of the group and exploring the approach taken in Scotland.

203. Whilst the Welsh Government’s funding for a two-year Personal Learning Account pilot project using a gender budgeting approach is welcomed, the Committee urges the Welsh Government to address the need to mainstream and embed equality considerations across the whole budget without delay, using all the tools at its disposal to achieve this cultural change.

¹⁴⁴ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 259

¹⁴⁵ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 261

Recommendation 12. The Committee recommends that the Strategic Integrated Impact Assessment accompanying the 2021-22 budget, and future budgets, provide a transparent account of the negative as well as the positive impact of budget allocations, including the evidence base on which they draw.

Recommendation 13. The Committee recommends that the Welsh Government provides an update on the outcome of its discussions with the Scottish Government on the role of its Equality Budget Advisory Group and any changes in approach that may arise following these considerations.

Recommendation 14. The Committee urges the Welsh Government to use evidence and best practice from work undertaken elsewhere as a basis for a gender sensitive budgeting approach, in order to mainstream a gender dimension into all aspects of the budget cycle without delay.

6. Climate change and decarbonisation

204. On 29 April 2019, the Minister for Environment, Energy and Rural Affairs declared a ‘Climate Emergency’ in Wales.¹⁴⁶ The Welsh Government’s declaration followed that made by the Scottish First Minister on 28 April 2019 and was followed by the UK Parliament approving a motion declaring a climate emergency on 1 May 2019.

205. In June 2019, the Commissioner published her 10 Point Plan to Fund Wales’ Climate Emergency.¹⁴⁷ This notes that climate change is the greatest threat facing future generations and references an Intergovernmental Panel on Climate Change (IPCC) report that suggests there are twelve years to avoid a ‘climate breakdown’. The plan suggests that “the steps the government are taking at the moment do not appear to match the declaration of a climate emergency” and goes on to say:

“Future Welsh Government financial budgets need to clearly align with the carbon budgets from 2020 onwards to ensure that the actions needed to achieve our targets are backed up by investment...”¹⁴⁸.

206. The plan also notes:

“However whilst this will require them to undertake further work and analysis Wales cannot and should not wait and miss another budget round before making the necessary investment as all the experts agree that the longer we leave it the more expensive and difficult the transition will be.”¹⁴⁹.

207. In its submission to the Committee’s consultation, Extinction Rebellion Cymru refers to the budget as “the only real test of political commitment”. It suggests that the Welsh Government must create and be led by the decisions of a Citizens’ Assembly on climate and ecological justice and, alongside this, it suggests that the Welsh Government needs to form a climate emergency committee and the Senedd [Assembly] forms its own committee to oversee that

¹⁴⁶ Written statement: Welsh Government declares Climate Emergency

¹⁴⁷ Future Generations Commissioner, 10 Point Plan to Fund Wales’ Climate Emergency, June 2019

¹⁴⁸ Future Generations Commissioner, 10 Point Plan to Fund Wales’ Climate Emergency, June 2019

¹⁴⁹ Future Generations Commissioner, 10 Point Plan to Fund Wales’ Climate Emergency, June 2019

work. It also calls for resources for wider communication of the depth of the crisis.¹⁵⁰

208. The draft Budget 2020-21 is the first since the declaration of a climate emergency. The draft Budget narrative states that the climate emergency is an over-arching priority and notes that the Welsh Government is providing a “new package of more than £140m of capital funding to support our ambitions for decarbonisation and to protect our wonderful environment”. This includes investment in active travel and an electric bus fleet, new ways of building housing, enhancing ecologically important sites and the development of a National Forest to “extend the length of the country”.¹⁵¹

209. The Chief Economist’s report accompanying the draft Budget also outlines some of the fiscal risks relating to climate change. It notes:

“...the OBR considers that the cost of adaptation and mitigation measures needed in the UK to meet the 1.5 degree target would probably not be as large as those related to ageing or the cost pressures in healthcare and the effects of extreme weather are not thought likely to be on the same scale as a major recession (although they may be more frequent).”¹⁵²

210. The Chief Economist’s report also goes on to say:

“Although the net costs appear manageable, it is important not to underestimate the associated levels of policy “effort” need [needed] to deliver the required level of structural change, particularly in respect of energy generation and heating, where there may be big changes to the temporal distribution of cash-flows as annual fuel costs are replaced with “upfront” capital investment.”¹⁵³

211. The SIIA notes that:

“The package of measures within this Budget are investments which current evidence supports as being the areas where Welsh Government can have the greatest impact to deliver our first carbon budget and to

¹⁵⁰ Finance Committee, Consultation Response: [WGDB_20-21 10 Extinction Rebellion Cymru](#)

¹⁵¹ Welsh Government, [Draft Budget 2020-21 narrative, 16 December 2019](#).

¹⁵² Welsh Government, [Chief Economist’s Report 2019](#)

¹⁵³ Welsh Government, [Chief Economist’s Report 2019](#)

develop actions for our second carbon budget, taking into account the financial resources available.”¹⁵⁴

212. However, the SIIA also states that “direct public spending is only one of the key levers through which the Welsh Government is supporting the climate emergency”. The Welsh tax policy report 2019¹⁵⁵ suggests that the Welsh Government is working with the UK Government on a disposable plastic and “other environmental” taxes.

213. In terms of LDT, the Welsh Government intends to increase the tax rates in line with inflation from 1 April 2020, which is intended to maintain consistency with the UK Government’s approach to Landfill Tax rates.

214. The Environment (Wales) Act 2016¹⁵⁶ currently requires the Welsh Government to reduce emissions of greenhouse gases in Wales by at least 80 per cent for the year 2050 (against a 1990 or 1995 baseline, depending on the gas) with a system of interim emissions targets and carbon budgets. The first carbon budget (2016-2020) sets an average of a 23 per cent reduction, the second budget (2021-25) has a target of an average of a 33 per cent reduction.¹⁵⁷

215. On 20 November 2019, the Minister for Environment, Energy and Rural Affairs outlined to the Climate Change, Environment and Rural Affairs Committee that legislation would be brought forward this year to alter the target for the reduction in carbon emissions to 95 per cent by 2050, with an aspiration to achieve net-zero emissions by the same date.¹⁵⁸

216. On 18 December 2019, the Climate Change, Environment and Rural Affairs Committee published its report on the Welsh Government’s progress on climate change 2019-20.¹⁵⁹ This made a number of recommendations, including that the draft Budget should explain and demonstrate clearly how funding allocations will support the decarbonisation priority.

217. Whilst it is difficult to identify changes to investment over time, the Commissioner set out her expectations of what investment she felt was required

¹⁵⁴ Welsh Government, [Draft Budget 2020-21 narrative, 16 December 2019, SIIA](#).

¹⁵⁵ Welsh Government, [Welsh Tax Policy Report](#)

¹⁵⁶ [Environment \(Wales\) Act 2016](#)

¹⁵⁷ [The Climate Change \(Carbon Budgets\) \(Wales\) Regulations 2018](#)

¹⁵⁸ Climate Change, Environment and Rural Affairs Committee, [Record of Proceedings, 20 November 2019, paragraph 355](#)

¹⁵⁹ Climate Change, Environment and Rural Affairs Committee, [Annual report on the Welsh Government’s progress on climate change 2019-20, December 2019](#)

before the draft Budget was published in her 10 Point Plan to Fund Wales' Climate Emergency.¹⁶⁰

218. In a statement following publication of the draft Budget, the Commissioner said she was “pleased to see that the Welsh Government have acted on the advice I gave” in relation to decarbonisation and the climate emergency. She went on to say that the Welsh Government’s investments demonstrate “dedication to investing in proactive solutions to the climate crisis”.¹⁶¹

219. However, the Commissioner also suggested that the Welsh Government now needed to “forensically analyse every aspect of its expenditure, especially capital spend in terms of carbon impact and publish details on how this stacks up overall”.¹⁶²

220. The Commissioner went on to say that, following several conversations with Welsh Government Ministers and officials, there was “no evidence of systemic or transformational change”. The Commissioner described that there also appeared to be a “disconnect between policy commitments that have been made ... and budget allocations” and that the declaration of a climate emergency didn’t appear to be reflected in discussions about budget process and allocations.¹⁶³

221. The Commissioner also said that there is no consistent approach to undertaking carbon impact assessments:

“This means the Government cannot tell us whether the way in which they are spending their money is leading to an increase or decrease in carbon emissions.”¹⁶⁴

222. The Commissioner said that she has challenged the Welsh Government about how it understands the extent to which decisions are decarbonising and has subsequently been asked to support this work.¹⁶⁵ In evidence, an official from the Commissioner’s office confirmed that they will work with the New Economics Foundation to look at what could be possible in relation to the development of a carbon impact assessment/account that the Welsh Government could publish

¹⁶⁰ Future Generations Commissioner, [Ten-point plan to fund Wales' Climate emergency](#)

¹⁶¹ Future Generations Commissioner, [Press Release, 18 December 2019](#)

¹⁶² Future Generations Commissioner, [Press Release, 18 December 2019](#)

¹⁶³ Future Generations Commissioner, [Briefing to Assembly Members, December 2019](#)

¹⁶⁴ Future Generations Commissioner, [Briefing to Assembly Members, December 2019](#)

¹⁶⁵ Future Generations Commissioner, [Briefing to Assembly Members, December 2019](#)

alongside its budget. This work will be used to inform the Commissioner’s advice to the Welsh Government.¹⁶⁶

223. The Commissioner’s officials noted that Welsh Government spending directly linked to decarbonisation in 2019-20 was £385 million (approximately 2.1 per cent of the total budget) and in 2020-21 is £495 million (or 2.5 per cent of total budget) and that they were “encouraged... that the figures seem to be going in the right direction”.¹⁶⁷

224. When questioned on the Commissioner’s assessment of a “disconnect between policy commitments and budget allocations”, her official explained that, whilst the £140 million capital investment was welcomed, it is difficult to tell whether it “has actually been allocated in the right way, because the evidence base in terms of the carbon impact of this spend isn’t actually available”.¹⁶⁸

225. She went on to say:

“We’re concerned then in terms of not seeing evidence that Welsh Government has a clear process to classify or assess how much they’re currently spending, or indeed they need to spend, on decarbonisation actions to deliver the statutory carbon budgets and targets that have been agreed in terms of the legislation.”¹⁶⁹

226. The New Economics Foundation elaborated on the challenges of assessing the carbon impact of the budget, suggesting that there was no way of knowing whether the budget was net carbon-emitting or not:

“...if you’re putting £140 million into these initiatives, which, by and large, to me look like excellent initiatives, but you have these lines in the budget under, for example, mostly capital spend—you know, big ones, multiple hundreds of millions in transport, in health—we’ve no way of knowing what the carbon impact of those spending lines is. We may actually have here in front of us a budget that’s a net carbon-emitting budget, but we have no evidence to be able to know whether that’s the case. Now, we looked in, just as an example, the five largest currently active road-building schemes that we understand that the transport team have on their plate, and they all appear to be net carbon-emitting projects. So, without that holistic view, actually, the

¹⁶⁶ Finance Committee, Record of Proceeding, 9 January 2020, paragraphs 202 and 204

¹⁶⁷ Finance Committee, Record of Proceeding, 9 January 2020, paragraph 195

¹⁶⁸ Finance Committee, Record of Proceeding, 9 January 2020, paragraph 181

¹⁶⁹ Finance Committee, Record of Proceeding, 9 January 2020, paragraph 184

good work that's gone on here in responding to the emergency with those investments may be wholly undermined until we have that transparency. And, in the context of an emergency, I would regard that it is imperative to have that level of scrutiny if we are taking this seriously."¹⁷⁰

227. The New Economics Foundation believes that the Welsh Government needs to have a cross-departmental shift in culture, with carbon impact assessments being undertaken consistently across departments, so that decision making and value for money judgements can be more evidence based.¹⁷¹

228. The New Economics Foundation suggested that, with the Act being in place and the focus on prevention and decarbonisation, the Welsh Government is now in a position to lead the way internationally in its response to the climate emergency.¹⁷²

229. In terms of demonstrating how funding allocations will support the Welsh Government's decarbonisation priority, the Minister said:

"I think it's important to recognise, particularly with the decarbonisation agenda, that this spans Government. So, when you look at investment in transport, for example, in the south Wales metro and the work that's going on there, that has a huge contribution to make in terms of decarbonisation, but you won't see it in the environment portfolio, you'll see it in the economy and transport portfolio. Equally, the mutual investment model and the way in which we're funding the twenty-first century schools programme—again, you won't see that in the environment portfolio, but what you will see is schools being built to BREEAM excellent standard, and ensuring that we have a much more sustainable schools estate in the future."¹⁷³

230. The Minister indicated that the Welsh Government is focussing some of its efforts into electrical vehicle charging infrastructure as the advice of the UK Committee on Climate Change is that "decarbonising road transport is one of the most important things that we can do in Wales".¹⁷⁴ However, the Minister used the

¹⁷⁰ Finance Committee, Record of Proceeding, 9 January 2020, paragraph 196

¹⁷¹ Finance Committee, Record of Proceeding, 9 January 2020, paragraphs 234 and 239-240

¹⁷² Finance Committee, Record of Proceeding, 9 January 2020, paragraph 257

¹⁷³ Finance Committee, Record of Proceeding, 18 December 2019, paragraph 201

¹⁷⁴ Finance Committee, Record of Proceeding, 18 December 2019, paragraph 322

investment in electrical vehicle charging to illustrate the challenges of demonstrating how much will be saved in terms of carbon emissions:

“... we can’t actually demonstrate what carbon we’ll be saving, because we don’t yet know the uptake of them. Some of this is reliant on the UK Government’s regulatory framework around vehicles. Are they going to take action on petrol and diesel vehicles and so on?”¹⁷⁵

231. The Committee asked the Minister whether the evidence base around value for money and carbon impact supported the proposed investments. The Minister’s official said that “it’s very unusual to be able to reduce down to that purely quantitative comparison between competing projects for resources” and that the Welsh Government “only has levers in certain areas, so that kind of rules out maybe some of the areas of activity that maybe have the biggest impact”.¹⁷⁶

232. With regard to the overall carbon impact of the budget, the Minister said:

“...we haven’t carbon-impacted the whole budget because we just don’t think we have the detail that we need to be able to give something truly meaningful, whereas we know we need to do more and improve the way we provide information.”¹⁷⁷

233. When asked whether the Welsh Government would provide different information in next year’s budget relating to carbon impact, the Minister referred to the work being undertaken by the Commissioner’s office, adding:

“I’m keen, where we can provide more detailed information about the impact of plans, then I’m keen that we do that, but in a meaningful way, because we’ve explored before that so much depends on—in the capital area particularly—what humans do with what’s there.”¹⁷⁸

Committee view

234. The Committee considers that this budget has been produced in the same vein as previous budgets proposed by the Welsh Government and is disappointed that there is not a more radical approach to addressing the Welsh Government’s own declaration of a climate emergency.

¹⁷⁵ Finance Committee, Record of Proceeding, 18 December 2019, paragraph 322

¹⁷⁶ Finance Committee, Record of Proceeding, 18 December 2019, paragraph 335

¹⁷⁷ Finance Committee, Record of Proceeding, 15 January 2020, paragraph 237

¹⁷⁸ Finance Committee, Record of Proceeding, 15 January 2020, paragraph 239

235. The Committee recognises that there are examples where investment in both climate change and decarbonisation can be seen in decisions made across government portfolios. However, it is a concern that witnesses suggested that the Welsh Government did not have a clear assessment of the carbon impact of the budget. It should be possible to determine the amount of funding assigned to the decarbonisation agenda and the impact that funding is expected to have.

236. Whilst the Committee welcomes the £140 million capital investment to support the decarbonisation agenda, it is not convinced that the Welsh Government has a clear understanding of the carbon impact of its spending decisions. On that basis, it is unclear how the Welsh Government has prioritised climate change alongside other investment options and if/how trade-offs between decarbonisation, economic development and other priorities are being balanced in the decision-making process. Without a strategic assessment of the carbon impact of the budget, it is also not clear how value for money is being delivered in terms of specific funding allocated to help tackle climate change. The Committee accepts that identifying the carbon impact of current and new expenditure is not a simple task, but it is disappointing that the Welsh Government considers it acceptable to declare a climate emergency and then publish a budget that does not attempt to set out the carbon impact of its expenditure.

237. The Committee believes that robust long term planning by the Welsh Government is essential in tackling the climate emergency but acknowledges that the Welsh Government is waiting for the next round of advice from the UK Committee on Climate Change. However, this should not prevent the Welsh Government from pursuing all relevant actions.

238. The Committee welcomes the growing role of the Commissioner and her office in advising, assessing and challenging the Welsh Government's progress in meeting its goals around the Well-being of Future Generations Act, responding to climate change and progressing towards decarbonisation targets. However, the Committee is concerned that the Commissioner believes there to be a disconnect between Welsh Government policy commitments and budget allocations, and that there is not yet evidence of systemic or transformational change.

Recommendation 15. The Committee recommends that the Welsh Government provides more detail in future years on how allocations and programmes will progress towards the commitment to be carbon neutral by 2050 and over what timescale this will be achieved.

Recommendation 16. The Committee recommends that the Welsh Government develops an understanding of the carbon impact of the budget and its spending decisions, and looks at how it can meaningfully demonstrate the carbon impact of future budgets.

Recommendation 17. The Committee encourages the Welsh Government to support the work being taken forward by the Future Generations Commissioner in relation to the development of a carbon impact account and explore other ways in which the Commissioner's office, with its degree of independence, can provide further advice and support to help the Welsh Government achieve its decarbonisation ambitions and well-being objectives.

7. Preventative spend and service transformation

Well-being of Future Generations (Wales) Act 2015

239. The Act includes a definition of prevention within its sustainable development principle:

“how deploying resources to prevent problems occurring or getting worse may contribute to meeting the body’s well-being objectives, or another body’s objectives.”¹⁷⁹

240. The draft Budget notes that the Budget Improvement Plan will have a focus on how support and investment can be shifted towards preventative actions, including a focused application of the working definition of prevention as part of the rollout of the Together for Mental Health Delivery Plan.¹⁸⁰

Welsh Government definition of prevention

241. In its draft Budget 2019-20, the Welsh Government included a definition of prevention in its budget document for the first time:

Prevention is working in partnership to co-produce the best outcomes possible, utilising the strengths and assets people and places have to contribute. Breaking down into four levels, each level can reduce demand for the next:

- **Primary prevention (PP)** – Building resilience – creating the conditions in which problems don’t arise in the future. A universal approach.
- **Secondary prevention (SP)** – Targeting action towards areas where there is a high risk of a problem occurring. A targeted approach which cements the principles of progressive universalism.*
- **Tertiary prevention (TP)** – Intervening once there is a problem to stop it getting worse and prevent it reoccurring in the future. An intervention approach.

¹⁷⁹ Well-being of Future Generation (Wales) Act 2015, section 5

¹⁸⁰ Welsh Government, Draft Budget 2020-21 narrative, 16 December 2019,

- Acute spending (AS) – Spending, which acts to manage the impact of a strongly negative situation but does little or nothing to prevent problems occurring in the future. A remedial approach.

***Progressive universalism** is a determination to provide support for all, giving everyone and everything a voice and vested interest, but recognises more support will be required by those people or areas with greater needs.

Source: Draft Budget 2019-20 (**detailed: page 43, outline: page 43**)

242. The draft Budget narrative suggested that this “multi-layered” definition was developed and agreed with partners, including the Commissioner.¹⁸¹ In her evidence last year, the Commissioner outlined her role:

“In collaboration with Public Health Wales I brought together a range of expert on prevention and preventative spend with officials from across the Government in July. Officials from Strategic Budgeting outlined the draft definition of prevention, which included several categories, and there were a number of comments to refine it.”¹⁸²

243. The Committee made a number of recommendations regarding prevention last year, including that the Welsh Government:

- keeps the definition of preventative spend under close and constant review, including active engagement with both stakeholders and this Committee; and
- prioritises an integrated approach across Government with respect to preventative spending, both cross-department, and multi-year.¹⁸³

244. Last year the Commissioner suggested that the Welsh Government needed to consider how it deployed its funding in public services as part of a move to a more preventative strategy:

“Now, whether I would want to see in that budget, which comes after a spending review, as I said, a shift from acute spending in health towards preventative spending in local government—I think that’s a matter that the Government has really got to grapple with, because to

¹⁸¹ Welsh Government, [Draft Budget 2019-20 Detailed proposals, 23 October 2018](#)

¹⁸² Finance Committee, Consultation response: [WGDB_19-20.19 Future Generations Commissioner](#)

¹⁸³ Finance Committee report, [Scrutiny of the Welsh Government Draft Budget 2019-2020, November 2018](#)

me, across a huge number of these budget lines, that's the elephant in the room."¹⁸⁴

245. The Commissioner's official suggested that there has been some progress in relation to prevention in the draft Budget narrative, with greater prominence being given to prevention in the choice of the cross-cutting priorities and prioritisation in relation to new spend. However, they also suggested that they had not really seen the definition used in practice. The official indicated that the Commissioner intended to write to the First Minister and Minister for Finance and Trefnydd with recommendations about how this area might be taken forward.¹⁸⁵

246. The WCVA welcomed the definition but noted that it focused on health and social care, and said it was not clear how it was being used or how the budget was making a fundamental shift towards preventative activity.¹⁸⁶

247. The Bevan Foundation told the Committee that there was a lack of clarity about what prevention means and agreed with the WCVA that the definition is dominated by health and social care and it is "yet to make much difference on the ground".¹⁸⁷

Preventative spend in the budget

248. Total funding for the Health and Social Services Main Expenditure Group (MEG) is due to increase by 4.8 per cent in 2020-21 and the Housing and Local Government MEG is due to receive a similar increase of 4.6 per cent. The Commissioner welcomed the increased funding for local government in her statement following publication of the budget, stating that she was "pleased to see the Government recognises the importance of local government in the provision of preventative services".¹⁸⁸

249. The detailed draft Budget 2019-20 contained an annex that specifically identified areas of preventative spend in the 2018-19 budget and under which category of prevention those allocations fell. This initial work focused on selected spending areas formed of a group of budget actions from the main portfolio

¹⁸⁴ Finance Committee, Record of Proceedings, 15 November 2018, paragraph 150

¹⁸⁵ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 272-273 and 280

¹⁸⁶ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 76-77

¹⁸⁷ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 79

¹⁸⁸ Future Generations Commissioner, [Press Release, 18 December 2019](#)

MEGs – it considered £1.4 billion of the overall £18.3 billion allocated in the budget.¹⁸⁹

250. The draft Budget narrative makes a number of references to projects of a preventative nature. However, an annex or specific assessment relating to the proportion of preventative spend has not been included.¹⁹⁰

251. In her consultation response this year, the Commissioner notes that she is “not yet seeing much evidence that the definition is being applied across Government, and is having an effect on decisions”.¹⁹¹

252. This is reiterated in her written evidence, in which she suggests that the draft Budget narrative includes “very few references to the types of prevention that are being funded”. However, she does say that there is some evidence that the Welsh Government has asked other public services to apply the definition to their spend, highlighting examples in relation to the NHS and housing.¹⁹²

253. The Commissioner also notes that she advised the Welsh Government to work with organisations with expertise in this field, however it has not done so. This has resulted in the Commissioner resourcing work in this area.¹⁹³

254. The Commissioner states that “There is no evidence that WG are considering a ‘whole government’ approach to prevention”.¹⁹⁴ While she suggested that there is an increased number of references to preventative programmes in the draft Budget narrative compared to previous budgets, the Commissioner also reports that she had written to Ministers asking how they have applied the prevention definition to their portfolios, but responses had included general examples of how policy areas reflect the Act.¹⁹⁵ Officials commented on this in oral evidence noting that they were “disappointed that there hasn’t been more proactive use of the definition, given that it is a Welsh Government definition in itself”.¹⁹⁶

255. The WCVA would like an emphasis on prevention and early intervention through an integrated approach with other policy areas. The WCVA highlights the

¹⁸⁹ Welsh Government, [Draft Budget 2019-20 Detailed proposals, 23 October 2018](#)

¹⁹⁰ Welsh Government, [Draft Budget 2020-21 narrative, 16 December 2019](#).

¹⁹¹ Finance Committee, Consultation response: [WGDB_20-21 15 Future Generations Commissioner for Wales](#)

¹⁹² Future Generations Commissioner, [Briefing to Assembly Members, December 2019](#)

¹⁹³ Future Generations Commissioner, [Briefing to Assembly Members, December 2019](#)

¹⁹⁴ Future Generations Commissioner, [Briefing to Assembly Members, December 2019](#)

¹⁹⁵ Future Generations Commissioner, [Briefing to Assembly Members, December 2019](#)

¹⁹⁶ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 278

vital role the third sector can play in the prevention agenda and responding to climate change.¹⁹⁷

256. The NHS Confederation notes that the annual budget and performance regime drives resources to acute emergency and elective waiting times pressures, and that investment in prevention in the NHS, social care and wider system needs to be “recognised and encouraged”. It also emphasises the need to support education to teach children ways to “secure healthier lifestyles”, leisure facilities, day centres, public transport and suitable housing to decrease demand on the health and social care sectors.¹⁹⁸

257. The Commissioner’s officials discussed the balance between acute and preventative spend:

“I suppose our perspective is that we don’t see it as a choice, really. We don’t see it as a stark choice between maintaining existing acute spend versus thinking about that bigger picture of prevention because the money’s going to run out sooner or later; we can’t keep pouring more and more into demand. So, until we start having that conversation about what the best balance is, which will no doubt require some difficult decisions, we can’t see—. And if you read the chief economist’s report as part of the budget narrative, it makes for really depressing reading on that front as well, I would say. So, we don’t see that Government really has a choice.”¹⁹⁹

258. Following the publication of the draft Budget, the Committee asked where the budget demonstrated substantial changes in how the Welsh Government is targeting preventative spend. The Minister stated that:

“...you can see preventative spend right across Government, and I think that this goes back to the fact that we have quite a wide definition of prevention, as agreed with the well-being of future generations commissioner during last year.”²⁰⁰

259. The Minister also talked about how the Budget Improvement Plan was provided to demonstrate embedding the preventative nature of the Act within the decision making process.²⁰¹ The Minister’s official outlined complexities they

¹⁹⁷ Finance Committee, Consultation response: [WGDB_20-21_09 Wales Council for Voluntary Action](#)

¹⁹⁸ Finance Committee, Consultation response: [WGDB_20-21_23 Welsh NHS Confederation](#)

¹⁹⁹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 296

²⁰⁰ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 279

²⁰¹ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 280

had encountered, particularly with regard to the many kinds of preventative investments and in linking investment to outcomes.²⁰²

260. Referring to the Budget Improvement Plan, the Commissioner's official said that whilst it does include some positive things about prevention and transformation "it's too far down the line in our opinion":

"So, you might recall that the budget improvement plan is set around this five-year time frame, and the more transformational stuff, and the stuff we think should really be happening now and in the next year, is sort of 2023 plus—that sort of time frame—which, if you think about it, is seven years after the Act came into force. And we would argue that that sort of approach should be happening now."²⁰³

261. The Commissioner's official pointed to the Welsh Government's whole-school approach to supporting emotional resilience in children, jointly funded by health and education, as the strongest example of an increase in preventative spend:

"...this year, it's had quite a significant uplift—I think the budget's doubled—but it's still only £5 million, which, when you think about the number of schools in Wales, the mental health crisis, the scale of the health budget, the scale of the education budget, our argument is that decisions like that are really positive, but where is the sort of systematic approach to understanding; why is it only £5 million, why isn't it £15 million? So, we're sort of saying that there are positive things to say, but there is just not that sort of robust, methodical approach to understanding what the key opportunities are."²⁰⁴

262. In terms of how successfully the Welsh Government's prevention strategy is reflected in the budget, Michael Trickey, Honorary Senior Research Fellow, Wales Fiscal Analysis programme, Cardiff University said:

"Prevention covers a huge and sometimes quite hard to categorise set of activities, and there are obviously some impacts on preventative spend within the Welsh budget, in terms of early years provision, childcare and so on, which could all be seen as having a preventative dimension. The move, I think, to try and align the budget with the

²⁰² Finance Committee, Record of Proceedings, 18 December 2019, paragraph 284

²⁰³ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 279

²⁰⁴ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 284

future generations stuff is all part of trying to sharpen up the thinking about how these things all connect with each other.”²⁰⁵

263. He went on to say that “the big challenge is actually how successful the prevention activity is and how it translates into changes in service demand. And I think that’s much harder to get a grip on”.²⁰⁶

264. The Minister highlighted a number of allocations and projects that could be viewed as “preventative”, such as education and many other local government services.²⁰⁷ When asked what percentage of the total £8 billion spend on health goes towards preventative measures, the Minister explained:

“It’s really hard to put a percentage on the preventative measures and the cost of that for so many reasons, but partly because prevention is so difficult to demonstrate, and partly because when you’re investing in a mother, for example, actually, the preventative spend is on the children and the impact that will be had will be on the children. So, it’s hard to focus in that way exactly and demonstrate preventative spend.”²⁰⁸

265. In relation to assessing and analysing the shift to preventative spend in the budget documentation, the Minister subsequently told the Committee that she had taken the decision to publish all the evidence submitted by Ministers to their respective policy committees, which “set out example after example of ways in which they’re taking decisions that will have an impact on people’s lives in a really clear and understandable kind of way”.²⁰⁹

266. The Minister said that the definition of prevention “has been really helpful in terms of focusing the mind on the different ways in which we can invest at different points and have different outcomes” but that the Welsh Government has “agonised a lot about how best to demonstrate preventative spend, because some of it isn’t linear”.²¹⁰

Committee view

267. The Committee believes there is a disconnect between the Welsh Government’s aspirations to act in a preventative way and the investments made

²⁰⁵ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 72

²⁰⁶ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 73

²⁰⁷ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 286

²⁰⁸ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 282

²⁰⁹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 202

²¹⁰ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 206

in preventative approaches. The draft Budget lacks evidence that the Welsh Government has applied its own definition of prevention to spending allocations, indicating that there is not yet a tangible cultural shift towards prevention.

268. Whilst witnesses provided some examples of preventative spend, the Committee is unable to ascertain whether, or by how much, preventative allocations have increased in this budget, or obtain a view of the shift in resource towards primary, secondary or tertiary prevention as previously defined in the 2019-20 draft Budget.

269. The Committee believes that the Welsh Government should provide clarity as to what it is trying to prevent and categorisation of its expenditure under the definition is only a first step in realising a more preventative approach to budgeting. The Welsh Government needs to robustly consider where preventative strategies are best employed and what it is trying to achieve. Whilst the Committee accepts the difficulty in analysing the outcomes of preventative spend, nevertheless, the Welsh Government must have clear objectives in mind when considering a preventative approach.

270. The Committee is disappointed that the budget did not include an analysis or specific assessment, or explanation why there is no such analysis, relating to the proportion of allocations that can be categorised under the Welsh Government's definition of levels of preventative spend. The Welsh Government has included more information on prevention in previous budgets. Information included in last year's budget narrative provided a starting point to allow the Committee (and stakeholders) to track improvements year on year. It is disappointing that similar information has not been included in this draft Budget and that no further progress looks to have been made in terms of analysing spend on prevention. To assist its scrutiny of future draft budgets, the Committee would like to see much clearer detail on which elements of the budget relate to preventative spend and what the Welsh Government expects to achieve through these strategies.

Recommendation 18. The Committee recommends that the Welsh Government clearly sets out in future budget documentation how it is applying its own definition of prevention to expenditure and provides as much information as possible on the outcomes it is aiming to deliver through its preventative strategies.

Recommendation 19. The Committee recommends that the Welsh Government provides an analysis of preventative spend within the budget and accelerates actions relating to prevention in its Budget Improvement Plan.

8. Poverty and economic inclusion

Stakeholder views

Stakeholders at the consultation event in Aberystwyth on 27 June 2019 noted that measures to address poverty should be at the core of all budget decisions and that the budget should utilise a poverty impact assessment methodology. With regards to economic inclusion, stakeholders felt that cuts to public transport often have a disproportionate impact on certain disadvantaged groups in society.

Prosperity for All / Priority setting

271. The priorities outlined in [Prosperity for All](#) (published September 2017) are a key driver for the budget. The Welsh Government identifies eight cross-cutting priority areas that have shaped preparations in this budget: early years; housing; social care; better mental health; employability and skills; decarbonisation; poverty and biodiversity²¹¹. Chapter 6 of the [outline draft Budget 2020-21](#) contains information on the Welsh Government's investment in those priorities.

272. The Minister explained how the eight cross-cutting themes were used in the development of the draft Budget:

“We use those eight cross-cutting themes, particularly in some areas where we looked at the additional funding and how we would use it. So, you'll see that some of the additional funding and the additional new things that we're able to do this year very much reflect those, so there are several actions in relation to tackling poverty, for example the extra years now where Pupil Development Grant—Access will be available to families, the PDG early years uplift. Those things have been really important, and they've come through that cross-cutting work.”²¹²

273. The Minister went on to clarify:

“Those are the areas where we've determined that, if Welsh Government acts together across Government with a focus on those areas, you could have the greatest impact on the lives of people and

²¹¹ [Welsh Government Draft Budget 2020-21, December 2019](#)

²¹² Finance Committee, Record of Proceedings, 18 December 2019, paragraph 247

their prosperity over the longer term. But that's not to say that there aren't areas that are important beyond that."²¹³

274. The WCVA reported that its members welcomed the inclusion of poverty in the Welsh Government's cross cutting priority areas for its draft Budget 2020-21.²¹⁴ However, its response to the pre-budget consultation noted that "more improvement is needed in how Welsh Government evidence and communicate their thinking when making budget decisions".²¹⁵

275. When questioned by the Committee on the decision-making process behind the draft Budget 2020-21, the Minister explained that the Cabinet met in March 2019 to discuss priorities and agreed that health would remain its key priority for 2020-21. They also wanted to give local government "the best possible settlement" and discussed the importance of "the prevention of and tackling poverty".²¹⁶

276. The Minister went on to explain:

"So, prioritisation is, obviously, guided by a number of considerations, including contribution to 'Prosperity for All', and the commitments that we have in that document. Then, within departments, then, Ministers will be considering value for money and deliverability of various schemes."²¹⁷

Welsh Government approach to tackling poverty

277. The Welsh Government's Draft Budget 2020-21 states that its approach to tackling poverty means that each Ministerial portfolio has responsibility for "improving outcomes, focussing on initiatives that keep money in people's pockets and on services supporting disadvantaged individuals and families".²¹⁸

278. The Bevan Foundation published the Putting poverty at the centre of the Welsh Government's budget²¹⁹ in August 2019. This paper outlines how it believes the Welsh Government could more effectively use its budget to have a positive

²¹³ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 249

²¹⁴ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 29

²¹⁵ Finance Committee Consultation response: WGDB_20-21.09 Wales Council for Voluntary Action

²¹⁶ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 194

²¹⁷ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 200

²¹⁸ Welsh Government Draft Budget 2020-21. December 2019

²¹⁹ Putting Poverty at the centre of Welsh Government's 2020/21 budget. Bevan Foundation, August 2019

impact on the lives of low income families in Wales. The paper sets out three main drivers of poverty in Wales:

- Work not providing workers with enough income to enjoy a decent standard of living.
- The social security system not providing families with enough support.
- High costs of living, especially housing costs.

279. The Bevan Foundation told the Committee that there were three ways in which a strategy can try to tackle poverty: by including specific measures to tackle particular issues; through the “broad shape of expenditure” including which activities and public services resources will be spent on; and funding interventions that address the root causes of poverty.²²⁰

280. The Bevan Foundation noted that the draft Budget contained more targeted interventions to tackle specific problems such as holiday hunger and period poverty but queried whether “those are the things that matter most”²²¹. It also felt that there are questions around the delivery mechanisms and scale of these activities²²².

281. The Bevan Foundation went on to say that there was insufficient detail in the draft Budget to scrutinise whether the “broad shape of expenditure” would have a real impact on poverty and whether the Welsh Government would be spending money on “the kinds of activities and public services used primarily by people on low incomes”. However, it welcomed the confirmation that the Welsh Government is taking forward the development of a distributional impact assessment approach to understand the impact of public spending decisions on households in different parts of the income distribution.²²³

282. The Bevan Foundation also shared its views on whether the draft Budget addressed the root causes of poverty:

“We know that the root causes are: lack of decent jobs—not enough and not well paid enough; lack of affordable housing; and the way in which the social security system operates. I think, on that measure, I would have some bigger reservations. Notwithstanding that not all of

²²⁰ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 7-10

²²¹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 145

²²² Finance Committee, Record of Proceedings, 9 January 2020, paragraph 8

²²³ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 9

those things are within the Welsh Government's gift, I think we still, in my view, don't have enough of a focus on addressing those root causes.

So, I think the budget does more to address poverty than in previous years, but whether it's yet a coherent strategy—I don't think it's quite there yet, to be honest.”²²⁴

283. The WCVA commented on the Welsh Government's approach to tackling poverty:

“...I think there are many different levels of tackling poverty, and of course there are benefits and the mapping of it. There's also a kind of bottom-up community development angle to it, supporting some of those vulnerable people outside of the employment market, et cetera, at the moment. And I know that there is some good work going on there looking at some of that, but actually, I suppose following Communities First we've talked about empowering communities but I'm not sure if there's that coherence of where does that bottom-up approach fit within the overall strategy. But we welcome the fact that there are all the different initiatives around tackling poverty.”²²⁵

284. The Bevan Foundation stated that it would like to see much more in the draft Budget about “closing the attainment gap” and “more and better jobs”.²²⁶ However, it went on to explain that it is not sufficient to simply focus on raising qualification levels in Wales, and that the terms and conditions of lower paid jobs need to be addressed.²²⁷

285. The Bevan Foundation provided several suggestions on how the Welsh Government could respond to some of the effects of reductions in benefits:

“We've suggested that the escalator of social rents needs to stop because it's going up. The guideline puts social rents increasing above inflation and above housing benefit levels, which puts a direct squeeze on people on low incomes. We think that there are things that the Welsh Government could do to supplement that—for example, increasing the discretionary housing payment. There's a welcome increase in the budget for the discretionary assistance fund, which is

²²⁴ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 10-11

²²⁵ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 29

²²⁶ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 17

²²⁷ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 36

great, but we've discovered that half of applications are being turned down."²²⁸

286. When asked whether Welsh Government departments were working in a cohesive way to tackle poverty the Bevan Foundation responded:

"I think underlying a relative lack of coherence—. I mean, there's more joining up than there was, right, but I think underlying that is a lack of clarity about what the Welsh Government wants to do about poverty anyway. How does it define poverty? What does it see are the root causes? What are its three headline actions that it would like to take?

...To try and answer your question, I think there's more coherence than there was, but I think the lack of coherence comes from the lack of bigger vision, I suppose."²²⁹

287. The Bevan Foundation went on to outline what a coherent strategy to tackle poverty would look like:

"Well, I would say that the long-term focus of the Welsh Government should be on the root causes ... I think if you are serious about long-term addressing poverty, you need to be doing some heavy-duty stuff around the state of the economy, around the interface of the UK social security system with devolved powers and people's lives, and around housing costs."²³⁰

288. The Minister told the Committee:

"...you'll see, again, across the budget, ways in which Ministers are seeking to tackle poverty. If you look at all of the interventions in this field, you'll see over £1 billion of the Welsh Government's budget is involved in work that directly tackles poverty. The First Minister's really keen in terms of ensuring or seeking ways to put money back into people's pockets, to make sure that they have more funds available to them. So, there's a range of measures in which we're doing that."²³¹

²²⁸ Finance Committee, Record of Proceedings, 9 January 2020 paragraph 41

²²⁹ Finance Committee, Record of Proceedings, 9 January 2020, paragraphs 16-17

²³⁰ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 13

²³¹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 242

Economic inclusion

289. In April 2018, the Bevan Foundation (in conjunction with the Wales Co-operative Centre) outlined key steps for “Creating an inclusive economy in Wales”. The report defines economic inclusion as having two key elements, “first, a concern about the overall size and performance of an economy and second, a concern about the distribution of its benefits.” It identifies six essential steps that are most likely to achieve economic inclusion, including growing the foundational economy, supporting the social business sector, promoting fair work and making the most of public procurement. The Bevan Foundation and Wales Co-operative Centre’s report goes on to note that an emphasis on the interests of “everyone, not just the few, is all the more important in light of the possible impacts of Brexit on people who are the least well-off”.²³²

290. The Institute for Public Policy Research’s (IPPR) Commission on Economic Justice recommended that key to creating a fairer economy is to spread wealth and ownership.

291. The Welsh Government’s Prosperity for All: economic action plan claims to have inclusive economic growth at its heart:

“Growing our economy inclusively, spreading opportunity and promoting well-being are at the heart of this Plan, underpinning its contribution toward delivery of our National Strategy: Prosperity for All.”²³³

292. The WCVA “would like Welsh Government to focus on growing an inclusive economy in Wales”²³⁴ and told the Committee:

“I think ... that moves like the foundational economy, the circular economy—these are positive, and I know there is funding now going into some of these areas, including in our sector. And I suppose one of the challenges will be to speed that up then—the learning—and try and push that out. But we definitely support the living wage. ...I didn’t see a reference to it in the budget documentation, so we’d really support that at WCVA.”²³⁵

²³² Creating an inclusive economy in Wales, Wales Co-operative Centre and the Bevan Foundation, April 2018

²³³ Prosperity for All: economic action plan

²³⁴ Finance Committee, Consultation response: WGDB_20-21.09 Wales Council for Voluntary Action

²³⁵ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 56

293. The WCVA also commented on the way that EU funding has been used to tackle economic inclusion:

“... WCVA runs an active inclusion grant scheme that is distributing European funds to increase employment skills to people outside of the employment market et cetera. And, obviously, these sorts of programmes now will be closing with Brexit, and so I suppose it’s important that we look at a Welsh response now to ensure that that sort of activity is maintained.”²³⁶

294. The Bevan Foundation believes that, whilst some steps were in place, the draft Budget does not contain sufficient actions to help grow an inclusive economy in Wales. It felt that more practical steps were needed in order to connect people to jobs, particularly having an integrated bus service with affordable fares²³⁷, and also to ensure that people have access to low-cost housing:

“So, for example, there’s more than twice as much being spent on rail as on bus, and yet people on low incomes tend to use bus rather than rail. There’s more being spent on—well, there’s a substantial amount being spent on Help to Buy, I think there’s £68 million, and that’s a third of the amount that’s being spent on the social housing grant.”²³⁸

295. The Bevan Foundation outlined its suggestions for how the Welsh Government could address some of the issues around economic inclusion:

- Making provision in procurement for more organisations to pay the real living wage.
- Funding for an active living wage campaign.
- Measures to develop the parts of Wales that are “seriously lagging”, for example the Head of the Valleys and some rural areas, with a focus on growing the weakest labour markets.²³⁹

296. Some of the issues raised in this Chapter are further explored in Chapter 9 on Brexit and the Welsh economy.

²³⁶ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 30

²³⁷ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 47

²³⁸ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 9

²³⁹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 53

Committee view

297. The Committee notes the Welsh Government's intention to focus on eight cross-cutting priority areas within the draft Budget for 2020-21 but is concerned that other important issues may not receive adequate consideration. Additionally, the Committee believes that there needs to be better ways to evidence how priorities are identified and how budget decisions are made.

298. While the Committee welcomes the inclusion of poverty in the budget priorities, there is a lack of clarity in the Welsh Government's strategy for tackling poverty, its objectives and how the budget will drive long-term improvement, particularly in addressing the root causes of poverty.

299. The Committee welcomes the Welsh Government's commitment to look at the distributional impact of public spending decisions on different income households and would like to see this form part of the budget process in future.

300. The Committee is concerned that changes to the welfare system are having a destabilising impact on some of the most vulnerable people in Wales. Whilst recognising that the welfare system is not within competence, the Committee believes that the Welsh Government could be implementing strategies to respond to the impact of UK Government welfare decisions, such as reviewing the discretionary assistance fund and the discretionary housing payments.

301. The Committee recognises that education, skills and employment are key levers to improving economic inclusion and tackling poverty. The Committee shares the concerns of the Bevan Foundation that there are too many people in Wales in low skilled and/or low paid jobs, and that successful strategies are needed to address this.

302. The Committee believes a key action to reduce poverty will be through investment into in-work progression/productivity and increasing employment. The Welsh Government needs to provide more assurance that programmes are fit for purpose and that the balance is right between investment to increase productivity and earnings and to get people into employment.

303. The Committee supports the Bevan Foundation and WCVA's calls for the Welsh Government to consider ways to actively promote the real living wage to employers across Wales.

Recommendation 20. The Committee recommends that the Welsh Government engages with stakeholders to find better ways to evidence and

communicate the process for identifying priorities and making budget decisions.

Recommendation 21. The Committee recommends that the Welsh Government develops a definition of poverty in a Welsh context and clearly sets out its vision for tackling poverty in Wales, including: distributional impacts, the intended outcomes of targeted poverty interventions, and steps to respond to the impact of UK Government decisions.

Recommendation 22. The Committee recommends that the Welsh Government develops new strategies to improve the education, skills and employment opportunities of the most disadvantaged members of society.

Recommendation 23. The Committee recommends that the Welsh Government considers ways to actively promote the real living wage to employers, particularly within the private sector, across Wales.

9. Brexit and the Welsh economy

The Economic Action Plan and economic growth across Wales

304. Chapter 6 of the draft Budget narrative sets out how the Welsh Government has “taken further steps as part of this year’s budget process to tackle some of the most fundamental challenges facing our country and maximise the impact of new investments across government”.²⁴⁰

305. The Welsh Government’s Economic Action Plan (EAP), first published in December 2017, sets out its priorities for the Welsh economy. These included making key changes to Welsh Government policy such as the new Economic Contract, focussing financial support into a single Economy Futures Fund, greater regional working and providing financial support to businesses who meet one of five ‘calls to action’. In May 2018, the then Cabinet Secretary for Economy announced a new operating model under the EAP.

306. In the draft Budget narrative, the Welsh Government states that Wales faces the opportunities and challenges of the advances in technology impacting on the future of its economy and the associated skills needed. It states it is committed to investing £175 million in employability and skills for the remainder of this Assembly Term, with its ambitions set out in its Employability Plan.²⁴¹

Chief Economist’s Report 2019

307. The Chief Economist’s Report 2019, published 16 December 2019, states that over the short to medium term, the performance of the economy in Wales tracks quite closely to that of the wider UK. The report states:

“The policy levers held by the Welsh Government – particularly those covering education, skills and infrastructure – are critically important for economic outcomes, but operate mainly over the longer term.

...the success of policies to improve levels of education and skills, and to help to increase effective economic mass by improving transport and communication links, will be crucial to improving Wales’ relative productivity performance.”²⁴²

²⁴⁰ Draft Budget 2020-21 Narrative, 16 December 2019

²⁴¹ Draft Budget 2020-21 Narrative, 16 December 2019

²⁴² Welsh Government, Chief Economist’s Report 2019

Welsh economy, productivity and skills

308. The Committee asked witnesses if the draft Budget 2020-21 delivers actions that will help grow an ‘inclusive economy’ in Wales and if not, what kind of actions would support and increase economic inclusion.

309. The Bevan Foundation said it did not, adding that the economic policy section “feels like something quite familiar”.²⁴³ While some steps were being taken with the introduction of the Economic Contract and the recognition of the role of the Foundational Economy, there was “quite a lot more that could be done”.²⁴⁴

310. Neath Port Talbot County Borough Council said the Welsh Government had set out its strategy to promote the economy and “there are numerous “tools in the box” (organisationally and financially); but what is now needed is delivery”.²⁴⁵

311. The IFS commented:

“If you look at the statistics, where the Welsh economy increasingly lags the UK economy is less so in terms of the employment rate— especially once you control the age structure of the Welsh population—it’s increasing in terms of the productivity in earnings levels. So, that means that if you were to close the prosperity gap with the rest of the UK, it really has to be on earnings and productivity where that comes. Now, that doesn’t necessarily mean that’s where the Welsh Government should take action. Where the Welsh Government should take action is where it can have impact, and potentially it can have more of an impact on, say, employment if it’s easier to get people in. It’s harder, then, to get them to progress. Conversely, if that isn’t the case, then investing in the productivity side of things would make more sense.”²⁴⁶

312. The IFS said the “fundamental thing that the Welsh Government would need to do if it wanted to significantly improve economic performance would be on the productivity side. But when it comes to working on its policies, I think it does then need to evaluate on a case-by-case basis”.²⁴⁷

²⁴³ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 47

²⁴⁴ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 47

²⁴⁵ Finance Committee, Consultation Response: [WGDB_20-21_04_Neath_Port_Talbot_County_Borough_Council](#)

²⁴⁶ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 83

²⁴⁷ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 84

313. The OBR commented that productivity was “the biggest uncertainty over the medium-term outlook”.²⁴⁸ It said:

“if Brexit had never come along, we would still be saying that this is an unusually uncertain period given the story about productivity, and that productivity story is not unique to the UK. It’s true across most industrial countries—more here than in most—that you’ve just seen far weaker performance in output per hour worked than in the previous period, and knowing how long that will go on for, whether this is the new normal— we expect some improvement, but less improvement than we used to, when we expected it and it didn’t come.”²⁴⁹

314. The IFS also highlighted that an increase in employment does not necessarily “lead to as big an increase in tax revenues”.²⁵⁰ Recent increases in the personal income tax allowance mean that many on low wages will not have much of their income taxed. The IFS said if the Welsh Government “was purely focused on growing the Welsh economy to grow the tax base”²⁵¹ a better investment would be “in policies that help those in work to upskill, increase their wages, increase productivity”.²⁵² However, the IFS noted that was not the Welsh Government’s only intention and that these policies were also potentially trying to “improve people’s quality of life”²⁵³ and “improve well-being”.²⁵⁴

315. Universities Wales said that universities are the second largest recipient of EU structural funds after the Welsh Government and these funds are used to support research and innovation activity as well as wider skills development and job creation programmes. Universities Wales said the potential loss of funding to support this work would have social and economic impacts across Wales.²⁵⁵

316. The Minister confirmed that more than £40 million had been allocated to Job Support Wales in 2020-21 to deliver a new approach for employability and skills support from April 2020. The Minister said this would support around 16,000

²⁴⁸ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 368

²⁴⁹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 368

²⁵⁰ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 80

²⁵¹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 80

²⁵² Finance Committee, Record of Proceedings, 15 January 2020, paragraph 80

²⁵³ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 80

²⁵⁴ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 80

²⁵⁵ Finance Committee, Consultation Response: [WGDB_20-21 21 Universities Wales](#)

people a year to “meet what the individual needs to gain employment, whatever barriers they might currently have at the moment”.²⁵⁶

317. The Minister said the Welsh Government recognised the serious challenges presented by automation “but also the opportunities”.²⁵⁷ She said:

“I think our universities have a really important part to play in this agenda, so looking at automation, just to reflect on our most recent meeting this week, looking at the impact of potential automation in the agriculture field, for example. We’ve got some real specialist work going on here in Wales, so the Institute of Biological, Environmental and Rural Sciences, for example, and I know Bangor University is doing some great work in this area as well. So, we need to tap in really to the skills and expertise that we already have here.”²⁵⁸

318. In addition, the Minister said she was allocating an additional £9 million to maintain the profile of spending between EU and Welsh Government funding to deliver a commitment of 100,000 all-age apprenticeships.²⁵⁹ She said:

“it’s important that those apprenticeships are providing people with jobs that are going to be—you can’t futureproof anything nowadays, but in those fields that are modern and able to adapt.”²⁶⁰

319. The Committee was interested to understand how critical funding infrastructure is to economic growth and whether the draft Budget allocates the most effective use of available resources.

320. The Bevan Foundation told the Committee that more than twice as much funding was being allocated to rail than bus and “yet people on low incomes tend to use bus rather than rail”.²⁶¹

321. Michael Trickey highlighted “the challenge with buses is trying to find a means of making them sufficiently useful and well used”.²⁶²

322. The IFS commented:

²⁵⁶ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 305

²⁵⁷ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 284

²⁵⁸ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 286

²⁵⁹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 287

²⁶⁰ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 287

²⁶¹ Finance Committee, Record of Proceedings, 9 January 2020, paragraph 9

²⁶² Finance Committee, Record of Proceedings, 15 January 2020, paragraph 89

“...certainly in England, and it’s probably the case in Wales as well, one of the areas that has been cut back a lot is subsidies for bus operators, and that might be something that you might want to look into if you’re considering ways of boosting connectivity, especially for more peripheral areas that are not connected up to the network.”²⁶³

323. The Minister said the real-terms cut for bus support was an “example of the difficult decisions that Ministers have had to take across Government”²⁶⁴. However, she confirmed that the bus services support grant “does still stand at £25 million”²⁶⁵, whilst acknowledging the importance of the bus industry and “the need to do more to support routes”²⁶⁶. The Minister said that local authorities are able to invest in local bus services to specific routes that they think are important locally.²⁶⁷

High street rates relief scheme

324. In April 2017, the Welsh Government launched the high street rates relief scheme. On 10 December 2018, the then Cabinet Secretary for Finance, Mark Drakeford AM, announced the Extension of the high street rates relief scheme in 2019-20. He said:

“I am today extending the scheme for a further year and extending the relief available through the scheme to businesses. The enhanced scheme will go significantly further than in previous years, providing support to all retailers in Wales with a rateable value of up to £50,000.”²⁶⁸

325. Monmouth and District Chamber of Trade and Commerce stated that business rate reliefs were one of the “few tools” available to help support small business.²⁶⁹ It said small businesses were:

“...the lifeblood of the economy but one which (micro businesses) represent 96% of all businesses in Wales. High Street Rate Relief has been an essential tool in keeping some optimism amongst high street

²⁶³ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 88

²⁶⁴ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 107

²⁶⁵ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 110

²⁶⁶ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 111

²⁶⁷ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 110

²⁶⁸ Written Statement: Extension of the high street rates relief scheme in 2019-20

²⁶⁹ Finance Committee, Consultation Response: WGDB_20-21 24 Monmouth and District Chamber of Trade and Commerce

retailers, despite the dark cloud of Brexit uncertainty hanging over us.”²⁷⁰

326. The Welsh Retail Consortium agreed that “greater effort should be made to encourage councils to use their powers to reduce business rates through schemes such as the discretionary rates relief and hardship relief.”²⁷¹ On 7 January 2020 the Minister announced a further extension for 2020-21. She said:

“We will make an £24.2 million of support available in 2020-21 through the high street and retail rates relief scheme to support Welsh businesses. This is in addition to the more than £230 million we provide through our other reliefs to help businesses pay their rates bills.”²⁷²

Brexit

327. The Chief Economist’s report stated:

“Brexit uncertainty continues to weigh on growth prospects for Wales and the UK as a whole; if the incoming UK government continues with a plan to leave the EU, the severity of the impact will depend on the form that Brexit takes and on the extent of the dislocation associated with the process of leaving. The prospect of leaving the EU without a trade deal remains a possibility, and even if this is averted, it is likely that a prolonged period of uncertainty while new trade arrangements are negotiated and implemented will reduce growth. Wales would be hit disproportionately by a “hard” Brexit.”²⁷³

328. The First Minister noted in October 2019 that uncertainties and interdependencies mean it was not possible to rely on one precise quantified estimate of the economic effects of Brexit. However, he reported it was:

“... virtually certain leaving the EU without a deal or transition period will produce a severe economic slowdown in the UK, with, in the worst case, a recession that approaches in depth the one experienced in

²⁷⁰ Finance Committee, Consultation Response, WGDB_20-21 24 Monmouth and District Chamber of Trade and Commerce

²⁷¹ Finance Committee, Consultation Response, WGDB_20-21 06 Welsh Retail Consortium

²⁷² Written Statement: Extension of High Street and Retail Rates Relief for 2020-21, 7 January 2020

²⁷³ Welsh Government, Chief Economist’s Report 2019

2008-09. A slowdown of this magnitude might mean a reduction in Welsh employment equivalent to 40-50,000 jobs.”²⁷⁴

329. In the draft Budget narrative the Welsh Government notes the Bank of England’s assessment of the ‘broader impact of worst case disorderly no deal Brexit on the UK economy’. It reports this would mean a £900 million to £1 billion reduction in the resource budget each year.²⁷⁵

330. The IFS said a “hard Brexit”²⁷⁶ would likely have a negative effect on the economy in the short and longer term, adding:

“I think it’s highly likely for there to be a fiscal stimulus if we had a hard Brexit, or another factor that led to a significant slow-down in the economy. I think that would take the form, potentially, of temporary tax cuts, like the temporary value added tax cut we had in the big downturn in 2009-10, and increases in capital and, potentially, benefits spending. The areas that we have are called higher fiscal multipliers—areas that translate more into growth. The short-term impact there will be more money for the Welsh Government to spend, especially on capital spending. I think in the longer term, though, the expectation for most economists, including myself and colleagues at IFS, is that a hard Brexit would lead to a smaller economy, because of weaker trade links. That would mean we had less tax revenue—you would need more tax rises or more spending cuts in the longer term, unless you’re going to borrow more. That’s where I think the challenge would come.”²⁷⁷

331. The Minister said:

“...despite the fact that we’ve got a published withdrawal Bill and there’s a political declaration in existence, we still don’t know yet what the future trading relationship might be with the rest of the EU. And because the political declaration itself isn’t binding, the real intentions of the UK Government, I think, are yet to be understood. So, changes could emerge over the course of the next year, through the negotiation period, so there is a lot that we don’t know at the moment.”²⁷⁸

²⁷⁴ Written Question [WAQ78965](#) – [First Minister’s answer](#)

²⁷⁵ Draft Budget 2020-21 Narrative, 16 December 2019

²⁷⁶ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 12

²⁷⁷ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 70

²⁷⁸ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 153

332. The Minister confirmed that the contingency for Brexit in this draft Budget is £100 million.²⁷⁹ The Minister went on to say that if there is a “no deal’ situation”²⁸⁰ the impact would be so severe that further funding would be required from the UK Government. She said if there was a ‘no deal’ at the end of the year, whilst there would be some immediate impacts, the greater impacts would occur in the next financial year.²⁸¹

333. The Minister said that at present the UK Government’s intention is to pursue a “limited free trade agreement”, which would have a reduction on real-terms incomes of up to “6 per cent per annum in the longer run” and that this would have “knock-on” implications for tax revenues.²⁸²

334. The Minister confirmed that £46 million had been allocated to address the departure from the EU from the £50 million EU transition fund.²⁸³ She detailed:

“£7.5 million on business resilience schemes to aid businesses to adapt to a post-Brexit environment; £1.7 million to help Welsh small and medium-sized enterprises weather the challenges and the uncertainties of Brexit; £6 million funding for training and upskilling the workforce in the automotive and aero industry; and £5 million to support the farming, food and fishery sectors post Brexit.”²⁸⁴

335. In response to what flexibility there is within the draft Budget to respond to possible different Brexit scenarios, the Minister’s official stated:

“I think there are two different aspects to think about here. One is the general impact of leaving the EU on the UK economy and hence on tax receipts and the fiscal position more generally.

“The other big moving part in all of this is funding that we currently get from Europe directly through structural funds, agricultural funds et cetera.”²⁸⁵

336. The Minister’s official said the expectation is that structural funds would be fully replaced. In terms of agricultural direct payments, the Direct Payments to

²⁷⁹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 156

²⁸⁰ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 158

²⁸¹ Finance Committee, Record of Proceedings, 15 January 2020, paragraph 158

²⁸² Finance Committee, Record of Proceedings, 15 January 2020, paragraph 154

²⁸³ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 355

²⁸⁴ Finance Committee, Record of Proceedings, 18 December 2019, paragraph 355

²⁸⁵ Finance Committee, Record of Proceedings, 18 December 2019, paragraphs 361 and 362

Farmers (Legislative Continuity) Bill²⁸⁶ was introduced into the UK Parliament on 9 January, which will allow direct income support to farmers in the UK to continue after exit day for the 2020 scheme year. The Agriculture Bill 2019-20²⁸⁷ that was introduced into the UK Parliament on 16 January includes provisions to continue direct payments after the 2020 scheme year.

337. Although the Welsh Government is consulting on plans to move away from the direct payments system of agricultural support, the Minister for Environment, Energy and Rural Affairs, Lesley Griffiths, has confirmed that direct payments to farmers will continue in 2021²⁸⁸ to provide some certainty post-Brexit. This is reliant on funding from the Treasury. On 30 December 2019 the new UK Government announced²⁸⁹ that funding for direct payments to farmers for 2020 would continue at the same level as 2019 and allocations for the devolved administrations have been set out. The UK Government says “We will guarantee the current annual budget to farmers in every year of the Parliament”.

Committee view

338. The Committee believes the Welsh Government needs to provide evidence that economic development and investment into work programmes provide value for money. The Welsh Government should evaluate the investment in increasing productivity and earnings, and how these investments impact on employment levels. Upskilling the workforce and increasing employment will benefit the Welsh economy regardless of the outcome of Brexit.

339. The Committee notes the recent extension of the high street rate relief scheme for 2020-21. The Committee welcomes this support for high street businesses.

340. While the Committee welcomes the additional funding for rail services in Wales, it is concerned that support for bus services is seeing a “real-terms cut”. The Committee urges the Welsh Government to revisit the strategy and increase support for bus services, especially in light of the fact that some of the poorest and most disadvantaged communities and members of society rely heavily on local bus services.

²⁸⁶ [Direct Payments to Farmers \(Legislative Continuity\) Bill](#)

²⁸⁷ [Agriculture Bill 2019-20](#)

²⁸⁸ [Minister for Environment, Energy and Rural Affairs confirms intention to continue Basic Payment Scheme in 2021](#)

²⁸⁹ [Chancellor’s announcement, 30 December 2019](#)

341. The Committee recognises that there continues to be significant uncertainty surrounding Brexit, the future relationship between the UK and the EU, and what impact that will have on the Welsh economy. The Committee acknowledges that the Welsh Government has produced a draft Budget very soon after the UK General Election based on the information available to it, including the UK Government's spending round September 2019 and the OBR's economic outlook March 2019.

342. Whilst recognising the uncertainty, the Committee is disappointed that there is not more analysis presented on the possible impact that different Brexit scenarios would have on the draft Budget, in particular spending priorities and economic forecasts.

343. The Committee notes that Wales currently receives funding from EU structural funds and agriculture support. The expectation of the Welsh Government is that the EU structural funds will be fully replaced. It is anticipated that there will be some funding flowing from the EU in the next financial year, with the exception of agricultural support (as this is not covered by the transition agreement).

344. Given the importance of the agricultural industry in Wales, the Committee welcomes the confirmation from Welsh Government that direct payments to farmers will continue in 2021 to provide some certainty post-Brexit. While noting its guarantee to continue the current annual budget for farmers in every year of the Parliament, it is not clear whether the UK Government has committed funding for each nation of the UK over this period. The Committee would welcome confirmation from the Welsh Government that it has obtained assurances from the UK Government that this funding will be provided.

345. The Committee is concerned that the EU transition period, to the 31 December 2020, does raise the risk of trade deals not being in place. The Committee believes that should this lead to a period of uncertainty and disruption in trading patterns, further assistance would be required from the UK Government to minimise the impact on the Welsh economy.

Recommendation 24. The Committee recommends that the Welsh Government provides evidence and additional details on how programmes aimed at improving the economy provide value for money whilst balancing investment to increase productivity and earnings, and to get people into employment.

Recommendation 25. The Committee recommends that the Welsh Government reviews its strategy for bus services, ensuring that available resources are effectively targeted to better connect those who rely on this method of transport to ensure inclusive economic growth.

Recommendation 26. The Committee recommends that future Welsh Government Budgets should include flexibility and specific scenario planning to respond to economic shocks or uncertainty. Draft budgets should detail the response to negative effects or potential opportunities for different sectors of the Welsh economy.

Recommendation 27. The Committee recommends that the Welsh Government provides confirmation that it has obtained assurance from the UK Government on the financial support available to the agricultural industry in Wales for every year of the Parliament.

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
18 December 2019	Rebecca Evans, Minister for Finance and Trefnydd Welsh Government Andrew Jeffreys, Director, Welsh Treasury Welsh Government Matthew Wellington, Head of Budget Delivery Welsh Government
9 January 2020	Dr Victoria Winckler, Director Bevan Foundation Dr Helen Tilley, Senior Research Fellow Wales Centre for Public Policy Anna Nicholl, Director of Strategy Wales Council for Voluntary Action Cathy Madge, Lead Change Maker Office of the Future Generations Commissioner Eurgain Powell, Change Maker Office of the Future Generations Commissioner Alex Chapman, Consultant New Economics Foundation Robert Chote, Chairman Office for Budget Responsibility Andy King, Budget Responsibility Committee Member Office for Budget Responsibility
15 January 2020	David Phillips, Associate Director Institute for Fiscal Studies Guto Ifan, Research Associate Wales Governance Centre, Cardiff University Cian Sion, Research Assistant Wales Governance Centre, Cardiff University Michael Trickey, Honorary Senior Research Fellow, Wales Fiscal Analysis programme Cardiff University

	<p>Rebecca Evans, Minister for Finance and Trefnydd Welsh Government</p> <p>Andrew Jeffreys, Director, Welsh Treasury Welsh Government</p> <p>Matthew Wellington, Head of Budget Delivery Welsh Government</p>
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