

Scrutiny of the Welsh Government Draft Budget 2019-2020

November 2018



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Scrutiny of the Welsh Government Draft Budget 2019-2020

November 2018



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
Mid and West Wales

Current Committee membership:



Rhun ap Iorwerth AM
Plaid Cymru
Ynys Mon



Neil Hamilton AM
UKIP Wales
Mid and West Wales



Mike Hedges AM
Welsh Labour
Swansea East



Jane Hutt AM
Welsh Labour
Vale of Glamorgan



Nick Ramsay AM
Welsh Conservatives
Monmouth



David Rees AM
Welsh Labour
Aberavon

The following Member was also a member of the Committee during this inquiry:



Steffan Lewis AM
Plaid Cymru
South Wales East

The following Member attended during the course of this inquiry, in accordance with Standing Order 17.49:



Helen Mary Jones AM
Plaid Cymru
Mid and West Wales

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Chair's foreword

I was pleased to be elected as Chair to the Finance Committee during the Autumn term, a very busy term, primarily scrutinising this draft Budget. Prior to my appointment, and before the publication of the draft budget, the Committee undertook a pre-budget stakeholder session in Swansea and a pre-budget consultation. I was pleased to be able to consider the views of stakeholders prior to the formal scrutiny starting and I would like to thank everyone who contributed at all stages of the process, whether that's attending the stakeholder event or providing formal evidence. We are grateful for the work of all our stakeholders in helping us shape our findings.

This scrutiny is the second to be undertaken using the new budget process, and the first which takes account of the Welsh Rates of Income Tax. Fiscal devolution is still relatively new to Wales, and we are now holding the Welsh Government to account not only on its spending but also on its taxation and borrowing plans.

Last year the Finance Committee scrutinised tax forecasts, and it made recommendations in relation to the provision of Welsh specific data. Evidence this year has again raised the issue of Welsh-specific data, and whilst the Committee recognises there are resource implications to creating additional data, we believe as time progresses that improved Welsh specific data is crucial to inform both Welsh tax policy decision making and Welsh tax forecasting.

With regards to forecasting, the Committee is concerned by the error made in over estimating the Scottish Rates of Income Tax, particularly as the reasons for this remain unclear. It is important that we learn from the experience in Scotland and minimise the risk of errors of this magnitude being made in Wales. HMRC seems to be progressing the work around identifying Welsh taxpayers, but we are concerned that this process could still cause problems in future if we don't get it right now.

The Committee has been keenly watching the creation and development of the Welsh Revenue Authority (WRA), and we were impressed by the evidence from the WRA. The representatives showed enthusiasm and a keenness to succeed and as a Committee we welcome this. The WRA told us they had been nominated for a UK IT Industry Award for its use of cloud based services, and I have since learnt that they won the award and I would like to congratulate them.

A theme which has been raised over many years is preventative spend. We are pleased to see that this draft Budget includes a definition which has been created

in partnership with Welsh Government stakeholders. However, we also recognise that the definition needs to evolve in light of experience. We look forward to seeing improvements in how budget allocations link to the definition of preventative spend in future budgets, as well as seeing evidence of budget allocations shifting over time from acute towards tertiary, secondary and primary prevention.

It is important to mention Brexit, and whilst the continued uncertainty meant it was difficult to focus scrutiny on specific plans to respond to leaving the EU, it is clearly something which will impact on Welsh Government spending during 2019-20. The Cabinet Secretary said he needed flexibility to respond to Brexit, and we support that, but we would also be keen to see how the Welsh Government responds to Brexit in the first supplementary budget next year.

I will be discussing the budget scrutiny and how the new process is working with the Chairs of the other Committees who scrutinise the draft budget, to ensure the new process is working for all Committees.

For this year's draft Budget scrutiny the Committee benefitted from the expert advice of Dr Ed Poole, from the Wales Governance Centre. Ed brought a valuable contribution to our deliberations and we are very grateful to him for his support. Interestingly, Ed also gave evidence to the Committee on the draft Budget, this is quite an unusual dual role. For me, this clearly indicates our need as a country to broaden the availability of "finance experts" across Wales. As fiscal devolution progresses, we need to ensure that we have a civic society that is fully willing and able to engage in the process.

Llyr Gruffydd AM
Chair, Finance Committee

Recommendations

Recommendation 1. The Committee recommends that the Welsh Government continues with its current practice of publishing its draft Budget regardless of the timing of the UK Budget. Page 17

Recommendation 2. Whilst welcoming the progress made in the information provided with the outline and the detailed budget, the Committee recommends that the Welsh Government responds to the concerns of stakeholders regarding the ability to track specific changes within portfolios. Page 26

Recommendation 3. The Committee recommends that the Welsh Government engages with both the OBR and HMRC to ensure work undertaken specifically for Wales is given the same priority as their work in a UK context. Page 39

Recommendation 4. The Committee recommends that attention is given to finalising the Memorandum of Understanding with the OBR and would welcome the opportunity to scrutinise the agreement. Page 39

Recommendation 5. The Committee is keen to ensure that the flagging process for WRIT is fit-for-purpose and recommends that the Welsh Government closely monitors the process through 2019-20. Page 39

Recommendation 6. The Committee recommends that the Welsh Government considers how any future additional funding for health services can be targeted toward prevention and should also consider establishing partnership arrangements around any such funding. Page 56

Recommendation 7. The Committee recommends that the Welsh Government uses the upcoming spending review as an opportunity to fully evaluate its budget processes and documentation, ensuring that future budgets provide a long-term view of funding. Page 56

Recommendation 8. 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 Generations Act and recommends that its use is reflected in the draft Budget 2020-21. Page 57

Recommendation 9. 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..... Page 57

Recommendation 10. The Committee recommends that future draft budgets provide greater detail on the allocations aimed at tackling poverty and inequality. Whilst recognising that some of these initiatives might include relatively small sums of money it is of benefit to flag that these allocations are to addressing poverty and inequality. Page 57

Recommendation 11. 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 Well-being of Future Generations Act and consider the Cumulative Impact Assessment approach recommended by the Equality and Human Rights Commission. Page 57

Recommendation 12. 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. Page 57

Recommendation 13. The Committee recommends that the Welsh Government provides an update on the outcome of its review of the new framework for integrated impact assessments. Page 57

Recommendation 14. The Committee recommends that the Welsh Government keeps the definition of preventative spend under close and constant review, including active engagement with both stakeholders and this Committee.Page 66

Recommendation 15. The Committee recommends that the Welsh Government prioritises an integrated approach across Government with respect to preventative spending, both cross-department, and multi-year.....Page 66

Recommendation 16. The Committee recommends that the Welsh Government considers the transparency issues in relation to identifying investment linked to the Economic Action Plan in the budget tables, with a view to ensuring clarity is provided in the 2020-21 budget. Page 71

Recommendation 17. The Committee recommends that targets are published in relation to the Economic Action Plan and subsequent progress is reported against these targets to enable a better measurement of policy performance. Page 72

Recommendation 18. The Committee recommends that the Welsh Government gives further consideration to how tackling regional inequality across Wales is prioritised in decision making in relation to infrastructure investment..... Page 72

Recommendation 19. The Committee notes the need for the budget to be flexible in relation to preparing for Brexit, but recommends that the first supplementary budget 2019-20 provides, as far as is practicable, a detailed summary of how the final Brexit Agreement has informed the Welsh Government's in-year spending plans..... Page 77

1. Scrutinising the draft Budget

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 – Finance”, 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.¹

Scrutinising the draft Budget

3. The Wales Act 2014² devolved additional fiscal powers to the Assembly, specifically stamp duty land tax (SDLT), landfill tax revenues and increased borrowing powers. In April 2018 two specific Welsh taxes came into force, Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT). In April 2019 the Welsh Rate of Income Tax (WRIT) will come into force.
4. The 2018-19 draft Budget was the first draft to be scrutinised under a new budget process³ which was agreed by the Assembly on 21 June 2017⁴.
5. The new budget process sets out that two stages of information will be published by the Welsh Government:
 - outline proposals which 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 new budget process also allows for a formal reporting role for policy and legislation committees. The Committee will consider the overall strategic decision

¹ Standing Orders of the National Assembly for Wales, [SO 19](#), October 2018

² [Wales Act 2014](#)

³ Changes to [Standing Orders](#) and the associated [Budget Process Protocol](#) between the Assembly and the Welsh Government were agreed by the Assembly on 21 June 2017

⁴ National Assembly for Wales, Plenary, [RoP](#), 21 June 2017

making and prioritisation behind the allocations within the outline draft Budget proposals, along with taxation and borrowing plans, against the backdrop of public finances and the wider economy. Whilst the other Assembly committees will be encouraged to take a more active role in scrutinising the detail of budgets within their portfolios, and produce a report directly to the Assembly.

7. The Welsh Government's outline draft Budget proposals 2019-20⁵ were published along with outline budget narrative 2019-20⁶ on 2 October 2018. Published in support of the draft Budget were a Welsh tax policy report 2018⁷, Bangor University: Independent scrutiny and assurance of devolved tax forecasts for Wales 2018⁸ and the Chief Economist's report 2018⁹.

8. The detailed budget¹⁰ was published on 23 October, alongside detailed budget tables¹¹.

9. Following the 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 2006¹².

Consultation

10. Under the budget protocol the Committee committed to undertaking a pre-budget scrutiny session. On 7 June 2018 the Committee visited the National Waterfront Museum, Swansea 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 Welsh Government budget allocations.

11. Stakeholders raised concerns over the transparency of the draft Budget, with some calling for a longer term approach to budgeting. Stakeholders also raised concerns in the following areas:

- Preventative Spend, Health & Social Care;

⁵ National Assembly for Wales, [GEN-LD11762](#), Welsh Government Outline Draft Budget Proposals 2019-2020, 2 October 2018

⁶ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018

⁷ Welsh Government, [Welsh tax policy report 2018](#), 2 October 2018

⁸ Bangor University, [Independent Scrutiny and Assurance of Devolved Tax Forecasts for Wales](#), October 2018

⁹ Welsh Government, [Welsh Budget 2018: Chief Economist's report](#), 2 October 2018

¹⁰ Welsh Government, [Draft Budget 2019-20 Detailed proposals](#), 23 October 2018

¹¹ Welsh Government, [Budget expenditure lines](#), 23 October 2018

¹² [Government of Wales Act 2006](#)

- Education funding;
- Equality & Vulnerable Groups;
- Taxation.¹³

12. Additionally the Committee issued a pre-budget consultation, inviting stakeholders to comment on the expected draft Budget proposals. The call for information invited consultees, organisations and individuals to let the Committee know their expectations of the forthcoming draft Budget.

13. The Committee was pleased to receive responses from a range of organisations. Links to these contributions can be found at Annex B.

Budget focus

14. The Committee agreed to continue the approach followed in previous years, whereby budget scrutiny is centred on the four principles of financial scrutiny: affordability, prioritisation, value for money and process. The principles are:

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

15. Additionally, the Committee identified a number of areas which all Committee scrutiny 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;

¹³ Finance Committee, [Stakeholder Engagement: Welsh Government Draft Budget 2019-20, 13 June 2018](#)

- Sustainability of public services, innovation and service transformation;
- Welsh Government policies to promote economic growth, reduce poverty, gender inequality and mitigate welfare reform;
- The 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.

Joint scrutiny

16. This year the Committee undertook additional concurrent scrutiny with the Children, Young People and Education (CYPE) and Equality, Local Government and Communities (ELGC) Committees to consider, in a cross-cutting way, the processes adopted by the Welsh Government to assess the impact of its financial decisions on certain population groups.

17. This came about as a result of the Committee's pre-budget stakeholder event in June 2018, where calls were made for improved input to the draft budget process from the perspective of children and young people. The Equality and Human Rights Commission also called for further scrutiny to be conducted on the quality of impact assessments.

18. On 15 November,¹⁴ the Committee took oral evidence concurrently with the CYPE and ELGC Committees from:

- the Children's Commissioner for Wales and the Equality and Human Rights Commission;
- the Cabinet Secretary for Finance, Mark Drakeford AM (the Cabinet Secretary), and the Leader of the House and Chief Whip, Julie James AM (Cabinet lead for equality).

19. The Committee also discussed the Strategic Integrated Impact Assessment (SIIA) during other sessions, including with the Future Generations Commissioner. Further detail is provided in Chapter 4.

¹⁴ National Assembly for Wales, Concurrent Committee, Draft RoP, 15 November 2018

Timing of the Budget

20. The new budget process has been in place for two draft budget scrutiny cycles. In both cycles it had been assumed the UK Government would publish its budget after the Assembly's budget scrutiny had concluded. However, in both Autumn 2017 and Autumn 2018 the Committee has had the opportunity to consider the UK budget as part of its draft budget scrutiny.

21. The Cabinet Secretary was asked about the timing of Budget scrutiny, he said:

"I remember that, at this committee last year, we discussed how we could deal with that. Is it preferable just to retain what we have, where the Assembly committees have the optimum time in order to scrutinise the draft budget, or is it preferable to do it as they do it in Scotland, where they wait until the Chancellor has laid his budget and then the process starts immediately after that, when they are in possession of all the facts, as it were? But, of course, that cuts down on the time available—they only have a very few weeks to do the scrutiny work. So, last time, having discussed this with the committee, the committee's advice to me was to adhere to our current process and just deal with the uncertainty that that obviously creates.

And, of course, it does create significant uncertainty, Chair, because Members will remember that what we managed to do last time, when the UK budget was even later in the process than it will be this year, was that we managed to include the revenue implications of the UK budget in the final budget that was laid in December, and there was £251 million of revenue that we didn't know about at this point in the process, and we did know by the time we got to the final process. But I wasn't able to do that for capital—there simply wasn't enough time to make sensible decisions. So, I gave an indication in the final budget debate in January of some of the ways in which capital would be deployed and then followed that up at the supplementary budget and, indeed, in this budget too. So, that is the unsatisfactory context that we work in, but, while the committee is happy to do it in the way that we agreed last year, then I'm happy to try and be as helpful as I can within those constraints."¹⁵

¹⁵ National Assembly for Wales, Finance Committee, [RoP \[para 290-291\]](#), 3 October 2018

22. In regards to following up changes in supplementary budgets the Cabinet Secretary has said that scrutiny of in-year allocations is by and large in Plenary or subject committee, rather than when supplementary budgets are presented to the Committee:

“...there is a lot going on, particularly in the second supplementary budget ... So, by and large, the decisions that you see here are decisions that were made many months ago. They are made by the portfolio Ministers. They are reported to the Assembly by those portfolio Ministers. They will have had questions asked of them in committee and sometimes in Plenary as well.”¹⁶

23. During its scrutiny of the Second Supplementary Budget 2017-18, the Committee was not convinced that in-year spending decisions were subject to as detailed scrutiny as at draft (or Supplementary) Budget time and concluded:

“The Committee concludes that to enable more transparent scrutiny of such decisions, more explicit financial details need to be made available in terms of how commitments are funded, for example, whether commitments are funded from reserves or underspends in other areas, when such announcements are made [Conclusion 2].”¹⁷

24. Reflecting on the 2019-20 budget process, the Cabinet Secretary told the Committee that publication of the UK Government budget halfway through the process “creates some difficulties” but the approach is taken “in order to ensure that we do our best to give appropriate time for scrutiny of the draft budget”.¹⁸

25. In terms of whether the current budget process is the best possible for Wales going forward, the Cabinet Secretary said:

“In many ways, I’m in the committee’s hands on it, to be frank. There are advantages that I could see from my point of view in waiting until the autumn budget of the UK Government had been published, and then being able to put in front of the Assembly a set of proposals that take that into account. In many ways, from my point of view, that would be neater...But the downside of that is the one we rehearsed last time, which is that it compresses the scrutiny period for the Assembly into a much smaller number of weeks...We succeed in the way we do it in

¹⁶ National Assembly for Wales, Finance Committee, [RoP \[para 7\]](#), 14 February 2018

¹⁷ National Assembly for Wales, [CR-LD11434](#), Scrutiny of Welsh Government Second Supplementary Budget 2017-2018, 1 March 2018

¹⁸ National Assembly for Wales, Finance Committee, [Draft RoP \[para 4\]](#), 21 November 2018

giving our local authorities, our health services, the third sector organisations we support, a final budget that I will lay before Christmas. Now, it's subject to the Assembly voting on it, but they know before Christmas what they can plan for. In Scotland, they don't know until March, and that's a very small period of time for them to make preparations."¹⁹

26. The Committee asked the Cabinet Secretary whether he would be making changes to the Welsh Government's final budget following the UK Government's budget announcement, or via supplementary budgets. The Cabinet Secretary confirmed that he will do his best to reflect major changes in the final budget, with some detailed changes being reported at supplementary level during the next financial year.²⁰

27. When asked whether he had any thoughts on how to ensure that Members have sufficient financial information regarding in-year funding decisions made between final and supplementary budgets, the Cabinet Secretary said:

"Supplementary budgets are, in many ways, a sort of sweeping-up exercise in which we regularise on the face of the budget decisions that Ministers will already have made and there will already have been announcements and there will already have been assessments against those decisions published at the time of the decisions. If there's more that we can do to bring that together so that the Finance Committee can see that in the round, then I'm sure we'd be happy to think about how we can do that. But it's unusual in a supplementary budget that the changes are being brought to the attention of the committee for the first time; it's almost always something that's been published already."²¹

Committee view

28. Whilst acknowledging the additional complexities when the UK Budget is published midway through the Welsh Government's budget scrutiny cycle, the Committee reaffirms its previous view that this is outweighed by the benefits of scrutinising some details prior to the UK Budget announcement.

¹⁹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 8-9\]](#), 21 November 2018

²⁰ National Assembly for Wales, Finance Committee, [Draft RoP \[para 20\]](#), 21 November 2018

²¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 22\]](#), 21 November 2018

29. The Committee considered the additional complexities and uncertainties that the partial devolution of income tax and publication of a UK Budget in the middle of draft budget scrutiny has caused to the scrutiny process in Wales. The Committee feels that the benefits of early funding certainty for health providers, local government, the third sector and other providers, coupled with the additional scrutiny has outweighed this uncertainty.

Conclusion 1. The Committee will continue to keep budget scrutiny arrangements under review, considering best practice, both in the upcoming inquiry on a legislative budget process and in light of the forthcoming spending review.

30. The Committee reaffirms its conclusion that if the timing of the UK Government budget leads to more significant in-year allocations being made, then to enable more transparent scrutiny of such decision, more explicit financial details need to be made available in terms of how commitments are funded, for example, whether funded from reserves or underspends in other areas, when such announcements are made and debated in Plenary.

Recommendation 1. The Committee recommends that the Welsh Government continues with its current practice of publishing its draft Budget regardless of the timing of the UK Budget.

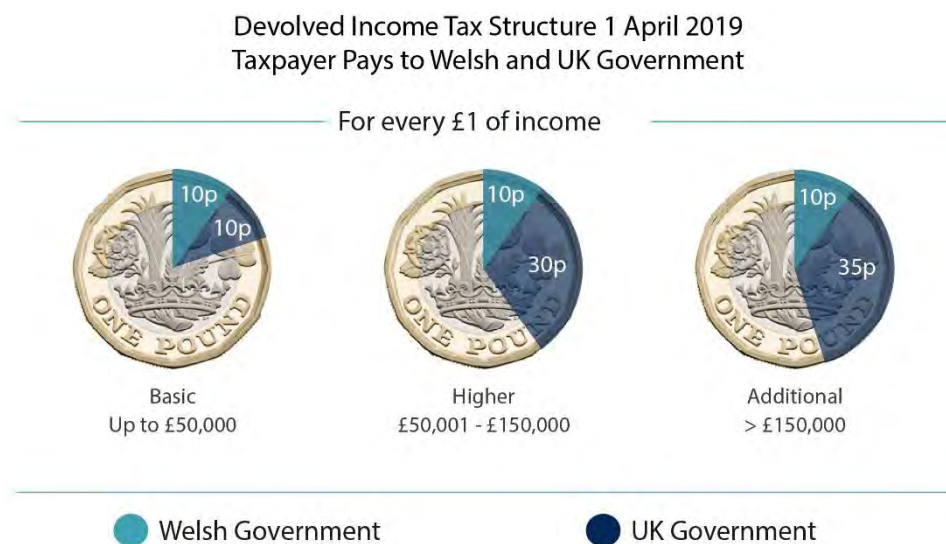
2. Overview

31. The Welsh Government’s draft Budget for 2019-20²² is the first where a proportion of revenue from Welsh taxpayers will form a part of the budget. WRIT makes up £2.1 billion, or almost a fifth of the Welsh Government’s budget.

32. In 2019-20 almost £5 billion of devolved and local spending will be funded by Welsh-controlled taxes, raised from WRIT, LTT, LDT, non-domestic rates and council tax revenues.

33. To account for the devolution of income tax, a downward adjustment has been made to the Welsh block grant for 2019-20 equal to the revenues raised in Wales, leaving the size of the budget unchanged. In future years, this Block Grant Adjustment will change according to growth in comparable revenues in England and Northern Ireland. This means that devolved revenues will increase or decrease depending on the relative growth of revenues in Wales compared to England and Northern Ireland.

34. The graphic below shows income tax thresholds and revenue income that is being devolved to Wales.



35. The budget proposed no changes to the rates and bands for LTT, whilst LDT rates will rise in line with inflation. The Welsh rates of income tax will remain unchanged.

²² Welsh Government, [Draft Budget 2019 to 2020](#), October 2018

Overview – Changes to high level allocations

36. The major change in the draft Budget 2019-20 compared to both the 2018-19 budget and indicative allocations for 2019-20 was the £365 million consequential for the Welsh Government resulting from the UK Government's NHS funding announcement.²³

37. The Cabinet Secretary emphasised that this extra funding was for the whole system of health and social care rather than just for core NHS delivery (which accounts for around 93% of the Main Expenditure Group (MEG)). £30 million of the increase to this MEG will be distributed to local authorities to address pressures in social care, while another £30 million will go towards regional partnership boards.²⁴

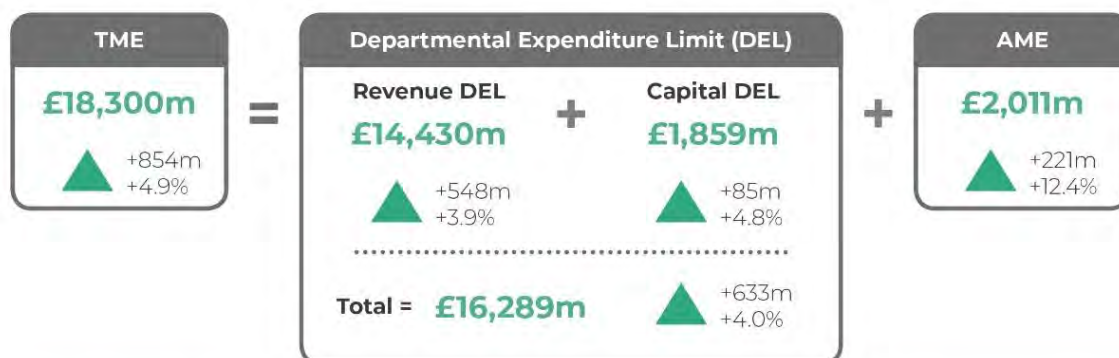
38. The Chart below shows overall changes in departmental allocations, revenue plus capital, compared to the previous supplementary budget.

²³ Department of Health and Social Care, HM Treasury, and The Rt Hon Jeremy Hunt MP, [Prime Minister sets out 5-year NHS funding plan](#), Press release, 18 June 2018

²⁴ National Assembly for Wales, Finance Committee, [RoP \[para 360-361\]](#), 3 October 2018

Welsh Government First Draft Budget 2019-20

Headline figures from the draft budget (DB) 2019-20, showing changes from the first supplementary budget (FSB) 2018-19



	Total DEL allocation	Change from First Supplementary Budget 2018-19 to Draft Budget 2019-20
Health and Social Services	£8,186m	▲ +£507m +6.6%
Local Government and Public Services*	£4,301m	▼ -£28m -0.6%
Education	£1,868m	▲ +£16m +0.9%
Economy and Transport	£1,254m	▲ +£130m +11.6%
Energy, Planning and Rural Affairs	£364m	▲ +£13m +3.6%
Central Services and Administration	£315m	▼ -£6m -1.9%

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



39. The provisional local government settlement²⁵ showed that on average councils would be receiving 0.3% less in revenue support grant, this is a 2% cut in real terms. On 20 November 2018 the Cabinet Secretary issued a written statement announcing additional funding of £141.5m in revenue and capital for local government over three years (2018-19 to 2020-21).²⁶ In 2019-20 this included £24 million revenue and £30 million general capital funding. In evidence the Cabinet Secretary confirmed the additional funding meant “It is now better than a cash-flat budget for local government”.²⁷

40. The lifting of the 1% pay cap for public sector workers means that local authorities, alongside other Welsh public services, are facing additional costs this year. Public sector pay deals are a more significant moving part in this budget compared with previous years, with an extra £13.7 million announced for teachers’ pay and £95 million to fund the *Agenda for Change* pay deal for NHS staff in 2019-20.

UK Budget

41. The Chancellor of the Exchequer delivered his final pre-Brexit Budget on 29 October, which was notable for presenting better than anticipated tax revenue figures, despite economic growth forecasts continuing to be below trend and similar to that forecasted by the Office of Budget Responsibility (OBR) in March.²⁸

42. The UK budget announced significant changes to income tax personal allowance and the higher rate threshold. The Personal Allowance, which is reserved to Westminster, will increase to £12,500 in April 2019 (one year earlier than previously planned). The Chancellor also announced that he would bring forward by one year his Higher rate tax threshold increase to £50,000.

43. The main change for Wales stems from Barnett consequentials arising from the UK Government’s June commitment to increase funding for the NHS. The Welsh Government’s budget will increase by an additional £550 million in consequentials; £115.7 million in 2018-19, and £425.9 million in 2019-20. This includes over £25 million as a result of a 5% uplift in Barnett consequentials through the fiscal framework. The Chancellor confirmed that this would all be

²⁵ Welsh Government, [Provisional Local Government Revenue and Capital Settlement 2019-20](#), 9 October 2018

²⁶ Welsh Government, Mark Drakeford (Cabinet Secretary for Finance), [Draft Budget 2019-20 – Proposals for additional funding for local authorities](#), Written Statement, 20 November 2018

²⁷ National Assembly for Wales, Finance Committee, [Draft RoP \[para 90\]](#), 21 November 2018

²⁸ UK Government, HM Treasury, [HC 1629](#), Budget 2018, 29 October 2018

funded from the better than expected tax revenue receipts and that no new tax increases were required.

44. The Cabinet Secretary highlighted that, similar to last year, he would look to make a number of additional allocations, which would be announced in the lead up to, and included in the final budget. Further decisions would be made in-year and shown in supplementary budgets.²⁹

Pension changes

45. During scrutiny of the budgets/estimates of directly funded bodies the ongoing public service pension valuations was highlighted as an issue. This will result in higher employer pension contributions whilst having considerable impact on public sector organisations in Wales.

46. The Superannuation Contributions Adjusted for Past Experience discount rate is expected to fall from 3% to 2.4%, which will take effect from 1 April 2019 (a fall to 2.8% had previously been expected).³⁰

47. In regards to meeting these increased pension costs the Cabinet Secretary said:

“Well, we’ve had some assurances, in the sense that we were told very late in the day that £74 million of the money we’d been given for health had apparently been given to us to cover the costs of the pension changes in the health service, ... The Chief Secretary said to me, in my meeting with her, that a sum of money—I think it’s £4.7 billion—has been set aside to cover the costs of the pension changes across the whole of the responsibilities that she discharges, that she will be allocating that sum of money at a departmental level over the coming weeks—I think that was the phrase that she used—and we will learn how much of that then comes to Wales.”³¹

48. The Cabinet Secretary confirmed he had told all public bodies who may be affected by the pension changes that “the Welsh Government will simply be a post-box. If the money comes in from the Treasury to us, I will hand it straight on

²⁹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 185\]](#), 21 November 2018

³⁰ [Letter from the Chief Secretary to the Treasury to the Trades Union Congress](#), 6 September 2018

³¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 185\]](#), 21 November 2018

to the organisations who are facing these costs; I'm not intending to do anything else other than that."³²

Transparency and Presentation

49. The budget documentation included a number of changes in response to the Committee's scrutiny last year. The narrative was more focussed towards how allocations fitted in with Welsh Government priorities, Prosperity for All and the Economic Action Plan (EAP), an additional Strategic Integrated Impact Assessment was provided at the time of the detailed budget. The narrative was also more focussed on how decision making tied in with the Well-being of Future Generations Act.

50. Some witnesses commented that it was difficult to understand where changes had been made in the budget, Victoria Winckler, of the Bevan Foundations said:

"it's actually very difficult to track what's happening in the budget. I don't know if it's just my weaknesses, or if it's a matter of presentation, but there's a lot of narrative, and it's quite difficult to go through and pick out the figures from that, and it's also hard to compare, not so much year on year, but over a longer period. But that said, I think the draft budget is an iteration of previous years' budgets. I think, to some extent, that's understandable, because the room for manoeuvre at a time of austerity and rising demand is extremely limited."³³

51. Witnesses on the Committee's Economic Growth Panel³⁴ thought that the narrative around supporting business through the EAP was good, however they felt more was needed in terms of measurements of what was being invested and where, and also an idea of the speed of change. Witnesses made comments that the number of budget lines had been reduced in this budget so it was not transparent where planned funding was being invested.³⁵

52. The Future Generations Commissioner noted that a key element of her feedback to the Welsh Government on the 2018-19 budget related to the structure of the budget documents:

³² National Assembly for Wales, Finance Committee, [Draft RoP \[para 191\]](#), 21 November 2018

³³ National Assembly for Wales, Finance Committee, [RoP \[para 5\]](#), 25 October 2018

³⁴ On 15 November 2018, the Committee took evidence from FSB Wales, and the Welsh Retail Consortium.

³⁵ National Assembly for Wales, Finance Committee, [Draft RoP \[para 14 and 16\]](#), 15 November 2018

“They were structured by Ministerial portfolio and there were clear examples of similar initiatives being funded by separate portfolios with little or no connection between them.”³⁶

53. Chapter 4 of the outline draft budget considers the key areas of the budget in the context of the well-being objectives. The outline budget details a series of workshops, co-developed and jointly delivered by the Welsh Government and WWF Cymru. Key areas identified for progress included; procurement, capacity building and “development of a range of other factors, which are key to how systemic whole-government change might be achieved in response to the Act”.³⁷

54. The draft Budget also includes information on activities that were prioritised through conversations with the Future Generations Commissioner, they include:

- **Participatory budgeting:** The outline budget narrative acknowledges that the Welsh Government needs to do more to increase “people’s general understanding about both the budget and the process which underpins it”. The Welsh Government intends to work with the Future Generations Commissioner’s Office and third sector to explore further opportunities for longer-term engagement. No further information is provided on pilots mentioned during the 2018-19 budget.³⁸
- **Decarbonisation:** The outline draft budget details how decarbonisation impacts on various well-being objectives. It goes on to say that it is at the heart of the EAP. The Welsh Government’s Decarbonisation Ministerial Task and Finish Group and a “robust cross-government governance structure” support work in this area. Work has been undertaken to align the carbon and fiscal budgets for 2019-20.
- **Procurement:** The outline budget details the Welsh Government’s review of procurement. This approach to collaborative procurement places greater emphasis on regional and local well-being priorities.

55. In terms of Participatory Budgeting, the Future Generations Commissioner suggested that this was difficult to undertake well at a national level and was better to be used at a local level or with a focus on specific allocations. She was pleased to see that decarbonisation had been added as a priority, but questioned

³⁶ Finance Committee, [WGDB 19-20 19: Future Generations Commissioner for Wales](#), Consultation Response, 12 September 2018

³⁷ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018

³⁸ Welsh Government, [Draft Budget 2018-19 Outline proposals](#), 3 October 2017

the resources being committed to this. In terms of procurement, she suggested it was difficult to track those activities in the budget.

56. When asked about the transparency within the draft Budget the Cabinet Secretary said:

“... we continue to try to supply a series of contextual documents at stage 1—the report of the chief economist, the work of the Bangor Business School, the tax work plan, and what I hope now will be an annual report of that alongside the budget. But the committee asked last year that we would provide an additional set of information at the second stage of the budget process, a separate integrated assessment at the detailed level. We’ve tried to supply that this year. We’ve tried to improve the way in which the budget documentation demonstrates the ways in which sums of money have altered at the budget expenditure line level, and there are columns in the tables that are published this year that show the changes to allocations between budgets. I hope that that has been helpful to the committee. And also, I took serious note of what the committee said about trying to align the way the narrative of the budget documentation is aligned to ‘Prosperity for All’ and the economic action plan. So, to try and take the key themes of those pan-Government documents and to align the budget narrative against the priorities set out there.”³⁹

Committee view

57. The Committee notes that the Welsh Government’s budget and decision making is set in the context of an unprecedented period of austerity. In 2019-20 the Welsh budget will be 5% lower in real terms than in 2010-11, on a like-for-like basis. This is the equivalent of £800m less to spend on public services in Wales.

58. The Committee welcomes the progress and direction of travel made by the Welsh Government towards meeting the Committee’s recommendations around information to be provided in the outline and detailed draft budgets. However, the Committee notes the concerns from stakeholders around the ability to track specific changes within portfolio areas.

59. The Committee found the Tax Policy report particularly helpful in providing transparency, in terms of explaining policies considered, progress made and setting out future actions.

³⁹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 14\]](#), 21 November 2018

60. The Committee recognises that the changes made in relation to income tax have been made before the WRIT is implemented in April 2019, and this is good news for Wales. As Wales has a higher proportion of lower earning taxpayers, there is the potential that future reduced tax revenues from the Personal Allowance increase would have disproportionately impacted on Welsh income tax receipts compared with the rest of the UK.

61. From 2021 to 2022 onwards, the Personal Allowance and basic rate limit will be indexed with the Consumer Price Index. Therefore the Committee believes it is crucial going forward that there is transparency around the short and long term impact of personal allowances on Welsh tax revenues and that the Welsh Government builds a stronger tax base as discussed in Chapter 3 of this report.

62. The Committee welcomes the Cabinet Secretary's assurance that the UK Government would provide funding to meet any additional costs in relation to the on-going pensions revaluation and that he will act as a "post box" to deliver this money to the affect bodies. The Committee will follow up this issue when final announcements of changes to employer contributions and associated funding are made.

Recommendation 2. Whilst welcoming the progress made in the information provided with the outline and the detailed budget, the Committee recommends that the Welsh Government responds to the concerns of stakeholders regarding the ability to track specific changes within portfolios.

3. Tax and borrowing powers

63. The Welsh Government published its “Welsh Tax Policy Report 2018”⁴⁰ alongside the 2019-20 draft Budget, which outlines the tax strategy and policy development work being undertaken by the Welsh Government. The Tax Policy Report details that the Welsh Government is:

- Taking forward work on new Welsh taxes;
- Continuing to press the case with the UK Government for the devolution of air passenger duty to Wales;
- Considering wider UK tax policy and its impact on the Welsh fiscal position, including the soft drinks levy; the apprenticeship levy and the changing structure of UK tax policy as the UK prepares to leave the EU; and
- Considering the impact and implications of changes to tax administration across the UK tax landscape, including making tax digital.

Stakeholder views

A suggestion offered by a stakeholder is to consider whether the setting of business rates should be more locally devolved, and whether taxes should be levied on income or on profits. Subsequent discussions resulted in the recommendation of thorough impact assessments to ensure that the impact of these considerations on very small businesses should be minimal, and that start-ups shouldn't be inhibited. Further, stakeholders called for efforts to be made to ensure that the tax systems isn't overly complicated.

Calls were also made by stakeholders for greater consideration of the impact of tax on incomes of people as a whole. Stakeholders suggested looking at the wider impact of tax decisions, for example by looking at demographics and the impact on the population, and how this links into council tax. Stakeholders also asked what modelling is being done in this respect, and say that greater transparency with respect to the research underpinning tax rates is needed.

⁴⁰ Welsh Government, [Welsh Tax Policy Report 2018](#), 2 October 2018

64. The Wales Governance Centre emphasised how an integrated approach to taxation would be the most effective strategy:

“...these [devolved] taxes should be taken together, and especially council tax should be seen as a potential policy lever to use alongside the new tax powers that have come on board. In this budget, there’s a good example of that in the fact that we haven’t seen an increase in income taxes, though the cost and demand pressures on local government will make it likely that council tax will increase and increase the financial burden, not through income tax, but through council tax. There’s a good case for considering these two taxes in the round, together.”⁴¹

New Welsh Taxes

65. The Tax Policy Report outlines work being undertaken to take forward new Welsh tax ideas, including testing the Wales Act 2014 mechanism by seeking to devolve the necessary powers for a vacant land tax in Wales.⁴² Victoria Winckler of the Bevan Foundation said of the vacant land tax:

“...a land value tax was of considerable interest, in which undeveloped land could have a higher rate, and particularly to try and discourage land banking. I think it’s certainly an area worth looking at, but, as I said, the devil’s in the detail. There is a bit of a risk of unintended consequences if it’s not got quite right, but, in general, I think I’d give it a sort of a red and amber light.”⁴³

66. The Tax Policy Report also details work the Welsh Government is undertaking regarding the suitability of other taxes for Wales, including:

- Social care levy;
- Disposable plastics tax;
- Tourism tax.

67. On 20 November, the Cabinet Secretary wrote to the Committee with an update on progressing the vacant tax⁴⁴ he expanded on this:

⁴¹ National Assembly for Wales, Finance Committee, [RoP \[para 268\]](#), 11 October 2018

⁴² Welsh Government, [Welsh Tax Policy Report 2018](#), 2 October 2018

⁴³ National Assembly for Wales, Finance Committee, [RoP \[para 64\]](#), 25 October 2018

⁴⁴ Finance Committee, [Letter from the Cabinet Secretary for Finance](#), 20 November 2018

“... we chose, in the end, a vacant land tax because it seemed the most suitable to testing the machinery of the 2014 Act for the first time. Our relationships with the UK Government are not always straightforward, but I should say, in this instance, I feel like we’ve had a lot of co-operation from Treasury officials, and indeed from the Chief Secretary to the Treasury as well. There seems a willingness to test that machinery and to do it in a co-operative spirit, so we’re at the stage that I set out in the letter yesterday of providing the Treasury with the information they need in order to lay the Orders at the Houses of Parliament that would result in the power being transferred to the National Assembly to allow us to move forward with a vacant land tax. As I’ve said in front of the committee before, the line that I have tried to patrol and police is this: that there are legitimate questions for the Treasury to ask to make sure that this is genuinely in an area that is devolved, that the tax that we would collect would not have an impact on taxes that the Treasury itself aims to collect, but what they’re not entitled to do is to ask us questions about the use we would make of the power. That is entirely for the National Assembly for Wales to determine. So, once we get the power, then we would then move into the process that we would normally run whenever we were legislating. We’d be likely to publish a White Paper on a vacant land tax. We’d have a consultation, as we would normally do, and that would lead into the legislative process. But we are moving down the track more or less at the speed that I’d hoped we would, and I remain optimistic that, during this Assembly term, the necessary powers will be in the hands of the National Assembly and we will have begun the journey towards deciding whether or not the Assembly would support legislation to create this tax.”⁴⁵

Costs for devolving taxes

68. The devolution of taxes to Wales will result in additional costs for the Welsh Government. In regard to the costs of transitioning to LTT in correspondence with the Cabinet Secretary, HMRC said:

“There are however still some uncertainties and we believe that the final figure will be in the range of £1.75m to £2m.”⁴⁶

69. Whilst HMRC confirmed that “savings from no longer administering stamp duty land tax and landfill tax in Wales is about £172,000 a year”, this is slightly

⁴⁵ National Assembly for Wales, Finance Committee, [Draft RoP \[para 71\]](#), 21 November 2018

⁴⁶ Finance Committee, [FIN\(5\)-03-18 P2: Letter from Jim Harra, HMRC](#), 6 December 2017

higher than initially estimated, and HMRC confirmed that this saving passes to the Welsh Government.⁴⁷

70. Correspondence between the Cabinet Secretary and HMRC in December 2017 suggested costs for the implementation for WRIT would be between £5 and £10 million⁴⁸, these costs have been further refined to between £7.5 million and £9.5 million⁴⁹. Whilst HMRC running costs for the administration of WRIT beyond April 2019 are currently estimated at £319,000 per year⁵⁰. The Department for Work and Pensions has also confirmed its costs to the Welsh Government would not exceed £200,000.⁵¹

Welsh Government forecasts

71. Table 1 shows a summary of the Welsh Government's tax forecasts.⁵² This forecasts that the Welsh Government will directly control almost £3.5 billion in its 2019-20 Budget which will grow to almost £3.8 billion by 2022-23.

Table 1. Welsh Government tax revenue forecasts for 2019-20 to 2022-23

FY	£ millions			
	2019-20	2020-21	2021-22	2022-23
Landfill Disposals Tax (LDT)	40	36	34	32
Land Transaction Tax (LTT)	258	269	287	309
Non Domestic Rates (NDR)	1,061	1,090	1,111	1,134
Welsh Rates of Income Tax (WRIT)	2,099	2,164	2,237	2,320
Total	3,458	3,559	3,669	3,795

72. The Welsh Government forecasts, unlike OBR forecasts, are produced prior to the UK Autumn Budget and would therefore not incorporate impacts of UK policy on devolved taxes.

Welsh-specific data

73. The Bangor University report found there is a lack of Welsh-specific data to draw on when developing Welsh forecasts, stating where Welsh-specific data is

⁴⁷ National Assembly for Wales, Finance Committee, [RoP \[para 227\]](#), 25 October 2018

⁴⁸ Finance Committee, [FIN\(5\)-03-18 P2: Letter from Jim Harra, HMRC](#), 6 December 2017

⁴⁹ National Assembly for Wales, Finance Committee, [RoP \[para 237\]](#), 25 October 2018

⁵⁰ National Assembly for Wales, Finance Committee, [RoP \[para 239\]](#), 25 October 2018

⁵¹ Finance Committee, [Letter from the Cabinet Secretary for Finance](#), 25 October 2018

⁵² Bangor University, [Independent Scrutiny and Assurance of Devolved Tax Forecasts for Wales](#), October 2018

not available “the forecasts use a number of OBR determinants that are only available at the UK level”.⁵³ The report recommended:

“Further consideration should be given to the possibility of undertaking further work to provide Welsh specific data to help to inform the forecasting exercise. Consideration should be given to the possibility of developing a systematic approach for measuring and understanding the Welsh economy.”⁵⁴

74. Dr Edward Jones from Bangor University commented that the collection of Welsh-specific data from the Welsh Revenue Authority (WRA) for both LTT and LDT has been invaluable for refining Welsh Government forecast models.⁵⁵

75. Robert Chote, Chief Executive of the OBR, acknowledged that “the fact that we are getting months of data out of the WRA is great”.⁵⁶ He further stated “we’re going to learn more from drilling into and assessing the robustness and identifying the seasonal and other patterns in the administrative data that we’re starting to get in from the WRA”.⁵⁷

76. In terms of Welsh macroeconomic data, Bangor University commented “Welsh Government at the moment are looking at the potential of developing a Welsh gross domestic product (GDP)”.⁵⁸ The merits of modelling a Welsh-specific GDP were considered by the university in helping to understand the Welsh tax base:

“What also needs to happen is to develop our understanding of the tax base itself, which brings me back to the point about GDP. I think it’s important for us to look at: should we be developing a Welsh-specific GDP, and the work involved? I think it’s a long-term aim, but it could be a worthwhile aim, because it will help us understand the tax base.”⁵⁹

⁵³ Bangor University, [Independent Scrutiny and Assurance of Devolved Tax Forecasts for Wales](#), October 2018

⁵⁴ *ibid*

⁵⁵ National Assembly for Wales, Finance Committee, [RoP](#), 17 October 2018

⁵⁶ National Assembly for Wales, Finance Committee, [RoP \[para 222\]](#), 7 November 2018

⁵⁷ National Assembly for Wales, Finance Committee, [RoP \[para 180\]](#), 7 November 2018

⁵⁸ National Assembly for Wales, Finance Committee, [RoP \[para 20\]](#), 17 October 2018

⁵⁹ National Assembly for Wales, Finance Committee, [RoP \[para 100\]](#), 17 October 2018

77. The Cabinet Secretary agreed “there is work to be done in developing the quality and the range of data that we have to help us understand the nature of the Welsh economy, the way the tax base can be developed in future”.⁶⁰

78. However, when asked specifically about Welsh macroeconomic data, the Cabinet Secretary concluded that:

“...that you could put an awful lot of work into trying to do that and it would be resource intensive as well as time intensive, and what you might get out at the end of it might not tell you anything very much or very reliably. And the reason for that is that the degree of integration between the economies of Wales and Scotland [England] is such that there is a real statistical challenge in trying to disentangle macro-economic estimates for Wales alone. Firms, for example, simply don’t keep the information in that way. That’s not how they think. They work on both sides of the border and they don’t produce their own information in a way that separates out activity in Wales and activity elsewhere.”⁶¹

Future tax forecasts: Office for Budget Responsibility forecasts

79. In July 2018 the Cabinet Secretary issued a written statement announcing that the Welsh Government would enter into an arrangement with the OBR for the provision of Welsh tax forecasts for Welsh Government Budgets from 2020-21 onwards.⁶²

80. In December 2017 Robert Chote, Chief Executive of the OBR, noted that it would be challenging to provide a comprehensive analysis of Welsh tax forecasts given the timings of both Welsh and UK Government budgets:

“There are particular challenges for us around the coincidence of the timing of your draft budget timetable plus a whole set of other documents we have to produce in the UK, because it coincides with the full set of national accounts, the first set of decent UK-wide public expenditure numbers we get in.”⁶³

⁶⁰ National Assembly for Wales, Finance Committee, [Draft RoP \[para 60\]](#), 21 November 2018

⁶¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 61\]](#), 21 November 2018

⁶² Welsh Government, Mark Drakeford (Cabinet Secretary for Finance), [Provision of Welsh tax forecasts by the Office for Budget Responsibility](#), Written Statement, 16 July 2018

⁶³ National Assembly for Wales, Finance Committee, [RoP \[para 38\]](#), 13 December 2017

81. When asked about these challenges during scrutiny of the 2019-20 draft Budget, Robert Chote commented that the timing of both budgets would “make the task of producing dedicated documentation that little bit more complicated.”⁶⁴ He also noted that forecasts produced by OBR were comparable to those produced by the Welsh Government for 2019-20 onwards:

“... but I think we’ve still managed to look at the numbers that the Welsh Government have produced, and I think satisfies us that, in fact, the forecast differences, as you’ll have seen, are not that large.”⁶⁵

82. The Cabinet Secretary’s written statement makes reference to an updated Memorandum of Understanding (MoU) and accompanying Terms of Reference being published before the end of the financial year.⁶⁶

83. Robert Chote was asked about progress on the MoU, he said:

“... we had hoped—. In the original expectation of a rather quieter October than we’ve all had, the hope was to have made a bit further progress on that, but I think, as I said, the working relationship works well, so I don’t see that any updating of the MOU is in the light of a problem that needs fixing. So, I think we just need to make sure that there’s enough time on both sides to ensure—. The other point with these MOUs is you have to see how they’re operating in practice, and therefore the notion that these things are written in stone the first time you do them would be foolish.”⁶⁷

84. When asked how the OBR would engage in the tax forecasting process from 2020-21, the Cabinet Secretary said that OBR will be assuring Welsh Government forecasts at the draft budget stage in October and producing an independent forecast analysis based on UK macroeconomic determinants alongside the final budget in December.

⁶⁴ National Assembly for Wales, Finance Committee, [RoP \[para 146\]](#), 7 November 2018

⁶⁵ National Assembly for Wales, Finance Committee, [RoP \[para 148\]](#), 7 November 2018

⁶⁶ Welsh Government, Mark Drakeford (Cabinet Secretary for Finance), [Provision of Welsh tax forecasts by the Office for Budget Responsibility](#), Written Statement, 16 July 2018

⁶⁷ National Assembly for Wales, Finance Committee, [RoP \[para 153\]](#), 7 November 2018

Welsh Rates of Income Tax

85. WRIT will be introduced from April 2019. The Welsh Government will be able to vary the rates of income tax payable by Welsh taxpayers on non-savings non-dividend income.

86. From April 2019, the UK Government will reduce each of the three rates of income tax (basic, higher, and additional rates) paid by Welsh taxpayers by 10p. The Welsh Government will then decide the three Welsh rates, which will be added to the reduced UK rates.

87. Robert Chote was asked about the 2016-17 overestimate of £700 million and £550 million by the OBR and the Scottish Fiscal Commission respectively in the Scottish Rate of Income Tax (SRIT), and whether this could occur in Wales, he said

“... we haven’t learnt enough yet. We will learn considerably more when we have the first survey of personal income that includes the flagging data as well. So, the possibilities are that there are simply sampling problems in the Survey of Personal Income (SPI): the SPI is, for some reason or another, not giving you an accurate representation of the underlying taxpayer population.”⁶⁸

88. The Cabinet Secretary said of the OBR estimation of the SRIT that it was still unclear how the discrepancy occurred and could be due to data inaccuracies or behavioural effects.⁶⁹ The Cabinet Secretary also said he was working closely with his Scottish counterpart to try to ensure a similar situation does not happen in Wales.⁷⁰

89. It was confirmed that the block grant adjustment in the first year, which is based on actual income tax receipts collected, protects the Welsh budget from any forecast errors and ensures there will be no impact on government spending for 2019-20.⁷¹

90. The OBR was also asked about the £40 million forecasting difference between the Welsh Government’s forecast for 2019-20 and the OBR’s, Robert Chote said:

⁶⁸ National Assembly for Wales, Finance Committee, [RoP \[para 208\]](#), 7 November 2018

⁶⁹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 49\]](#), 21 November 2018

⁷⁰ National Assembly for Wales, Finance Committee, [Draft RoP \[para 50\]](#), 21 November 2018

⁷¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 33\]](#), 21 November 2018

“... the personal allowance and higher rate threshold on its own is making £44 million of difference in that year. It’s less in later years, and it is, as I’ve said, partly offset by the off-payroll working, and obviously that wasn’t there for the Welsh Government to incorporate, so that’s basically where it’s come from.”⁷²

91. The Cabinet Secretary commented that:

“... block grant adjustments of devolved taxes will be revised in the light of the Office for Budget Responsibility new tax forecasts, which they will publish alongside the UK Government’s budget at the end of this month. We will take account of those changes and report them to the committee and to the Assembly in the final budget in December.”⁷³

Identifying Welsh taxpayers

92. Respondents to the Committee’s consultation raised concerns over the identification of Welsh Tax payers by HMRC⁷⁴, with specific concerns “that identification of a Scottish taxpayer is not robust and members are concerned that this may be replicated when Wales have their own tax sharing powers from 2019.”⁷⁵

93. HMRC outlined the process for identifying Welsh taxpayers by using a “C” as part of an individual’s tax code:

“... in December, we start our pay-as-you-earn coding run, which will actually put that ‘C’ flag on all of our systems against those taxpayers and start to produce 2019-20 pay-as-you-earn codes for them with that identifier on it, and we will start between December and the end of January/February time issuing all of those codes to taxpayers, and, in February, we then issue those to the employers to put through their pay-as-you-earn systems from 6 April.”⁷⁶

⁷² National Assembly for Wales, Finance Committee, [RoP \[para 218\]](#), 7 November 2018

⁷³ National Assembly for Wales, Finance Committee, [RoP \[para 322\]](#), 3 October 2018

⁷⁴ Finance Committee, [WGDB 19-20 01: Cintra HR and Payroll Services](#), Consultation Response, 31 July 2018

⁷⁵ Finance Committee, [WGDB 19-20 02: Global Payroll Association](#), Consultation Response, 13 August 2018

⁷⁶ National Assembly for Wales, Finance Committee, [RoP \[para 231\]](#), 25 October 2018

94. The Cabinet Secretary was asked how the Welsh Government is contributing to the process of identifying Welsh tax payers, he said:

“...the relationship between us and HMRC is to be clear with them about what we buy. Millions of pounds are going into the new system and we have to be clear with them about what we get back for the money that we put in. We do know, because we’re part of the board that keeps an eye on the work that HMRC does, that they’re changing their systems to be clear that customers living in Wales at present or who are moving to Wales—. They will be able to know who they are automatically and flag them up as people who are going to pay taxes in Wales.

HMRC produces an annual report for the Scottish Government about what they do every year in that area, and, in the system that we have, they’re going to present us with a report as well. So, that’s the way that we’re going to try to be sure about the work that we pay HMRC to do, to be part of the process to agree with them about what they do at present to gather the information about people who move from one side of the border to the other, and also to have feedback through the report so that we can see whether they’ve succeeded to do that. Now, they always tell us that they’ve learned from the experience that they had in Scotland and that they’re sure that they can do accurate work for us.”⁷⁷

Borrowing powers and bonds

95. The Welsh Government will be able to borrow up to £150 million per year for capital (up from £125 million) from 2019-20. The Cabinet Secretary stated that he intends to borrow £125 million in 2019-20 but will keep £25 million in reserve for any in-year changes:

“I plan to make full use of the new borrowing powers that we have. We are able to borrow £150 million in the next financial year, up from £125 million in the current. I’ve committed £125 million of the £150 million in the budget that you saw yesterday. I’ve kept £25 million in reserve, because things will change over the year. New needs will arise, patterns

⁷⁷ National Assembly for Wales, Finance Committee, [Draft RoP \[para 65-66\]](#), 21 November 2018

of spending will change; so I've kept that £25 million back as a sort of buffer to deal with changing events.”⁷⁸

96. As part of the 2015 St David's Day Agreement, the UK Government said it would give the Welsh Government the powers to issue bonds for capital investment. On 25 October 2018, the Cabinet Secretary released a written statement on Welsh Government bonds. The statement notes that subject to approval, the Welsh Government will be able to issue bonds from December 2018 and further states:

“In line with the principle underpinning our approach to capital, we will always exhaust the use of the least expensive forms of capital before using other sources of repayable capital.”⁷⁹

97. In a letter to the Committee the Cabinet Secretary said “... when it comes to the use of capital to fund infrastructure in Wales, we will always use conventional capital first”.⁸⁰ The Cabinet Secretary further stated that his reasons for acquiring these powers is:

“...not to use it immediately; it's to keep the UK Government honest, in that, if it were to increase the interest rate charged on the loans that we get through the national loans fund, we would have somewhere else to go. At the moment, our estimate is that the national loans fund rate of borrowing is still below what we would have to pay if we issued our own bonds, and we don't have to incur the administrative costs that go with doing it for ourselves. We've very familiar with how the national loans fund operates, and there's no cost to us of an administrative sort there. But there has been an example in the not-too-distant past where the UK Government did try to raise the interest rates of the national loans fund, and without bonds we would have nowhere else to go. So, it is a useful tool in our armoury. It doesn't increase the amount of money available to us—that's the really key thing ... it just counts against our borrowing limit, just as money from the national loans fund does, but it does give you another tool in the armoury, if you need to use it.”

98. The Cabinet Secretary confirmed that he had written to the Chief Secretary to the Treasury to confirm his intention to request extending the Welsh

⁷⁸ National Assembly for Wales, Finance Committee, [RoP \[para 338\]](#), 3 October 2018

⁷⁹ Welsh Government, Mark Drakeford (Cabinet Secretary for Finance), [Welsh Government Bonds](#), Written Statement, 25 October 2018

⁸⁰ Finance Committee, [Letter from the Cabinet Secretary for Finance](#), 24 October 2018

Government's borrowing powers, at the next Comprehensive Spending review, as permitted by the Fiscal Framework.⁸¹

Welsh Revenue Authority

99. The WRA was established to manage and collect LTT and LDT revenue in Wales from April 2018. It is also responsible for feeding Welsh-specific data relating to these taxes into the forecast process.

100. The 2018-19 Supplementary Budget⁸² (June 2018) budgeted £7.5 million for WRA set-up and operating costs with the 2019-20 draft budget allocating £6 million.

101. Dyfed Alsop, the Chief Executive of WRA, confirmed that the authority had been operating within costs and views the 2019-20 allocation as currently realistic:

“Well, we are learning a lot about our costs at present. We've only been operational for six months, so we have a lot to learn. The amount we have for this year [2018-19] is entirely fine; there's nothing wrong with that at all. The amount we have was established 12 months ago. Evidently, £6 million for the next year is fine at present.”⁸³

Committee view

102. The Tax policy report 2018 provided the Committee with welcome detail regarding the Welsh Government's progress in implementing tax devolution, the research that has been undertaken into changing existing taxes and also the consideration given to developing a new tax. The report concisely states the outcomes and next steps for each of the options considered and the Committee commends the Welsh Government on this helpful report.

103. The Committee welcomes the progress being made on new Welsh taxes, and looks forward to working with the Welsh Government as the vacant land tax progresses.

104. The Committee firmly believes that it is important to obtain independent forecasting and recognises the benefit of the OBR undertaking this role. However, the Committee is concerned by the comment from Robert Chote in December

⁸¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 75\]](#), 21 November 2018

⁸² National Assembly for Wales, [GEN-LD11614](#), The Supplementary Budget Motion 2018-19, 19 June 2018

⁸³ National Assembly for Wales, Finance Committee, [RoP \[para 110\]](#), 25 October 2018

2017 regarding the challenge of providing a comprehensive tax forecast at the Welsh draft budget stage would be challenging given the timings of both Welsh and UK budgets.

105. The Committee notes the evidence in relation to the provision of Welsh specific data, particularly the Cabinet Secretary's comments. However, Welsh specific data can only benefit Wales and ensure Welsh forecasts are more accurate and the Committee urges the Cabinet Secretary to further consider how the provision of additional Welsh data can be balanced with the resource implications.

106. The Committee is concerned that the reasons behind the overestimation of SRIT are still unknown and therefore there is currently no way of determining whether WRIT forecasts could be subject to similar overestimation. The Committee welcomes the Cabinet Secretary's assurance that he is working with his Scottish counterpart on this issue and confirmation that any similar overestimations would not impact on Welsh Government spend in the 2019-20 budget.

107. Given the dynamic nature of cross-border movement between Wales and England, with around 100,000 people migrating back and forth each year, the Committee believes it is essential to ensure effective monitoring of the number of Welsh income taxpayers in-year. The Committee recognises that HMRC have been contracted to ensure accurate taxpayer identification, but would urge Welsh Government to undertake continual and robust oversight to ensure that the flagging system is fit for purpose on an ongoing and long term basis.

108. The Committee welcomes and supports the Cabinet Secretary's commitment to request an extension to the Welsh Government's borrowing limits.

Recommendation 3. The Committee recommends that the Welsh Government engages with both the OBR and HMRC to ensure work undertaken specifically for Wales is given the same priority as their work in a UK context.

Recommendation 4. The Committee recommends that attention is given to finalising the Memorandum of Understanding with the OBR and would welcome the opportunity to scrutinise the agreement.

Recommendation 5. The Committee is keen to ensure that the flagging process for WRIT is fit-for-purpose and recommends that the Welsh Government closely monitors the process through 2019-20.

4. Prioritisation

109. Previous Committee reports on draft Budgets have made recommendations regarding how the draft Budget demonstrates alignments with the Well-being of Future Generations Act⁸⁴ and Prosperity for All⁸⁵:

“The Committee re-iterates the recommendation it made in relation to the 2017-18 draft Budget that the Government should demonstrate greater alignment between its draft budgets, the well-being goals and the five ways of working. Future draft budgets should also demonstrate how the Government’s allocation of funds will meet the priorities outlined in its national strategy, currently Prosperity for All. [Recommendation 7]”⁸⁶

110. At the stakeholder event in Swansea, stakeholders emphasised the importance of the link between the Welsh Government’s strategic priorities and the budget. Some delegates suggested that the budget allocations should be more greatly influenced by the Well-being of Future Generations Act, by putting a greater focus on the environment and the need to develop skills in areas of long-term future value.⁸⁷

Welsh Government priorities

111. The Cabinet Secretary summarised the high-level approach to prioritisation in the draft Budget:

“It is a challenge for any finance Minister as to how you find a practical way of balancing the competing demands that there are for the funds that we have when there isn’t enough money to go around. The way that I’ve approached it this year is to use the six priority areas set out in ‘Prosperity for All’ for my discussions with all my Cabinet colleagues, because those six areas are meant to be the cross-cutting priorities of the Government. So, in that sense, it’s not for me, necessarily, to prioritise within the budgets my Cabinet colleagues have—that’s for

⁸⁴ [Well-being of Future Generations \(Wales\) Act 2015](#)

⁸⁵ Welsh Government, [Prosperity for All: the national strategy](#), 19 September 2017

⁸⁶ National Assembly for Wales, [CR-LD11302](#), Finance Committee - Scrutiny of the Welsh Government Draft Budget 2018-19, 1 December 2017

⁸⁷ Finance Committee, [Stakeholder Engagement: Welsh Government Draft Budget 2019-20](#), 13 June 2018

them to do—but it is my job to try and make sure that cross-Government priorities are balanced out in the way decisions are made.

Colleagues will recall that the six priorities are: early years, housing, social care, mental health, skills and employability, and over this year, we've added decarbonisation as a sixth cross-Government priority. So, in all the bilaterals that I have with Cabinet colleagues, I ask them what contribution they are making through their budgets to those cross-Government themes, and then ask them whether there is anything further that they could do, if I were able to assist them through the budget process, to make an even greater contribution to that cross-Government effort. And in a practical sense, that is how I have tried to go about that business of balancing those priorities in the budget process.”⁸⁸

112. The Cabinet Secretary described how trade-offs between competing priorities manifest themselves particularly towards the end of the budget process:

“...there are trade-offs in any budget, and when I said that the budget process has its moments, it generally is towards the end of it when you are down to the smaller amounts of money you have left and when there are many competing calls on it. That's when there are inevitably difficult decisions and all Cabinet colleagues are committed to the jobs that they do and the sectors that they represent and so on, and people do go away disappointed that it's not possible to do everything that they would like to see done.”⁸⁹

113. Victoria Winckler suggested that one of the big challenges in the budget was the size of the health allocation, which “leaves very little room for manoeuvre with virtually anything else”.⁹⁰

114. The Future Generations Commissioner suggested that additional funding allocations needed to move away from acute spending in the NHS to preventative spend in local government. She went on to recommend that any additional funding for the NHS should be targeted toward prevention and operated in partnership with other bodies, such as local government.⁹¹

⁸⁸ National Assembly for Wales, Finance Committee, [RoP \[para 348-349\]](#), 3 October 2018

⁸⁹ National Assembly for Wales, Finance Committee, [RoP \[para 359\]](#), 3 October 2018

⁹⁰ National Assembly for Wales, Finance Committee, [RoP \[para 9\]](#), 25 October 2018

⁹¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 214\]](#), 15 November 2018

115. When asked how the Welsh Government prioritises the competing demands of different departments, the Cabinet Secretary said:

“...if our budget had simply held its value in real terms—not gone up by a single penny—I would have had £850 million more... if our budgets had simply risen in line with the growth in the economy...I would have £4.5 billion more to spend on Welsh public services in this budget. And that does just give you, I think, an illustration of just how unusual this period has been in our history, and how deep and how sustained the impact of austerity has been. So, when it comes to priorities, the first thing I am always doing with my colleagues is just trying to do our very best to sustain the services on which people in Wales rely. And that’s my top priority, to just try and keep the show on the road, really. The discussions with local government that you’ll have seen over recent weeks demonstrate just how difficult that is becoming, nine years into a period of austerity. So, that’s my top priority.”⁹²

116. In response to the Future Generations Commissioner’s suggestion that any additional allocations for health should be targeted for prevention, the Cabinet Secretary told the Committee:

“...trying to change the emphasis in favour of prevention has been a big theme of the budget, and it’s been discussed in every single one of the bilaterals that I have with my Cabinet colleagues, asking them to articulate ways in which they can see their budget being incrementally moved in that direction. And I think that is something you can say that has genuinely had a different level of prominence since the Well-being of Future Generations Act has been on the statute book than it would have had in a period prior to that.”⁹³

The Well-being of Future Generations Act and the budget

117. In its report on the draft Budget 2018-19, the Committee made a specific recommendation relating to the Well-being of Future Generations Act:

“The Committee recommends that the Cabinet Secretary considers the suggestion that the Future Generations Commissioner has a role in

⁹² National Assembly for Wales, Finance Committee, [Draft RoP \[para 83\]](#), 21 November 2018

⁹³ National Assembly for Wales, Finance Committee, [Draft RoP \[para 113\]](#), 21 November 2018

assessing the impact of Government's budget in supporting the well-being goals, both in the short and longer term. [Recommendation 9]"⁹⁴

118. Responses to the Committee's consultation on the Welsh Government's draft Budget proposals 2019-20 identified a general perception that it is not yet possible to fully detect tangible changes arising from the Well-being of Future Generations Act.⁹⁵ Powys Association of Voluntary Organisations (PAVO) said it is "too early" to objectively assess the extent to which the Act is having a meaningful impact but reported that the requirement to undertake a Well-being Assessment has "undoubtedly been beneficial".⁹⁶

119. The WCVA said it wanted to see the 2019-20 draft Budget enabling collaboration and longer-term planning, with the Well-being of Future Generations Act being fully embedded into decision-making.⁹⁷

120. The draft Budget 2019-20 is the third to be published since the Well-being of Future Generations Act came into force. The outline draft Budget 2019-20 states:

"From the outset, we have focused on how we can take further steps to embed the principles and the five ways of working in the Well-being of Future Generations Act into the budget process. The Act plays a fundamental role in guiding the budget process to ensure, as a government, we think about the long-term; work with people and communities; take a preventative approach to try and stop problems from happening in the first place and a more joined-up, cross government and public sector approach to addressing issues."⁹⁸

121. As well as linking allocations to well-being objectives, the draft Budget includes case studies that the Welsh Government suggests demonstrate how the Well-being of Future Generations Act is being embedded and how Prosperity for All is being prioritised.⁹⁹ The outline draft Budget notes:

⁹⁴ National Assembly for Wales, [CR-LD11302](#), Finance Committee - Scrutiny of the Welsh Government Draft Budget 2018-19, 1 December 2017

⁹⁵ Finance Committee, [Welsh Government Draft Budget Proposals 2019-20. Consultation responses](#), 13 July – 12 September 2018

⁹⁶ Finance Committee, [WGDB.19-20.03 Powys Association of Voluntary Organisations](#), Consultation Response, 17 August 2018

⁹⁷ Finance Committee, [WGDB.19-20.09 Wales Council for Voluntary Action](#), Consultation Response, 12 September 2018

⁹⁸ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018, para 4.2

⁹⁹ *ibid*, chapter 4

“As our approach continues to evolve and mature, the outline draft Budget features a series of case studies to demonstrate how we are embedding the Well-being of Future Generations Act into the budget process and prioritising Prosperity for All. This is, of course, an iterative process which we aim to build upon year-on-year.”¹⁰⁰

122. The outline draft Budget narrative suggests that the Welsh Government is developing a “systematic and incremental” approach to embedding the Well-being of Future Generations Act.¹⁰¹

123. The Future Generations Commissioner has previously noted that she had given feedback to the Cabinet Secretary regarding the Well-being of Future Generations Act:

“I also provided specific feedback to the Cabinet Secretary for Finance, Mark Drakeford, Strategic Budgeting officials and budget leads across Government departments on the elements that were good, bad and, quite frankly in some areas, non-existent in terms of last year’s budget demonstrating embedding the requirements of the Well-being of Future Generations Act.”¹⁰²

124. She also noted that embedding the requirements of the Well-being of Future Generations Act was “about cultural change not tick box compliance and therefore this will take time”, however, she went on to say:

“...after two years of the Government being on this journey I am expecting to see real change in how the budget process and narrative are reflecting the key requirements of the legislation.”¹⁰³

125. In evidence the Future Generations Commissioner acknowledged that there were some positive developments in the 2019-20 draft Budget and noted the commitment of the Cabinet Secretary. She said that these were “simple” changes, but that in the context of what was included last year, this was welcomed.¹⁰⁴

126. The Future Generations Commissioner’s written evidence noted feedback she had given to the Welsh Government on the presentation of the 2018-19 draft

¹⁰⁰ *ibid*, p2

¹⁰¹ *ibid*, para 1.23

¹⁰² In Brief, National Assembly for Wales, [A Welsh Government budget for future generations?](#), 8 October 2018

¹⁰³ *ibid*

¹⁰⁴ National Assembly for Wales, Finance Committee, [Draft RoP \[para 135\]](#), 15 November 2018

Budget. In her feedback she identified that the budget was structured around ministerial portfolio, but she hoped that the budget document for 2019-20 would be an “opportunity to make more integrated decisions about spending”.¹⁰⁵ She told the Committee that she felt presentation had improved.¹⁰⁶

127. The Future Generations Commissioner outlined that she was creating a “journey tracker” that would help assess progress the Welsh Government is making against the Well-being of Future Generations Act.

128. The Cabinet Secretary also referred to the journey tracker in relation to embedding the Well-being of Future Generations Act in the budget-making process:

“...the tracker is a very interesting new development during this budget round. The commissioner’s office, as I understand it, is still in the process of developing the tracker tool to identify changes to the budget that reflect how the Act is being implemented. We will work closely with the commissioner’s office and her officials to make sure that we get the most out of the work that her office is doing, and, as it comes to maturity and we understand how the tracker will act in practice, I’m hopeful that it will be a really useful tool to us as well, so that we can apply it in our own work to try and make sure that the budget process we have is developed, and we can continue to demonstrate better how the work of the budget and its allocations are aligned with the requirements of the Act.”¹⁰⁷

129. The Future Generations Commissioner also noted that the 2019-20 draft Budget was “standstill in lots of ways” and went on to say that there was “a real opportunity in terms of next year’s budget with the spending review, to try and move along in terms of the level of ambition and actually reform”¹⁰⁸ The Cabinet Secretary also referred to this during the concurrent session:

“I started this afternoon saying that this budget in front of the committee is the tail end of a cycle. And, of course, next year’s budget will be the first budget of a new cycle, assuming that we get the results of the comprehensive spending review in time for us to be able to plan

¹⁰⁵ Finance Committee, [WGDB 19-20 19 Future Generations Commissioner for Wales](#), Consultation Response, 12 September 2018

¹⁰⁶ National Assembly for Wales, Finance Committee, [Draft RoP \[para 150\]](#), 15 November 2018

¹⁰⁷ National Assembly for Wales, Finance Committee, [Draft RoP \[para 123\]](#), 21 November 2018

¹⁰⁸ National Assembly for Wales, Finance Committee, [Draft RoP \[para 150\]](#), 15 November 2018

in that way. Now, if we do, then I would expect us to be having a different approach to an integrated assessment next year because it will be setting the parameters for, conventionally, a CSR [Comprehensive Spending Review] of the next three years. I think that means that it will be a different document to one that is reporting just on relatively incremental changes to a budget that the committee has already seen in previous years. So, that's one way in which this will be different."¹⁰⁹

Prosperity for All

130. The outline draft Budget notes:

“The Welsh Government’s programme for government, Taking Wales Forward 2016-21 and the national strategy Prosperity for All, set out the government’s priorities to deliver its long-term aim to create a Wales which is prosperous and secure; healthy and active; ambitious and learning and united and connected.”¹¹⁰

131. The draft Budget refers to the Prosperity for All annual report 2018,¹¹¹ which details progress made against well-being objectives and states that “substantial progress” has been made. The draft Budget goes on to say that the Welsh Government will learn from the evaluation of the 150 actions outlined in the annex of the annual report¹¹² to inform future spending decisions¹¹³.

132. The Future Generations Commissioner noted in her consultation response that she was “interested to see the connections” between the annual report and the budget.¹¹⁴

133. Whilst Victoria Winckler commented that:

“...it’s actually very difficult to track what’s happening in the budget. I don’t know if it’s just my weaknesses, or if it’s a matter of presentation, but there’s a lot of narrative, and it’s quite difficult to go through and

¹⁰⁹ National Assembly for Wales, Concurrent Committee, [Draft RoP \[para 189\]](#), 15 November 2018

¹¹⁰ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018, para 1.19

¹¹¹ Welsh Government, [Prosperity for All: the national strategy](#), 19 September 2017

¹¹² Welsh Government, [Prosperity for All: the national strategy Annual Report 2018 Annex](#), 19 September 2017

¹¹³ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018, para 1.21

¹¹⁴ Finance Committee, [WGDB 19-20 19 Future Generations Commissioner for Wales](#), Consultation Response, 12 September 2018

pick out the figures from that, and it's also hard to compare, not so much year on year, but over a longer period. But that said, I think the draft budget is an iteration of previous years' budgets."¹¹⁵

134. The Cabinet Secretary told the Committee:

"...we've tried to organise the budget narrative against those 'Prosperity for All' priorities, so that it's clear to members of this committee and to others the way in which decisions we made last year are working out in relation to those priorities, and the decisions we make this year contribute to our ability to pursue those priorities in the next financial year. But there is information alongside the budget documentation. So, the First Minister published, almost contemporaneously with the draft budget, the first annual report on the progress of delivering the 'Prosperity for All' priorities. So, that's there as another source for Members to look at to see the Government's account of how those priorities are being pursued."¹¹⁶

Poverty

Stakeholder views

Oxfam point to a "clear moral and economic case for prioritising" budget allocations to eradicate poverty and inequality. It cites correlations between poverty and: child health and mortality, mental health and wellbeing, educational achievement. However, it comments that it is more difficult to scrutinise the Welsh Government's performance explicitly on poverty now that responsibility and expenditure is spread across different departments.

The WCVA says it is unclear how the Welsh Government's new approach post-Community First will prevent or alleviate poverty across all of Wales.

PAVO also notes "the absence to date of a clear successor initiative to Communities First" which it says has "dissipated a previously coherent approach" to tackling poverty and inequality.

The Older People's Commissioner reports that poverty amongst older people is increasing, "from 14% to 18% over the past five years".

¹¹⁵ National Assembly for Wales, Finance Committee, [RoP \[para 5\]](#), 25 October 2018

¹¹⁶ National Assembly for Wales, Finance Committee, [Draft RoP \[para 86\]](#), 21 November 2018

135. In terms of the Welsh Government’s overall approach to tackling poverty, Victoria Winckler said:

“...I don’t see that tackling poverty, solving poverty has the priority that it should do, given the scale of it and the impact of it, and, despite statements, I don’t see a joined-up approach and I don’t see the mechanisms in place. So, what we get, particularly in the narrative, is a really liberal use of the word in the narrative, but the actions don’t necessarily follow and aren’t necessarily the actions that we know will make a difference.”¹¹⁷

136. Focusing on housing, Victoria Winckler suggested that the budget should be concerned with “who” allocations benefit:

“When more and more people are living in private rented accommodation, for example, and finding that their rent—the housing element of their universal credit or their housing benefit doesn’t cover their rent, I think there should be questions about the priority, for example, given to Help to Buy. I think there are other questions where you could ask—. If you go through the budget and ask, ‘Who does this benefit?’ And if the answer is not either everybody or the least well-off 50 per cent, then you have to look extra carefully, and there are a lot of places that you could do that.”¹¹⁸

137. She went on to say that “overall it’s more progressive than it might have been, but it’s not as progressive as it could be”, and also outlined issues around changes to taxation and benefits:

“I absolutely agree that the cumulative effect of tax and benefit changes has been extraordinarily aggressive. You only have to look at the Institute for Fiscal Studies’s graphs after every budget, which show very starkly that it’s the best-off 50 per cent who gain and the worst-off 50 per cent who lose, and the further down the spectrum you go, the bigger that loss. I looked it up before I came, and workless families with children are set to lose more than £4,000 a year; now, that’s a big chunk out of anyone’s household income, let alone if you’re already not getting very much. So, that is a major challenge. I think there is some recognition of the challenge.”¹¹⁹

¹¹⁷ National Assembly for Wales, Finance Committee, [RoP \[para 15\]](#), 25 October 2018

¹¹⁸ National Assembly for Wales, Finance Committee, [RoP \[para 11\]](#), 25 October 2018

¹¹⁹ National Assembly for Wales, Finance Committee, [RoP \[para 11\]](#), 25 October 2018

138. The Cabinet Secretary commented on cuts to Universal credit and other UK cuts. He stated that Welsh Government powers in this area are “ameliorative”. In relation to addressing food poverty, he highlighted additional money for free school meals, and the discretionary assistance fund, which has been maintained this year in Wales (with an additional £2 million in 2019-20, rather than tighten the eligibility criteria).¹²⁰

139. Victoria Winckler suggested that “there are elements in the budget that attempt to address inequality, but they often appear as add-ons rather than as an integral part of the budget”.¹²¹

140. The Cabinet Secretary highlighted some areas in which the budget seeks to reduce inequality:

“...in terms of educational inequalities, ...we will pick up the cost of free school meals in Wales next year—the additional number of children, the 3,000 additional children we expect to have free school meals next year. In England, schools are having to absorb those costs themselves. I will provide additional funding from the centre to cover all those costs here so that schools will see the benefit of that. We’ve doubled the pupil development grant access fund, the old school uniform grant, and again, that’s an education inequality issue.”¹²²

141. The Cabinet Secretary continued to identify how the draft Budget tackles poverty with £244 million being put in the council tax benefit scheme¹²³, whilst it was a priority to “find some additional money for the discretionary assistance fund in Wales for next year”¹²⁴.

Strategic Integrated Impact Assessment

142. The 2018-19 outline draft Budget narrative¹²⁵ contained an SIIA, which considered the impact of the high-level decisions detailed in the outline draft Budget and provided an explanation of the process that has informed and shaped decision-making.

¹²⁰ National Assembly for Wales, Finance Committee, [RoP \[para 385\]](#), 3 October 2018

¹²¹ National Assembly for Wales, Finance Committee, [RoP \[para 47\]](#), 25 October 2018

¹²² National Assembly for Wales, Finance Committee, [Draft RoP \[para 175\]](#), 21 November 2018

¹²³ National Assembly for Wales, Finance Committee, [Draft RoP \[para 178\]](#), 21 November 2018

¹²⁴ National Assembly for Wales, Finance Committee, [Draft RoP \[para 179\]](#), 21 November 2018

¹²⁵ Welsh Government, [Draft Budget 2018-19 Outline proposals](#), 3 October 2017

143. In its report on the Welsh Government’s Draft Budget 2018-19, the Committee recommended that the SIIA accompanying future draft budgets should provide a clear explanation as to how decisions are arrived at, including information on both the positive and negative aspects.¹²⁶

144. In line with the two-stage budget process introduced in 2017, the Welsh Government’s draft Budget 2019-20 now includes:

- A high-level SIIA in the outline draft budget narrative,¹²⁷ focusing on decisions within the outline budget, including those associated with sources of funding for the Welsh Government, such as Welsh taxes and borrowing, as well as the high-level portfolio allocations; and
- A separate SIIA in the detailed budget proposals¹²⁸ focusing on individual allocations.

145. The high-level SIIA sets out how a number of considerations have informed “strategic budget allocations to improve the economic, social, environmental and cultural well-being of Wales”. Some of these considerations are statutory, and include: equalities and human rights, children’s rights, the Welsh language, climate change, rural proofing, health, biodiversity and economic development. The Welsh Government also notes that socio-economic disadvantage is an underpinning consideration when assessing the impact of decisions.¹²⁹

146. The outline draft Budget notes that evidence and statistics in the SIIA have been taken from the Well-being of Wales 2017-18 Report¹³⁰, which presents the progress made against the seven well-being goals and references the 46 national indicators.¹³¹

147. The SIIA accompanying the detailed budget proposals responds to feedback from the Committee and the Future Generations Commissioner. The Cabinet Secretary said it was “genuinely difficult” to comprehensively assess an entire budget’s impact on equalities and human rights, children’s rights, the Welsh

¹²⁶ National Assembly for Wales, [CR-LD11302](#), Finance Committee - Scrutiny of the Welsh Government Draft Budget 2018-19, 1 December 2017, page 55

¹²⁷ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018

¹²⁸ Welsh Government, [Draft Budget 2019-20 Detailed proposals](#), 23 October 2018

¹²⁹ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018, Annex C, para 3

¹³⁰ Welsh Government, [Well-being of Wales](#), 20 September 2018

¹³¹ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018, Annex C, para 6

language, climate change, rural-proofing, health, biodiversity and economic development.¹³²

148. The detailed budget SIIA states that the Welsh Government has:

“...drawn on a range of evidence to inform our budget decisions, including evidence and research produced within, or funded by, the Welsh Government, which can be found on the Statistics and Research pages of the Welsh Government website.”¹³³

149. When asked how well the SIIA demonstrates both the expected positive and negative impacts of decisions on specific groups, Victoria Winckler said that the SIIA was not easy to understand:

“It wasn’t systematic in the way that I would have expected, and in a way that equality impact assessments are systematic. There were a lot of assertions made without much back-up. Now, I accept that the process is very constrained, and at least there is an impact assessment, I suppose, but I don’t think it’s quite what is needed...”¹³⁴

150. Victoria Winckler went on to say that there were quite demanding standards of equality impact assessments, which might form a good starting point for the SIIA. She also suggested that the Welsh Government should make it obvious where funding is being cut and be clear about the consequences.¹³⁵

151. During the concurrent meeting, the Equality and Human Rights Commission noted that it was undertaking work on Cumulative Impact Assessments and that the Welsh Government was interested in this approach.¹³⁶

152. During the concurrent meeting with the CYPE and ELGC Committee, the Children’s Commissioner for Wales said:

“I do have a number of concerns about how it’s [SIIA] presented, which is obviously all I’ve seen. I haven’t seen any of the work behind it. I suppose a summary of my view of it would be that the narrative around children’s rights in particular appears to be used to confirm why decisions have been made, rather than to have informed the decision-

¹³² National Assembly for Wales, Concurrent Committee, [Draft RoP \[para 135\]](#), 15 November 2018

¹³³ Welsh Government, [Draft Budget 2019-20 Detailed proposals](#), 23 October 2018, Annex D, para 10

¹³⁴ National Assembly for Wales, Finance Committee, [RoP \[para 78\]](#), 25 October 2018

¹³⁵ National Assembly for Wales, Finance Committee, [RoP \[para 84 and 86\]](#), 25 October 2018

¹³⁶ National Assembly for Wales, Concurrent Committee, [Draft RoP \[para 36\]](#), 15 November 2018

making process. It may have been used to inform the decision-making process, but that's not transparent or clear to me or to the general public."¹³⁷

153. These views were echoed by the Equality and Human Rights Commission:

"...it can be helpful to look at things in a cross-cutting way and across the piece, but it still has to be clear about how decisions are made. For us, there's a lack of clarity about what actually has been assessed. What impacts have actually informed that decision making? And also, we feel that it's a bit too broad. For example, it talks about vulnerable groups. It doesn't drill down to different protected characteristics, what the impacts of those might be, what the socioeconomic impacts might be and also what decisions have been changed as a result of actually doing it. So, it appears to be more of a narrative about, 'This is what we've done'."¹³⁸

New Framework for Impact Assessments

154. The 2018-19 SIIA¹³⁹ identified a project to deliver a new framework for impact assessments in 2018, informed by the Public Policy Institute for Wales report: *Reducing Complexity and Adding Value: A Strategic Approach to Impact Assessment in the Welsh Government*.¹⁴⁰ The framework's objectives included the integration of "the impact assessment process with the substantive direction of the Well-being of Future Generations Act"¹⁴¹.

155. The outline draft Budget 2019-20 builds on this and notes that a new framework for integrated impact assessments was launched in July 2018, which:

"...gives clearer and explicit purposes for impact assessments, and puts proportionate impact assessments at the centre of policy making while avoiding excessive procedure and also supports our efforts to work collaboratively across portfolios."¹⁴²

¹³⁷ National Assembly for Wales, Concurrent Committee, [Draft RoP \[para 7\]](#), 15 November 2018

¹³⁸ National Assembly for Wales, Concurrent Committee, [Draft RoP \[para 10\]](#), 15 November 2018

¹³⁹ Welsh Government, [Draft Budget 2018-19 Outline proposals](#), 3 October 2017, Annex D

¹⁴⁰ Public Policy Institute for Wales, [Reducing Complexity and Adding Value: A Strategic Approach to Impact Assessment in the Welsh Government](#), 1 April 2016

¹⁴¹ Welsh Government, [Draft Budget 2018-19 Outline proposals](#), 3 October 2017, Annex D, para 80

¹⁴² Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018, Annex C, para 83

156. The Welsh Government intends to carry out a “substantive assessment of the new process” in the new year.¹⁴³

157. During the concurrent meeting, the Cabinet Secretary said that this year’s SIIA has been strengthened by greater training for officials across government, including a workshop with officials from the office of the Future Generations Commissioner.¹⁴⁴

158. The Future Generations Commissioner referred to the meetings held between her office and Welsh Government departments and cited the importance of cultural change:

“Arguably, throughout Government, the civil service should be resourcing that sort of cultural change, and they are doing some things, but it’s indicative to me that—. It’s brilliant that we started with a commitment from the Cabinet Secretary, but, actually, there’s got to be significant resourcing in terms of cultural change flowing right down through the organisation to help that change.”¹⁴⁵

159. The Leader of the House explained that a new Integrated Impact Assessment tool had been developed through engagement with the Equality and Human Rights Commission, the Future Generations Commissioner, the Children’s Commissioner for Wales, Wales Council for Voluntary Action, Children in Wales and the NHS Equalities Network.¹⁴⁶

160. The Future Generations Commissioner told the Committee that her office has had some involvement in the move to the strategic impact assessment process this year and that elements of it have been drawn from the future generations framework she had developed.¹⁴⁷ She explained that she had has a number of issues with strategic impact assessments:

“...the impact assessment is getting it entirely the wrong way around and isn’t really actually applying the principles of the future generations Act, because it suggests that we’ve taken a decision, we’ve decided to do something and then we’re assessing the impact of that, whereas the future generations Act is about taking the decisions that are going to maximise your contribution to the goals. So, it should be at the front of

¹⁴³ *ibid*, Annex C, para 85

¹⁴⁴ National Assembly for Wales, Concurrent Committee, [Draft RoP \[para 87\]](#), 15 November 2018

¹⁴⁵ National Assembly for Wales, Finance Committee, [Draft RoP \[para 139\]](#), 15 November 2018

¹⁴⁶ National Assembly for Wales, Concurrent Committee, [Draft RoP \[para 90\]](#), 15 November 2018

¹⁴⁷ National Assembly for Wales, Finance Committee, [Draft RoP \[para 220\]](#), 15 November 2018

the process rather than at the end of the process. So, I think that there needs to be a shift that way.”¹⁴⁸

161. The Future Generations Commissioner indicated that she had written to all Cabinet Secretaries to ask what resources were being committed to the purposes of the Well-being of Future Generations Act:

“I’m waiting for a response from them, but if I’m honest, I don’t expect a response to say that there’s very much resources going into that at all, and that’s a significant issue.”¹⁴⁹

162. The Future Generations Commissioner said that she would be meeting with Welsh Government officials, along with other Commissioners and partners, to review the new framework in November.¹⁵⁰

163. In terms of the expected outcome of that meeting, the Cabinet Secretary said:

“Well, the meeting is led by the commissioner and her advisory panel, so I’m sure they will have—. In that sense, it’s their meeting and their agenda. I think we will go into it with two particular outcomes that we would be looking for. First of all, to clear up any remaining misunderstanding that there may be about the tool, the integrated impact assessment tool, and its outcome, the outcome being the assessment of the impact. I think we rehearsed it briefly last time that people thought maybe there were two tools here; actually, there’s one. There’s a tool and it leads to a product, and they’re different. They’re not competing with one another. So, part of that meeting, from our point of view, will be to make sure that we’ve communicated that more clearly to people and they’ve got a better, more secure understanding of that.

...

And the second, and probably the bigger, purpose is to go on having a dialogue with the commissioners who will be there, for us to explain to them what we think we have tried to achieve in this budget process, but very much to learn from them in return as to their assessment of

¹⁴⁸ National Assembly for Wales, Finance Committee, [Draft RoP \[para 221\]](#), 15 November 2018

¹⁴⁹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 141\]](#), 15 November 2018

¹⁵⁰ National Assembly for Wales, Finance Committee, [Draft RoP \[para 225\]](#), 15 November 2018

where they think ground has been gained and where they think there are still things that we need to work on..."¹⁵¹

Committee view

164. The Committee acknowledges that 10 years of constrained public finances and the size of the health budget impacts on the Welsh Government's ability to prioritise competing spending demands.

165. The Committee notes the Future Generations Commissioner's suggestion that additional allocations to health should only be made on the basis that they are for preventative activities and that funding is spent in partnership with other stakeholders.

166. The Committee accepts that the Welsh Government has attempted to move away from portfolio based presentation of the budget, to a more integrated focus on well-being goals and Prosperity for All. However, the Committee notes the Future Generations Commissioner's view that the presentation of the budget is still a work in progress and comments from the Cabinet Secretary that we may see different approaches following the spending review. The Committee is keen that the Welsh Government takes the opportunity following the spending review for a step-change in future budget processes and documentation and uses the spending review to provide as long term a view as possible.

167. The Committee notes the Future Generations Commissioner's Development of a "journey tracker" and welcomes the Welsh Government's commitment to work closely with the Commissioner on its development.

168. The Committee agrees with the Future Generations Commissioner that embedding the principles of the Well-being of Future Generations Act should not be a "tick box" exercise. The aims of the Act should be incorporated into the culture of the Welsh Government and the Committee is concerned this cultural change is not taking place.

169. The Committee recognises the approaches being taken in terms of tackling inequality and poverty, however, the Committee is concerned by stakeholders' views regarding the priority the Welsh Government is giving to tackling poverty.

170. The Committee hopes that future budgets are able to demonstrate clear links between allocations and the activities and areas associated with tackling poverty. Additionally, the Committee would want to see details of the outcomes

¹⁵¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 129-130\]](#), 21 November 2018

that the Welsh Government anticipates, but also more generally, that the Welsh Government goes further and ensures that at all levels, tackling poverty is given due consideration.

171. The Committee welcomes the inclusion of a separate SIIA on spending allocations published alongside the detailed budget proposals, in response to last year's scrutiny. However, the Committee notes the evidence from stakeholders that the SIIA is difficult to understand and still lacks detail on how the impact of different options has informed the decision-making process, particularly in relation to the negative impacts of funding decisions.

172. The Committee is also mindful of the Future Generations Commissioner's view that the SIIA assesses the impact of decisions rather than informing decision-making in a way that maximises the contribution of those decisions to meeting well-being goals.

173. The Committee notes the introduction of an Integrated Impact Assessment tool and recognises that its development is ongoing. The Welsh Government's engagement in its continued development is welcomed and the Committee notes that the new process will be evaluated in the New Year, including meeting with Commissioners and partners in November to review its application to the 2019-20 budget. The Committee also welcomes the work that the Equality and Human Rights Commission has undertaken in relation to Cumulative Impact Assessments.

174. The purpose of the Committee's concurrent work with the CYPE and ELGC Committee was to explore, from each Committee's respective perspectives, how robust the integrated impact assessment process has been to date, and establish what improvements could be made for the 2020-21 budget round. Members representing each of the three committees agreed to consider the evidence gathered in this session and produce a joint output in due course. The aim of this output will be to inform the development of the draft Budget 2020-21, and future draft budgets thereafter, to ensure that robust and transparent processes are in place to assess the impact of financial decisions.

Recommendation 6. The Committee recommends that the Welsh Government considers how any future additional funding for health services can be targeted toward prevention and should also consider establishing partnership arrangements around any such funding.

Recommendation 7. The Committee recommends that the Welsh Government uses the upcoming spending review as an opportunity to fully

evaluate its budget processes and documentation, ensuring that future budgets provide a long-term view of funding.

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

Recommendation 9. 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 10. The Committee recommends that future draft budgets provide greater detail on the allocations aimed at tackling poverty and inequality. Whilst recognising that some of these initiatives might include relatively small sums of money it is of benefit to flag that these allocations are to addressing poverty and inequality.

Recommendation 11. 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 Well-being of Future Generations Act and consider the Cumulative Impact Assessment approach recommended by the Equality and Human Rights Commission.

Recommendation 12. 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 13. The Committee recommends that the Welsh Government provides an update on the outcome of its review of the new framework for integrated impact assessments.

5. Preventative spending

Background

175. Since the Fourth Assembly, the Committee has been highlighting its concerns in relation to identifying and increasing preventative spending, and how “preventative spending” is defined:

“The Committee still wishes to see a firm and consistent definition of preventative spend agreed and recommends information is included in Welsh Budgets to show both the proportion of the Welsh Budget that is being directed towards preventative spend and how this is increasing over time.”¹⁵²

176. As part of last year’s draft budget scrutiny, the Cabinet Secretary stated his aim to establish a third sector group to consider a definition for prevention.¹⁵³

177. The outline draft Budget narrative discusses the collaborative approach to defining prevention that was taken:

“As part of the budget process, we have continued to work with the third sector and other partners to develop, and agree, a common definition of prevention.”¹⁵⁴

178. The Cabinet Secretary explained in a Letter to the Committee that the process involved a number of organisations, including Wales Council for Voluntary Action, the Future Generations Commissioner, the third sector, Public Health Wales, the fire service, academics, and others. Saying “it was constructive and has helped to shape our thinking”.¹⁵⁵

179. The Future Generations Commissioner also discussed the process, and confirmed that through this, the definition had been amended:

“The work was led by strategic budgeting officials in collaboration with my office... They came up with an initial definition after trawling through what’s the best practice in a range of different areas. We fed into that

¹⁵² National Assembly for Wales, [CR-LD10545](#), Finance Committee - Scrutiny of the Welsh Government Draft Budget for 2016-17, 2 February 2016

¹⁵³ National Assembly for Wales, [CR-LD11302](#), Finance Committee - Scrutiny of the Welsh Government Draft Budget 2018-19, 1 December 2017

¹⁵⁴ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018

¹⁵⁵ Finance Committee, [Letter from the Cabinet Secretary for Finance](#), 30 September 2018

and brought together a range of different stakeholders. ...there were about 15 or 20 people involved... the definition was changed as a result of that.”¹⁵⁶

Definition of Preventative

180. The detailed draft Budget 2019-20¹⁵⁷ contains a “multi-layered definition of prevention”, with the stated aim of:

“aid[ing] policy decisions while recognising that not everything we do can be aimed at primary prevention, but over time we can move towards a focus on preventing difficulties for people, our economy and our environment before they arise.”

181. The definition of prevention included in the draft Budget is:

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 – building resilience – creating the conditions in which problems don’t arise in the future. A universal approach.
- Secondary prevention – 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 – intervening once there is a problem to stop it getting worse and prevent it reoccurring in the future. An intervention approach.
- Acute **spending** – 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

¹⁵⁶ National Assembly for Wales, Finance Committee, Draft RoP [para 184-7], 15 November 2018

¹⁵⁷ Welsh Government, Draft Budget 2019-20 Detailed proposals, 23 October 2018

recognises more support will be required by those people or areas with greater needs.¹⁵⁸

182. Victoria Winckler¹⁵⁹ described the definition as a “work in progress” adding that “at least we do have a definition and at least it’s being applied, even if you could quibble over the detail”.

183. The Cabinet Secretary echoed that the definition was a “work in progress”:

“we have an agreed definition, well, provisionally agreed. It’s open to further development as part of the budget process, I hope. But having a sense of what we mean by ‘prevention’ gives us a way into the complexity.”¹⁶⁰

184. The Future Generations Commissioner commented that the definition was not perfect, but that:

“...you’re never going to be able to see how good it is until you start running it through decisions and spending priorities. But we felt it was important... that there should be something that we could at least start to use.”¹⁶¹

Preventative spending in the budget

185. The Cabinet Secretary wrote to the Committee stating that Welsh Government intended to apply the definition to a spending area in each of the six MEGs, and that “an analysis of the results... will provide a preliminary insight towards the proportion of spend in each category”.¹⁶²

186. The detailed draft Budget 2019-20 contains an annex that specifically identifies areas of preventative spend in the 2018-19 budget and under which category those allocations fall. This initial work focuses on selected spending areas formed of a group of budget actions from the main portfolio MEGs, it looks at £1.4 billion of the overall £18.3 billion allocated in the budget, in the following areas:

- Housing (£155.2 million);

¹⁵⁸ Welsh Government, [Draft Budget 2019-20 Detailed proposals](#), 23 October 2018

¹⁵⁹ National Assembly for Wales, Finance Committee, [RoP \[para 41\]](#), 25 October 2018

¹⁶⁰ National Assembly for Wales, Finance Committee, [Draft RoP \[para 121\]](#), 21 November 2018

¹⁶¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 187\]](#), 15 November 2018

¹⁶² Finance Committee, [Letter from the Cabinet Secretary for Finance](#), 30 September 2018

- Health and Social Services (£34.9 million);
- Sustainable Travel (£102.5 million);
- Climate Change and Sustainability (£146.2 million);
- Education and Training Standards (£1 billion).¹⁶³

187. The Future Generations Commissioner cautioned that:

“...the particular parts of budgets that have been picked tend to be those ones that are doing better on prevention than not.”¹⁶⁴

188. The Cabinet Secretary talked about how the change of emphasis in favour of prevention has been a big theme of the budget and that:

“...it’s been discussed in every single one of the bilaterals that I have with my Cabinet colleagues, asking them to articulate ways in which they can see their budget being incrementally moved in that direction.”¹⁶⁵

189. The Cabinet Secretary highlighted specific examples of preventative spend in previous evidence, including £4.5 million for primary care estates, £60 million for road refurbishment, and £2.5 million for the youth service.¹⁶⁶

190. The Future Generations Commissioner picked up on the same “positive”¹⁶⁷ example of £2.5 million for mental health in children. However, going on to suggest that this didn’t appear to be part of a wider, integrated approach:

“...it appears to be one decision sort of plopped into the budget, if you like, without that coherent narrative of what’s happening across the board on mental health, and you would expect, particularly where mental health is one of the six priority areas, to see that coherent narrative.”¹⁶⁸

191. The Chartered Institute of Public Finance & Accountancy raised issues around a short-term budget and planning process, suggesting this “does not support the

¹⁶³ Welsh Government, [Draft Budget 2019-20 Detailed proposals](#), 23 October 2018

¹⁶⁴ National Assembly for Wales, Finance Committee, [Draft RoP \[para 188\]](#), 15 November 2018

¹⁶⁵ National Assembly for Wales, Finance Committee, [Draft RoP \[para 113\]](#), 21 November 2018

¹⁶⁶ National Assembly for Wales, Finance Committee, [RoP \[para 375-377\]](#), 3 October 2018

¹⁶⁷ National Assembly for Wales, Finance Committee, [Draft RoP \[para 192\]](#), 15 November 2018

¹⁶⁸ National Assembly for Wales, Finance Committee, [Draft RoP \[para 192\]](#), 15 November 2018

delivery of outcomes and preventative policies that take a longer timeframe to achieve”.¹⁶⁹

192. It was felt that sometimes overly broad application of the definition obscured the process, with Victoria Winckler making this point on education:

“I think I read that the intention is that all of the expenditure on education is classed as preventative, and that’s when I think, ‘Well, preventative of what and is that really appropriate?’”¹⁷⁰

193. Concerns around overly-broad classification of budget areas as preventative were also raised by the Future Generations Commissioner, who suggested there was “a real lack of understanding”, going on to say of social care:

“...they’d actually put the whole budget for the older people’s commissioner allocated as preventative spend. And I’m not sure that that is quite what we’re trying to get at.”¹⁷¹

194. Several organisations made very broad claims on whole blocks of the budget as prevention. This included National Education Union Cymru suggesting “the whole education budget should be preventative”¹⁷², Universities Wales suggesting “funding for universities is also preventative”¹⁷³, the Marine Conservation Society stating that “protection and management of Wales’ biodiversity and natural resources...[is]...necessary preventative spending”¹⁷⁴, and the Royal College of General Practitioners stating that “spend on general practice is preventative spending”¹⁷⁵.

195. The Committee received evidence that an integrated or cross-department approach was essential. Wales Environment Link regretted that air pollution appeared to be viewed as an environmental issue only, rather than also being

¹⁶⁹ Finance Committee, [WGDB 19-20 25: Chartered Institute of Public Finance and Accountancy](#), Consultation Response, 12 September 2018

¹⁷⁰ National Assembly for Wales, Finance Committee, [RoP \[para 41\]](#), 25 October 2018

¹⁷¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 191\]](#), 15 November 2018

¹⁷² Finance Committee, [WGDB 19-20 16: National Education Union Cymru](#), Consultation Response, 12 September 2018

¹⁷³ Finance Committee, [WGDB 19-20 20: Universities Wales](#), Consultation Response, 12 September 2018

¹⁷⁴ Finance Committee, [WGDB 19-20 18: Marine Conservation Society](#), Consultation Response, 12 September 2018

¹⁷⁵ Finance Committee, [WGDB 19-20 05: Royal College of General Practitioners](#), Consultation Response, 6 September 2018

considered in health spend.¹⁷⁶ The Country Land and Business Association (CLA) highlighted funding for access to outdoors as preventative funding, but one requiring “a lot of planning and joined up working across departments and budget lines to achieve...”.¹⁷⁷ Whereas the Older People’s Commissioner made a similar point concerning preventative spend for older people, saying:

“...Housing, transport, leisure, culture, sport, education, and the physical and natural environment as well as non-statutory social care initiatives all have a crucial role to play in enabling older people to have a good quality of life. This cross-cutting approach... should be at the core of budget proposals on preventative spending for older people.”¹⁷⁸

196. The Future Generations Commissioner questioned any approach which looked at prevention in isolation, asking:

“...what is it we’re trying to prevent? And what is the best place to prevent that? And so I think you can’t look at prevention in isolation. You almost have to look at that in terms of integration as well.”¹⁷⁹

197. The CLA, in written evidence, suggested that the budgeting process itself may need to be adapted to allow for a preventative spending approach:

“A preventative spending approach in resource allocation also requires much greater fluidity and co-operation than the current budgeting process allows.”¹⁸⁰

198. A sentiment echoed by the Director of the Welsh Treasury:

“When you’re thinking about prevention in a budget-setting context, it raises a load of really difficult and complex issues that, I think it’s fair to say, we’ve only really started to grapple with over the last couple of years. I don’t think it’s the way we thought about doing the budget four

¹⁷⁶ Finance Committee, [WGDB 19-20 14: Wales Environment Link](#), Consultation Response, 12 September 2018

¹⁷⁷ Finance Committee, [WGDB 19-20 10: Country Land and Business Association](#), Consultation Response, 12 September 2018

¹⁷⁸ Finance Committee, [WGDB 19-20 24: Older People's Commissioner for Wales](#), Consultation Response, 12 September 2018

¹⁷⁹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 191\]](#), 15 November 2018

¹⁸⁰ Finance Committee, [WGDB 19-20 10: Country Land and Business Association](#), Consultation Response, 12 September 2018

or five years ago, really, and we're starting to think more about that now, but it's really not straightforward."¹⁸¹

199. The Cabinet Secretary also made the point that preventative spending does not necessarily save you money at all, "but it may mean that you are doing something better, and that's the important thing".¹⁸²

200. With an Official adding that "preventing adverse outcomes and preventing additional expenditure" don't always come together, saying one of the challenges of thinking about prevention is whether:

"you're trying to prevent adverse outcomes, which can sometimes cost more, or is it that you're trying to prevent that and prevent expenditure at the same time? And those two things don't always pull in the same direction."¹⁸³

The four levels of prevention

201. The Cabinet Secretary pointed to the risk of an unfocussed definition of prevention meaning anything could be described as preventative, and explained the value of the four stages in combatting this:

"...the purpose of the four stages in the definition that we have developed is that it allows you to locate the spend you are undertaking at the four levels, and then the idea is that you try and drag spending down the hierarchy."¹⁸⁴

202. Suggesting that providing a simple target for moving spending from acute to preventative spending wouldn't have much of an impact, beyond encouraging "gaming" of the system.¹⁸⁵ But that the place "you can make progress is against that definition of prevention in which you try and move spending down the hierarchy".¹⁸⁶

203. Going on to explain that the process the definition should prompt:

¹⁸¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 120\]](#), 21 November 2018

¹⁸² National Assembly for Wales, Finance Committee, [Draft RoP \[para 137\]](#), 21 November 2018

¹⁸³ National Assembly for Wales, Finance Committee, [Draft RoP \[para 120\]](#), 21 November 2018

¹⁸⁴ National Assembly for Wales, Finance Committee, [Draft RoP \[para 135\]](#), 21 November 2018

¹⁸⁵ National Assembly for Wales, Finance Committee, [Draft RoP \[para 144\]](#), 21 November 2018

¹⁸⁶ National Assembly for Wales, Finance Committee, [Draft RoP \[para 147\]](#), 21 November 2018

“...when you’ve attributed the spending you are making to the different levels, you then need to go on to say, ‘What could I do to move spending out of tertiary and into secondary, out of secondary and into primary?’, so that you are pushing the budget at the different levels in a more preventative direction. And that’s where I think it has more of a bite.”¹⁸⁷

204. And the cultural change required of government to implement all the requirements of the Well-being of Future Generations Act, including on prevention, as well as the need “to try and secure consistency across the whole of Welsh Government”.¹⁸⁸

Committee View

205. The Committee welcomes the agreed definition of preventative spend and the consultative nature of developing this definition. The Committee urges the Welsh Government to continue to engage with stakeholders to understand how the definition is working.

206. The Committee welcomes the partial-application of the definition to the draft Budget 2018-19, but is concerned that with only £1.4 billion of the overall £18.3 billion analysed, there is a danger of presenting an incomplete, or even skewed view, in addition to making year-on-year tracking more difficult.

207. The Committee shares the concerns of the Future Generations Commissioner that application of the definition seems somewhat inconsistent, and is concerned that entire sections of the budget are classed as preventative. However, the Committee recognises that the definition is at an early stage and the Committee is hopeful for year on year improvement.

208. However, the Committee is concerned that the application of the “four levels” of preventative spend is understood by those applying the definition, with a risk of focusing on the split and movements between acute and preventative spend, rather than between all four levels of prevention.

209. The Committee has heard evidence from a number of sources that effective preventative spending requires both a more integrated approach, and a longer-term horizon on spending decisions.

¹⁸⁷ National Assembly for Wales, Finance Committee, [Draft RoP \[para.135\]](#), 21 November 2018

¹⁸⁸ National Assembly for Wales, Finance Committee, [Draft RoP \[para.124\]](#), 21 November 2018

210. The Committee understands that the process of embedding prevention into the budget process will be a longer term and gradual process, but urges the Welsh Government to continue to maintain a focus on creating the cultural change required.

211. The Committee understands that a reduction in spend is not the only, nor main, motivation for preventative spending, and that any analysis of its effectiveness should take a holistic view.

Recommendation 14. The Committee recommends that the Welsh Government keeps the definition of preventative spend under close and constant review, including active engagement with both stakeholders and this Committee.

Recommendation 15. The Committee recommends that the Welsh Government prioritises an integrated approach across Government with respect to preventative spending, both cross-department, and multi-year.

6. Promoting economic growth

Stakeholder view

A number of issues relating to the business and third sectors were raised by stakeholders at the Committee session in Swansea. A number of delegates highlighted the need for the Economic Action Plan to be reflected in the budget, to highlight where changes in government policy had led to changes in allocations.

One issue raised by stakeholders was the lack of focus on small and medium-sized enterprises (SMEs). In particular, some stakeholders raised the problem of a limited number of exit plans available to SMEs, suggesting that options such as buy-outs from the Development Bank of Wales should be made more viable, rather than selling to large companies outside of Wales.

Stakeholders noted that there are difficulties in obtaining grants from Business Wales, largely due to the lack of clarity and understanding on the criteria for eligibility for such grants. A similar uncertainty over eligibility criteria exists for the £50 million Brexit transition fund for businesses and public sector bodies: in particular, whether or not third sector organisations are eligible for funding in this manner. Finally, some stakeholders raised concerns over the source of financing for the City Deals.

Stakeholders also suggested a need for more investment in skills which will prepare the workforce for automation and the widespread use of artificial intelligence throughout the economy, with one stakeholder claiming that the Welsh Government should be making far larger investments in such preparations. Further, a stakeholder stated that “the Welsh Government employability plan is good, but needs more funding allocated to it”.

Economic Action Plan

212. The Welsh Government’s EAP¹⁸⁹ sets out plans to develop a regionally-focussed economic development model that addresses regional inequalities. The plan states that the benefits of growth have fallen unevenly across Wales, and that restricts prospects for growth in economically disadvantaged areas. The Welsh Government has appointed Chief Regional Officers in three areas – North Wales; Mid and South West Wales; and South East Wales, who will work with

¹⁸⁹ Welsh Government, [Prosperity for All: economic action plan](#), 13 December 2017

stakeholders to deliver regional business plans that identify priorities and opportunities across each region. The Welsh Government aims to address regional disparities in wealth and opportunity in different parts of Wales to achieve inclusive economic growth through developing the distinctive strengths of each region.¹⁹⁰

213. Both the Welsh Retail Consortium (WRC) and Federation for Small Businesses Wales (FSB) were broadly supportive of the EAP. However, they did not feel that it was possible to form a view from allocations made in the budget as to whether the budget reflects refocusing of allocations.

“There’s a lot of movement into a budget line that is called ‘business development direct support’ and the rationale in the budget papers was that there’s a lot of transition going on from the old economic programme towards the economic action plan, and, therefore, the easiest way to deal with this was to put it under one heading so that we can deal with legacy and new programmes in the same heading. From an outside perspective, it’s incredibly difficult to see how much transition is actually going on.”¹⁹¹

214. However, concerns were raised that it was not possible to identify spending on areas within the budget tables and more detail was needed in terms of measurements of what was being invested and where, and also an idea of the speed of change.¹⁹²

215. The Cabinet Secretary was asked how allocations demonstrate what elements of the EAP are being invested in, the Cabinet Secretary said:

“... we are trying in our budget information to make it accessible and readable and available to—I’m sure there is no such thing as the general reader for budget documentation, but to somebody who has a general interest. So, you don’t want to make it too long, you don’t want to make it too technical, but then, on the other hand, there are people with specialist interests who then don’t find what they are looking for in text that hasn’t been particularly aimed at their speciality or their area of technical expertise. So, I’m very happy to look at what the panel said

¹⁹⁰ Welsh Government, [Prosperity for All: economic action plan](#), 13 December 2017

¹⁹¹ National Assembly for Wales, Finance Committee, [Draft RoP \[para 9\]](#), 15 November 2018

¹⁹² National Assembly for Wales, Finance Committee, [Draft RoP \[para 14 and 16\]](#), 15 November 2018

and if there are things that we could provide that would be helpful—of course, that’s what we learn through the scrutiny process.”¹⁹³

216. The EAP looks to support economic growth in regions to reduce inequality. The FSB highlighted that investment was needed in new and existing infrastructure and that this would be best met by long term strategic planning by the National Infrastructure Commission.¹⁹⁴

217. The WRC highlighted that disparities in regional digital infrastructure reduces competitiveness in some areas of Wales.¹⁹⁵

218. The Cabinet Secretary said the quality and impact, as opposed to the location, was the primary factor when considering an investment, he continued:

“An investment that will deliver more for Wales and for the broader Welsh economy would get a priority for me over the investment being in any particular place. But nevertheless, because we recognise that there are regional disparities in Wales, the regional dimension does play an important part.”¹⁹⁶

219. However, the Cabinet Secretary did say:

“I am always looking for decisions and investments that support the regional economy in those parts of Wales where that investment is most needed. You will find that reflected in the budget, because we look at those inequalities at an investment level in the way we invest in education and in the way that we invest in infrastructure. That’s the essential way, I think. Quality is the overriding consideration; regional alignment and impact on regional economies then follows very closely next.”¹⁹⁷

220. Whist in relation to the digital infrastructure the Cabinet Secretary said:

“...digital infrastructure, you don’t see it, but it is vitally important to the future of the Welsh economy. There is a significant investment in digital infrastructure contained within the budget.”¹⁹⁸

¹⁹³ National Assembly for Wales, Finance Committee, [Draft RoP \[para 154\]](#), 21 November 2018

¹⁹⁴ National Assembly for Wales, Finance Committee, [Draft RoP \[para 49\]](#), 15 November 2018

¹⁹⁵ National Assembly for Wales, Finance Committee, [Draft RoP \[para 52\]](#), 15 November 2018

¹⁹⁶ National Assembly for Wales, Finance Committee, [Draft RoP \[para 179\]](#), 21 November 2018

¹⁹⁷ National Assembly for Wales, Finance Committee, [Draft RoP \[para 160\]](#), 21 November 2018

¹⁹⁸ National Assembly for Wales, Finance Committee, [Draft RoP \[para 162\]](#), 21 November 2018

Business rates

221. The draft Budget states that “the gross rates payable from non-domestic rates (NDR) is almost £1.3bn in Wales. Once reliefs are applied, NDR contributes over £1bn towards the annual funding of local services”.¹⁹⁹

222. Between £10m and £20m of non-domestic rates²⁰⁰ revenue is lost every year due to avoidance. The Welsh Government consulted on a range of ideas to help tackle this avoidance. In October the Cabinet set out²⁰¹ a number of future measures to reduce rates avoidance and to help organisations to investigate and challenge cases more effectively. These changes are intended to come into force from 1 April 2021, following the next rating list and revaluation exercise.

223. The UK Autumn Budget 2018 announced that from April 2019, the UK Government will cut business rates by a third for up to 90% of retail properties for two years.²⁰² This is targeted at retail premises with a rateable value of less than £51,000. The Welsh Government will receive consequentials in relation to this decision.

224. The FSB and the WRC wanted a similar scheme to be implemented in Wales:

“Business rates reform is absolutely key, and what we’d call for is using some of the consequentials that are coming forward to freeze business rates for the next two years, whilst the Welsh Government then looks to address that issue around fundamental reform, which we think is so important to all industries that are business rates payers, which would really help to enable us to thrive and have a vibrant economy in the future.”²⁰³

225. The Cabinet Secretary confirmed that there was a £26 million consequential from the UK Budget 2018 in relation to the announcement in the UK Budget 2018 of business rate relief for retail premises up to a rateable value of £51,000. The Cabinet Secretary noted that the Welsh Government introduced a high street

¹⁹⁹ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018

²⁰⁰ Welsh Government, Mark Drakeford (Cabinet Secretary for Finance), [Tackling fraud and avoidance of non-domestic rates in Wales](#), Written Statement, 16 October 2018

²⁰¹ *ibid*

²⁰² UK Government, HM Treasury, [Our Plan for the high street: Budget 2018 brief](#), Policy Paper, 29 October 2018

²⁰³ National Assembly for Wales, Finance Committee, [Draft RoP \[para 67\]](#), 15 November 2018

rates relief scheme in 2018-19²⁰⁴ and confirmed that he intended to use this funding for a business rate relief scheme in Wales, but was considering how this would best be tailored to circumstances in Wales. However, there was a complication as the UK Government announced a two year scheme in England, until the Comprehensive Spending Review it is unknown how much second year funding will be available in Wales.²⁰⁵

Committee view

226. The Committee notes the positive comments on the EAP, however, evidence also shows that it is difficult to identify spending on specific areas within the budget tables. Consequently, it is difficult to align policies within the budget. A reduction in the number of budget lines has reduced transparency making it difficult to identify where funding is to be invested.

227. The Committee believes that the budget should be more explicit, with better links between policy, narrative and allocations, to enable effective assessments as to whether policies are working and measure the pace of change. The Committee believes the EAP should include targets that link to improved economic performance and allow better measurement of policy performance.

228. The Committee welcomes the EAP's commitment to tackle regional inequality, however, witnesses raised concerns around the regional balance of Welsh Government infrastructure investment around Wales. The Committee would welcome reassurance that the priority to spread prosperity more evenly around Wales is given sufficient focus when draft budget allocations and investment decisions are made.

229. The Committee welcomes the announcement that the Cabinet Secretary will use the Business Rates Relief Scheme consequential for a Welsh rate relief scheme, but would welcome additional details on how the £26 million consequential will be utilised. The Committee is disappointed that the UK Government has only provided one year of consequential funding and would welcome further details as to the consequentials for 2020-21, and the impact on business rates at the earliest opportunity.

Recommendation 16. The Committee recommends that the Welsh Government considers the transparency issues in relation to identifying

²⁰⁴ Welsh Government, [Non-domestic Rates High Street Rates Relief in Wales - 2018-19 Guidance](#), 11 April 2018

²⁰⁵ National Assembly for Wales, Finance Committee, [Draft RoP \[para 171-172\]](#), 21 November 2018

investment linked to the Economic Action Plan in the budget tables, with a view to ensuring clarity is provided in the 2020-21 budget.

Recommendation 17. The Committee recommends that targets are published in relation to the Economic Action Plan and subsequent progress is reported against these targets to enable a better measurement of policy performance.

Recommendation 18. The Committee recommends that the Welsh Government gives further consideration to how tackling regional inequality across Wales is prioritised in decision making in relation to infrastructure investment.

7. Planning and preparation for leaving the EU

230. The Welsh Government's Chief Economist's Report states that "Brexit continues to weigh on growth prospects for Wales and the UK as a whole ... It is likely that Wales will be hit disproportionately by a 'hard' Brexit".²⁰⁶

231. The draft Budget shows that Wales receives around £680 million in EU funding annually and notes uncertainty around how Brexit limits the Welsh Government's ability to plan beyond the short term.²⁰⁷

232. The Welsh Government has stated that it is stepping up its planning for a "no-deal" Brexit to limit damage to the Welsh economy. It states that preparations are intensifying in every sector, from fact finding on how a "no-deal" would impact on jobs to building resilience if talks break down.²⁰⁸ In terms of preparing for Brexit, in January 2018²⁰⁹ the Welsh Government launched a £50 million EU Transition Fund to help businesses and public services plan for Brexit, and in June 2018²¹⁰ it made allocations of £3 million to the meat and fisheries sectors. Subsequent allocations of £3.5 million have been made to Welsh universities and £350,000 to the Welsh Local Government Association.²¹¹

233. The UK Budget 2017 stated that, in addition to previous investment, a further £1.5 billion of additional funding will be made available in 2018-19 and in 2019-20 to ensure that the UK Government can "continue to prepare effectively"²¹² for the EU exit. Elizabeth Truss (Chief Secretary to the Treasury)²¹³ set out how the £1.5 billion funding will be allocated, this includes £0.3 million for the Wales Office and results in £21.4 million consequential for the Welsh Government, whilst details of final allocations will be set out as part of the 2018-19 Supplementary Estimates in early 2019.²¹⁴

²⁰⁶ Welsh Government, [Welsh Budget 2018: Chief Economist's report](#), 2 October 2018

²⁰⁷ Welsh Government, [Draft Budget 2019-20 Outline proposals](#), 2 October 2018, para 1.15

²⁰⁸ ITV, [Welsh Government steps up planning for "no-deal" Brexit](#), 8 September 2018

²⁰⁹ Welsh Government, News release, [£50m fund to help prepare Wales for Brexit](#), 8 January 2018

²¹⁰ Welsh Government, News release, [Over £3m to help meat and fisheries sectors prepare for Brexit](#), 18 June 2018

²¹¹ Welsh Government, [EU Transition Fund](#), 12 July 2018

²¹² UK Government, HM Treasury, [HC 587](#), Autumn Budget 2017, 22 November 2017, para 1.52

²¹³ UK Government, Elizabeth Truss (The Chief Secretary to the Treasury), [Spring Statement: Written statement - HCWS540](#), Written statement, 13 March 2018

²¹⁴ House of Commons, [CBP-8320](#), Revised Government spending plans for 2017-18, 23 February 2018

Stakeholder views

Many respondents to the committee's consultation referred to the challenges posed by Brexit. Powys Association of Voluntary Organisations (PAVO) suggest that it would be useful if the Welsh Government could produce separate budget profiles setting out its preferred allocations as well as contingency allocations in the event of a no-deal "hard" Brexit.

The Royal College of General Practitioners (RCGP) warn that Brexit presents significant risks for general (health) practice, including recruitment, retention, portability of qualifications, reciprocal healthcare arrangements with other countries and access to medication.

The Wales Co-operative Centre highlight the benefits that Wales has received from European Structural Funds, for example support for social businesses. They seek assurances from the Welsh Government that these types of activity will continue to be funded after Brexit and support its position that Wales should receive funding to replace European Structural Funds.

The WCVA want the budget to promote the voluntary sector's voice on funding arrangements to replace European Structural Funds

The Country Land and Business Association (CLA) refer to the "uncertainty" surrounding Brexit and argue that "creating the most favourable possible conditions to promote economic stability must be at the heart" of the 2019-20 budget. The CLA has "some concerns" with the Welsh Government's planning and preparedness for Brexit and call for more clarity over what the Welsh Government hopes to achieve and how it is working with the UK Government to achieve this.

The Marine Conservation Society (MCS) are concerned that following Brexit, any reduction in EU funds such as CAP payments, RDP and structural funds may affect overall expenditure for the Environment and Rural Affairs portfolio. They highlight in particular the European Maritime and Fisheries Fund, which is only guaranteed until 2020. MCS call on the Welsh Government to plan for this potential loss of funding and reflect any additional resources needed in the 2019-20 budget.

For the Women's Equality Network, the "sheer lack of funding available to mitigate against the impacts of Brexit is deeply worrying".

Universities Wales highlight “significant financial uncertainties for universities” regarding Brexit, including the replacement of EU funding, access to future EU funding programmes, and potential changes to immigration rules which currently enable student and staff mobility within the EU. They call on “contingency [plans] to be made and devolved to Wales” to deal with the consequences of Brexit.

Brexit impact and “Brexit dividend”

234. David Phillips, Institute for Fiscal Studies, highlighted that a change to how the shared prosperity fund is distributed around the UK could severely disadvantage Wales and if it was moved to a more negotiated regional funding model, Wales could lose out when different parties are in government in the UK and Wales.²¹⁵

235. In terms of public spending increases, David Phillips considered that if there were increases in public spending, these would only be emergency short term measures.

“... in the short-term, if there is a short, sharp, shock Brexit, a disorderly Brexit, the immediate effect could be to have more money for the Welsh Government budget. I think that, in that circumstance, it’s likely that there would be fiscal easing by the UK Government. It would want to prime the pumps by increasing potentially, say, capital spending, investment spending and some other areas of spending to ease the shock, but that wouldn’t mean that it was a Brexit dividend—what it would mean is you’re increasing spending in the short term to help ameliorate the problems, but it’d be another slow, long slog to get the public finances back on track if you think of this as a kind of permanent hit to the economy, rather than a temporary hit to the economy. So, you might see, in the short term, actually an increase in spending. It might be labelled a Brexit dividend—that’s unlikely to be true.”²¹⁶

236. Both the FSB and the WRC welcomed the £50 million made available through the EU transition fund, and the positive impact of the Brexit portal in supporting businesses. They stated that it is difficult to know if the scale of this

²¹⁵ National Assembly for Wales, Finance Committee, [RoP \[para 286-287\]](#), 11 October 2018

²¹⁶ National Assembly for Wales, Finance Committee, [RoP \[para 285\]](#), 11 October 2018

funding is sufficient with the continued uncertainty around any Brexit agreement.²¹⁷

237. When asked how Brexit was impacting on long term planning for the Welsh Government, the Cabinet Secretary said the uncertainty has to be factored into its calculations²¹⁸, but stressed that “Wales gets the money we get from the European Union because it matches our needs”²¹⁹.

Committee View

238. The Committee recognises that the uncertainty around the terms of final Brexit arrangements means that the Cabinet Secretary is in the difficult position of having to plan for different scenarios, and cannot provide costed budget proposals when the situation is so fluid.

239. However, much of the evidence received to the Committee’s pre-budget consultation refers to Brexit, covering not just funding issues but wider issues such as health care arrangements and economic stability, and these are areas which must also be considered by the Welsh Government

240. Much of the evidence in relation to funding refers to structural funds, a topic the Committee has recently considered in its inquiry on Preparations for replacing EU funding for Wales.²²⁰ The Committee is still concerned by the unknown detail on the Shared Prosperity Fund and the future of the Common Agriculture Policy and the significant negative impact that any reduction in funding will have on Wales.

241. The Committee appreciates the need to maintain flexibility in the draft budget to enable the Welsh Government to respond to a number of eventualities with regards to Brexit. However, this uncertainty also makes scrutinising allocations within the Draft Budget problematic.

242. Whilst acknowledging that EU funding will still be available in 2019-20, the Committee believes there is a growing imperative to support Welsh businesses to ensure negative impacts on current investment and future economic growth is minimised. The Committee considers it crucial that the Welsh Government supports businesses and other sectors across Wales to access all available EU

²¹⁷ National Assembly for Wales, Finance Committee, [Draft RoP \[para 86-87\]](#), 15 November 2018

²¹⁸ National Assembly for Wales, Finance Committee, [RoP \[para 344\]](#), 3 October 2018

²¹⁹ National Assembly for Wales, Finance Committee, [RoP \[para 345\]](#), 3 October 2018

²²⁰ National Assembly for Wales, [CR-LD11748](#), Finance Committee – Preparations for replacing EU funding for Wales, 25 September 2018

funding streams and continues to focus on supporting organisations through this period of uncertainty and transition.

Recommendation 19. The Committee notes the need for the budget to be flexible in relation to preparing for Brexit, but recommends that the first supplementary budget 2019-20 provides, as far as is practicable, a detailed summary of how the final Brexit Agreement has informed the Welsh Government's in-year spending plans.

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
3 October 2018	Mark Drakeford AM, Cabinet Secretary for Finance Margaret Davies, Deputy Director, Strategic Budgeting, Welsh Government Andrew Jeffreys, Welsh Treasury, Welsh Government
11 October 2018	Dr Ed Poole, Head of programme, Wales Governance Centre Guto Ifan, Lead Researcher, Wales Governance Centre David Phillips, Associate Director, Institute of Fiscal Studies
17 October 2018	Dr Edward Jones, Bangor University Dr Helen Rogers, Bangor University
25 October 2018	Dr Victoria Winckler, Director, Bevan Foundation Dyfed Alsop, Chief Executive, Welsh Revenue Authority Sam Cairns, Head of Operational Delivery, Welsh Revenue Authority Rebecca Godfrey, Chief Strategy Officer, Welsh Revenue Authority Jim Harra, Second Permanent Secretary, HMRC Jackie McGeehan, Deputy Director with responsibility for Income Tax policy, HMRC
7 November 2018	Robert Chote, Chairman, Office for Budget Responsibility

<p>15 November 2018</p>	<p>Joshua Miles, Policy Manager, FSB Wales</p> <p>Sara Jones, Head of the Welsh Retail Consortium</p> <p>Sophie Howe, Future Generations Commissioner for Wales</p> <p>Cathy Madge, Lead Change Maker, Office of the Future Generations Commissioner for Wales</p>
<p>15 November 2018</p>	<p><i>Concurrent meeting of the Finance Committee, Children, Young People and Education Committee and the Equality, Local Government and Communities Committee</i></p> <p>Ruth Coombs, Head of Wales, Equality and Human Rights Commission</p> <p>Professor Sally Holland, Children’s Commissioner for Wales</p> <p>Rachel Thomas, Head of Policy and Public Affairs, Children’s Commissioner for Wales</p> <p>Mark Drakeford AM, Cabinet Secretary for Finance</p> <p>Julie James AM, Leader of the House and Chief Whip</p> <p>Andrew Jeffreys, Director, Treasury, Welsh Government</p> <p>Matt Wellington, Head of Programme for Government Reporting and Analysis, Welsh Government</p> <p>Paul Dear, Head of Equality, Welsh Government</p> <p>Anthony Jordan, Head of Programme and Legislative Implementation, Welsh Government</p>

21 November 2018

Mark Drakeford AM, Cabinet Secretary for Finance

Andrew Jeffreys, Director, Welsh Treasury, Welsh Government

Margaret Davies, Deputy Director, Strategic Budgeting, Welsh Government

Annex B: List of written evidence

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

Organisation	Reference
Cintra HR and Payroll Services	<u>WGDB 19-20 01</u>
Global Payroll Association	<u>WGDB 19-20 02</u>
Powys Association of Voluntary Organisations	<u>WGDB 19-20 03</u>
Institution of Civil Engineers Wales Cymru	<u>WGDB 19-20 04</u>
Royal College of General Practitioners	<u>WGDB 19-20 05</u>
Undeb Cenedlaethol Athrawon Cymru	<u>WGDB 19-20 06</u>
Shelter Cymru pdf icon	<u>WGDB 19-20 07</u>
Wales Co-operative Centre	<u>WGDB 19-20 08</u>
Wales Council for Voluntary Action	<u>WGDB 19-20 09</u>
Country Land and Business Association	<u>WGDB 19-20 10</u>
Llamau	<u>WGDB 19-20 11</u>
Oxfam Cymru	<u>WGDB 19-20 12</u>
Welsh Womens Aid	<u>WGDB 19-20 13</u>
Wales Environment Link	<u>WGDB 19-20 14</u>
Community Housing Cymru	<u>WGDB 19-20 15</u>
National Education Union Cymru	<u>WGDB 19-20 16</u>
National Federation of Self Employed and Small Businesses Wales	<u>WGDB 19-20 17</u>
Marine Conservation Society	<u>WGDB 19-20 18</u>
Future Generations Commissioner	<u>WGDB 19-20 19</u>
Universities Wales	<u>WGDB 19-20 20</u>
Womens Equality Network Wales	<u>WGDB 19-20 21</u>
Welsh NHS Confederation	<u>WGDB 19-20 22</u>
Welsh Books Council	<u>WGDB 19-20 23</u>
Older People's Commissioner for Wales	<u>WGDB 19-20 24</u>
Chartered Institute of Public Finance and Accountancy	<u>WGDB 19-20 25</u>
Welsh Retail Consortium	<u>WGDB 19-20 26</u>
ADSS Cymru	<u>WGDB 19-20 27</u>