

Scrutiny of the Welsh Government Draft Budget 2022-23

February 2022



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Scrutiny of the Welsh Government Draft Budget 2022-23

February 2022



About the Committee

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

Current Committee membership:



Committee Chair:
Peredur Owen Griffiths MS
Plaid Cymru



Peter Fox MS
Welsh Conservatives



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour

The following Members attended as substitutes during this inquiry:



Gareth Davies MS
Welsh Conservatives



Sam Rowlands MS
Welsh Conservatives



Carolyn Thomas MS
Welsh Labour

Contents

Chair's Foreword	5
Conclusions and Recommendations	7
1. Introduction	13
2. Overview	21
3. Tax, Borrowing and Forecasting	35
4. Impact of the Co-operation Agreement	52
5. Health, Social Care and Local Government	56
6. Supporting Business	74
7. Climate Change and Carbon Reduction	88
8. Tackling Poverty and Inequality	102
9. EU funding Replacement	113
Annex A: List of oral evidence sessions	115
Annex B: List of written evidence	117

Chair's Foreword

As Wales tentatively emerges from the COVID-19 pandemic, the Welsh Government is facing significant challenges in responding to economic pressures; the effects of climate change and Brexit; and in mitigating the squeeze on household incomes. Pandemic-related pressures will remain significant for health, local government and businesses.

However, there is a notable and welcome shift in this Draft Budget towards recovery.

The Welsh Government's Draft Budget paints a largely positive picture. Furthermore, the funding available to the Welsh Government has been better than expected and revised forecasts for the Welsh tax base also indicates an improved economic outlook.

We also welcome the return to a multi-year settlement which means the Welsh Government has been able to provide organisations with more financial certainty for the next three-years. We hope this will enable the public sector to plan more effectively in the long-term, hopefully leading to savings and transformation of services in the future.

However, it is clear from the evidence received that significant challenges remain if the Welsh Government is to realise its vision and real leadership is needed if the Minister's deeds are to match her words.

The Committee heard from key public services that they are under unprecedented pressures and that poorer households, in particular, will bear the brunt of increases in inflation, driven by higher energy costs, planned tax rises and increasing consumer prices.

Analysing the impact of the Welsh Government's approach will be key. To ensure these concerns are addressed, we have listened to stakeholders and we have asked the Minister to present future budgets in a way which makes it easier for particular sectors and industries to understand the funding available to them and how spending decisions are evaluated.

The scrutiny of this Draft Budget is the first to be undertaken by the new Finance Committee of the Sixth Senedd, and my first as Chair of the Committee. We are very proud as a Committee of the consultation and engagement work we undertake on behalf of all Committees on the Draft Budget. Particularly given the short timescales for scrutiny and the COVID-19 restrictions which meant we used alternative methods such as online focus groups to hear from interested individuals. I would like to thank all respondents who took time to engage with us and inform our work.

Due to the multi-year settlement, the Committee looks forward to a full budget timetable for the 2023-24 draft budget; the first in four years. This is a very welcome development that will allow more time for Members, stakeholders and the public to engage and influence the Committee's work in scrutinising the Welsh Government's budgetary proposals.

As one participant told our focus groups, "We are coming out of a dark place and an increase in spending will make all the difference". We are pleased that those views align with the Welsh Government's approach, but we will keep a watchful eye on the Minister's actions to make sure that the increases in spending deliver tangible benefits to the people of Wales as we start the road to recovery.



Peredur Owen Griffiths,
Chair

Conclusions and Recommendations

Conclusion 1. The Committee welcomes the announcement by the UK Government of its multi-year budget settlement and was pleased to see that the Welsh Government took the opportunity of a three-year Spending Review to give funding certainty to organisations by providing provisional allocations for 2023-24 and 2024-25.....Page 19

Conclusion 2. The Committee appreciated the views of stakeholders who fed into the scrutiny process but was mindful that many commented that they did not have time to comment on policies and allocations in detail. This was the fourth consecutive year where scrutiny has been truncated.....Page 19

Conclusion 3. The Committee welcomes the support from the Business Committee that the Plenary debate on the Welsh Government's spending priorities, that takes place prior to the publication of the Draft Budget, should return to being led by the Finance Committee in future years.Page 19

Conclusion 4. The Committee notes that the allocations provided over the three-year period has given the Welsh Government the opportunity to provide significant increases in revenue funding in 2022-23, however, increases in 2023-24 and 2024-25 are more modest.Page 33

Conclusion 5. The Committee notes the positive comments from the health and local government sector about the Welsh Government's responsiveness and financial support during the pandemic.....Page 72

Recommendation 1. The Committee recommends that the timetable for scrutinising the Welsh Government's budget returns to the "normal" timetable, which allows 8 sitting weeks, set out in the protocol between the Committee and the Welsh Government for the 2023-24 budget and future years.Page 20

Recommendation 2. The Committee recommends that the Welsh Government continues to explore how longer term certainty can be given to organisations relying on grant funding where outcomes and objectives have been demonstrably met.....Page 20

Recommendation 3. The Committee recommends that consideration is given to how budgetary information is presented so that it is linked to outputs and impacts in order to help the Welsh Government's own evaluation as well as to increase the public and Senedd's ability to hold the Welsh Government's budget plans to account.Page 33

Recommendation 4. The Committee welcomes the information contained in the Chief Economist's and the Office for Budget Responsibility reports and the extended Distributional Analysis of Devolved Public Spending in Wales, but recommends that the distributional analysis is further developed in future years so that it is linked with policy evaluation on the effectiveness of spend. Page 33

Recommendation 5. The Committee calls on the Welsh Government to publish details of the remit and membership of the Budget Impact and Improvement Advisory Group and recommends that the Welsh Government considers how the Committee could be involved in its work..... Page 33

Recommendation 6. The Committee recommends that the Welsh Government's gender sensitive approach to budgeting is widened beyond small discrete pilot projects and is incorporated into general policy and spending decision-making across portfolios, with the aim that gender equality considerations are taken systematically into account in tax and spending decisions which should be evidenced transparently in future budgets. Page 34

Recommendation 7. The Committee recommends that the Welsh Government continues to work with the Office for Budget Responsibility to develop and utilise relevant Welsh data to support forecast modelling and develop a better understanding of the Welsh income tax base to further inform tax policy and its impact on Welsh taxpayers..... Page 50

Recommendation 8. The Committee recommends that the Welsh Government continues to press the UK Government to provide greater flexibility for the Welsh Government to manage in-year funding, including the ability to carry over funding from one financial year to the next. Page 50

Recommendation 9. The Committee recommends that the Welsh Government calls on the UK Government to increase limits on carrying forward funding in the Wales reserve, to maximise any in-year funding available and to prevent any Welsh funding being lost..... Page 50

Recommendation 10. The Committee recommends that the Welsh Government provides regular updates to the Committee on the intergovernmental mechanisms established to ensure that they are an effective means to escalate disagreements and resolve funding disputes. Page 51

Recommendation 11. The Committee recommends that the Welsh Government reports back to the Committee on the in-year funding position associated with over-programmed capital plans and that regular updates are provided on the funding contained in the Wales Reserve. Page 51

Recommendation 12. The Committee recommends that the Welsh Government: provides an update on Financial Transactions Capital allocations before the Final Budget is laid before the Senedd; explains why it was appropriate to leave out these allocations from the Draft Budget; and calls on the Welsh Government to provide regular updates to the Committee on such allocations in future.Page 51

Recommendation 13. The Committee recommends that the Welsh Government raises awareness of the funds available through Financial Transactions Capital and ensures businesses are engaged in the allocation of these funds so that its benefits can be maximised.Page 51

Recommendation 14. The Committee recommends that the Welsh Government provides clarity on what is meant by retaining tax rates for the Welsh rates of income tax for “as long as the economic impact of the pandemic lasts”Page 51

Recommendation 15. The Committee welcomes the Welsh Government’s consultation on Land Transaction Tax rates, but recommends the Welsh Government considers using other fiscal levers to address issues in the second homes market, such as a recurrent tax for second home owners, rather than using Land Transaction Tax only.Page 51

Recommendation 16. The Committee accepts that it has not been possible to reflect costs relating to the Co-Operation Agreements in the Draft Budget for 2022-23 but recommends that the Welsh Government provides clarity on how the funding of associated policy commitments is reflected in future budget allocations.Page 55

Recommendation 17. The Committee recommends that the Welsh Government provides information regarding the remit and membership of the Welsh Government’s Finance Committee, established as a result of the Co-Operation Agreement, and provides further information about its role, including its terms of reference, in the formulation and monitoring of the Welsh Government’s budget.....Page 55

Recommendation 18. The Committee recommends that the Welsh Government provides further detail on future years’ indicative funding allocations for local government bodies once the data has been released and it has more certainty over the distribution to individual organisations.....Page 72

Recommendation 19. The Committee recommends that future budgets should include indicative allocations for individual organisations over the three-year budget period to enable them to plan more efficiently.Page 72

Recommendation 20. The Committee recommends that the Welsh Government provides details of the funding for local health boards for 2022-23, together with any indicative allocations for 2023-24 and 2024-25..... Page 72

Recommendation 21. The Committee recommends that the Welsh Government considers switching revenue to capital as part of future budgets, and allows the health sector to do the same, thereby providing flexibility given the limited capital funding available..... Page 72

Recommendation 22. The Committee recommends that the Welsh Government undertakes a review of the reserves held by local government bodies to gain a better understanding of them, and that the outcomes of the review should consider whether there are any implications for the formula for distributing core funding to individual local government bodies. Page 72

Recommendation 23. The Committee recommends that, following the receipt in March of the integrated medium term plans from local health boards, the Welsh Government provides information about the specific outcomes expected to be delivered by the additional funding for addressing the backlog of treatments. Page 72

Recommendation 24. The Committee recommends that the Welsh Government provides information to demonstrate how the allocations for 2022-23 alleviate the immediate pressures on staffing across the health, local government and social care sectors. Page 72

Recommendation 25. The Committee recommends that the Welsh Government provides clarity on what it is considering as a replacement indicator to calculate the Local Government settlement for each council when it is no longer able to use the free school meals entitlement as proxy for disadvantage for children of primary school age..... Page 73

Recommendation 26. The Committee recommends that the Welsh Government considers how to respond to feedback from stakeholders that they find it difficult to understand what the budget and allocations contained within the Draft Budget mean for their industries or sectors. Page 86

Recommendation 27. The Committee recommends that, as part of the consideration into further allocations being made in the Final Budget, the Welsh Government considers increasing the support for Business Rates relief. Page 86

Recommendation 28. The Committee recommends that the Welsh Government provides information to the committee on the beneficial impact of rate relief for businesses to ensure that it is an effective means of support and reaches those that need it. Page 86

Recommendation 29. The Committee recommends that the Welsh Government looks at:

- prioritising investment in digital infrastructure to deliver a more agile workforce; and
- pays particular focus to supporting investment in digital infrastructure and helping small retailers and other businesses to develop digital skills and online presence;

so that businesses are able to respond robustly to the pandemic, particularly with the disappearance of EU funding from this area..... Page 86

Recommendation 30. The Committee recommends that the Welsh Government provides clarity on the tourism levy consultation, including remit and timescales. The Welsh Government should also respond to the Welsh Tourism Alliance's concerns and ensure that all businesses, irrespective of their size, are aware of and able to engage with the future consultation.

..... Page 86

Recommendation 31. The Committee recommends that the Welsh Government provides a breakdown of where the zero-base review has led to new capital investment within the Final Budget, highlighting pre-existing spend separately alongside that new funding. Page 101

Recommendation 32. The Committee recommends that the Welsh Government provides clarity on which specific Net Zero Wales commitments have been funded in the Final budget and also confirms which commitments are not being funded and those being partially funded.

..... Page 101

Recommendation 33. Given the limitations of public resources, the Committee urges the Welsh Government to explore ways in which it can leverage private sector finance to address climate change funding challenges. Page 101

Recommendation 34. The Committee welcomes the change in the Welsh Government's capital prioritisation process and its focus on climate change, but calls on the Minister to provide clarity on how outcomes across priority areas will be monitored and evaluated. Page 101

Recommendation 35. The Committee recommends that the Welsh Government outlines the practical ways in which the strategies and objectives outlined in the Draft Budget (and accompanying documentation) are being implemented in recognition of the climate and nature emergencies. Page 101

Recommendation 36. The Committee recommends that the Welsh Government reviews its public procurement policy and frameworks and monitors contracts to ensure they align with well-being objectives and support net zero ambitions. Page 101

Recommendation 37. The Committee recommends that the Welsh Government prioritises evidencing how its carbon and finance budgets align in future budgets. The Draft Budget next year must go further in demonstrating the carbon impact of the budget. Page 101

Recommendation 38. The Committee recommends that the Welsh Government takes steps to raise the profiles of grants and schemes designed to address the cost of living crisis, such as the Discretionary Assistance Fund and payments to help with winter bills so that people are aware of the range of financial support available and how to access them. Page 112

Recommendation 39. The Committee recommends that the Welsh Government increases the funding allocation to support the Discretionary Assistance Fund to alleviate the worsening cost of living crisis and to ensure that it can meet ongoing demand. Page 112

Recommendation 40. The Committee recommends that the Welsh Government provides an update on the progress made in developing an integrated system of support in response to the acute financial pressures many families are experiencing. Furthermore, the Committee calls for the establishment of single entry points that links across the key services and schemes so people can easily access the support they are entitled to. Page 112

Recommendation 41. The Committee recommends that the Welsh Government provides further information on replacement EU funding as a matter of urgency, so that the shortfall identified in the budget can be addressed. Page 114

1. Introduction

The Committee

- 1.** The Finance Committee¹ (the Committee) is a cross party committee of the Welsh Parliament (the Senedd), made up of Members from the political parties represented at the Senedd.
- 2.** Under Standing Order 19, the Committee is responsible for considering and reporting on proposals laid before the Senedd by Welsh Ministers containing proposals for financing or the use of resources. The Committee can also consider and report on any other matter related to or affecting financing, or expenditure out of the Welsh Consolidated Fund (WCF).²

Scrutinising the Draft Budget

- 3.** The current budget process was agreed by the Senedd on 21 June 2017³. This is the fifth Draft Budget to be scrutinised under this process.
- 4.** The budget process sets out that two stages of information will be published by the Welsh Government:
 - Outline proposals that set out the high-level strategic spending and financing plans of the Welsh Government; and
 - The detailed Draft Budget in which the Welsh Government will provide budget proposals for each portfolio at the Budget Expenditure Line (BEL) level or equivalent with appropriate supporting narrative.
- 5.** The Wales Act 2014⁴ devolved additional fiscal powers to the Senedd. In April 2018, two specific Welsh Taxes came into force: Land Transaction Tax (LTT) and Landfill Disposal Tax (LDT). This was followed in April 2019 by the Welsh Rates of Income Tax (WRIT).
- 6.** The Committee will consider the overall strategic decision making and prioritisation behind the allocation within the Draft Budget proposals, along with taxation and borrowing plans, against the backdrop of public finances and the wider economy.

¹ [Finance Committee](#)

² [Standing Orders of the Welsh Parliament](#)

³ [Budget Process agreed 21 June 2017](#)

⁴ [Wales Act 2014](#)

Timing of the Welsh Government Budget and the UK Budget

7. The budget scrutiny cycles over the past four years have been impacted by “exceptional” circumstances, predominantly Brexit and the COVID-19 pandemic which has resulted in delayed UK fiscal events. This has led to delays to the planned dates of Welsh Government draft budgets and reduced time for scrutiny.

8. On 5 July 2021, the Minister for Finance and Local Government (the Minister) wrote to the Committee, noting:

*“The Chancellor of the Exchequer has indicated his intention to conduct a multi-year comprehensive spending review, which means we will not know our budget settlement until the CSR concludes in the Autumn. As a result, we will not be able to follow the budget timetable employed in years without a spending review, where we publish our draft budget in early October. As in 2019 and 2020, it will be necessary to publish our draft budget later in the year”.*⁵

9. In this letter, the Minister indicated her intention to publish the outline and detailed Draft Budgets together on 20 December, and the Final Budget on 1 March 2022.⁶

10. The UK Government announced its Budget and Spending Review on 27 October 2021⁷. For the first time in three years the UK Government has returned to providing a multi-year funding settlement.

11. On 20 December 2021, the Welsh Government published its Draft Budget 2022-23 and accompanying documentation⁸.

Multi-year Settlement

12. The Draft Budget sets out the funding for 2022-23, as well as indicative allocations for 2023-24 and 2024-25. The Draft Budget notes:

“Receiving a multi-year settlement covering the period of 2022-23 to 2024-25 has enabled the provision of a level of certainty to partners that has not been

⁵ [Letter](#) from the Minister for Finance and Local Government to the Finance Committee, 7 July 2021

⁶ [Letter](#) from the Minister for Finance and Local Government to the Finance Committee, 7 July 2021

⁷ [Budget and Spending Review 27 October 2021](#)

⁸ [Welsh Government Draft Budget 2022 to 2023](#)

*possible in previous years however albeit this is in the context of a challenging multi-year settlement.*⁹

13. A number of organisations that responded to the Committee's consultation highlighted the importance of receiving a multi-year settlement to give them "more certainty in planning and managing our budgetary processes".¹⁰ The Minister also acknowledged the uncertainties that organisations had experienced in previous years due to a lack of a multi-year settlement, particularly those dependent on Welsh Government grant funding, and the steps taken to address this:

*"... we know it's not helpful for organisations when they have a one-year grant allocation, for example, so we've been doing more work now across Government to see how we can provide longer term grants for organisations."*¹¹

14. Many respondents who provided oral evidence welcomed the return to a multi-year settlement. The WLGA said "it does make a huge difference to how we can think and how we can plan and how we can work for the long term"¹². This view was echoed by the Welsh NHS Confederation and the Association of Directors of Social Services Cymru (ADSS).¹³ This issue is explored further in chapter 5.

Consultation

15. The Committee agreed to continue the approach followed by the previous Finance Committee in the fifth Senedd, whereby the Committee undertakes a pre-budget consultation on behalf of all Committees. On 16 July 2021, the Chair wrote to the Senedd Committees to notify them of the Committee's proposed programme of engagement and the approach to scrutiny of the Draft Budget.¹⁴

⁹ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

¹⁰ Finance Committee, Consultation response: [Llamau](#)

¹¹ Finance Committee, RoP, 21 January 2022, paragraph 21

¹² Finance Committee, RoP, 14 January 2022, paragraph 209

¹³ Finance Committee, RoP, 14 January 2022, paragraphs 211 & 213

¹⁴ [Letter](#) from the Finance Committee to Senedd Committees, 16 July 2021

16. The Committee issued a pre-budget consultation¹⁵, inviting organisations and individuals to let the Committee know their expectations of the forthcoming Draft Budget. A total of 41 responses were received. The consultation focused specifically on the following areas:

- The impact of the Welsh Government's 2021-22 budget including funding related to COVID-19;
- How the Welsh Government priorities for 2022-23 should change to respond to COVID-19;
- How financially prepared organisations are for the 2022-23 financial year, and how can the budget give more certainty in planning and managing budgets given the ongoing volatility and uncertainty;
- Whether there should be changes to the budget and scrutiny processes to ensure sufficient transparency and Ministerial accountability;
- Whether the Fiscal Framework adequately reflects the impact of the public health emergency in Wales compared to other UK countries.

17. Due to social restrictions across the country, the Committee was unable to meet with stakeholders in person to hear their views on the priority areas for the Welsh Government Draft Budget. Instead, the Committee undertook online engagement to seek views on what stakeholders and the general public thought the Welsh Government's spending priorities should be. This digital campaign collected information through virtual focus groups, with the aim of gaining qualitative information about the experiences of participants and deepening the Committee's understanding of the issues affecting the people of Wales. These views were included in an Engagement Report¹⁶ which was considered by the Committee on 16 December 2021 and published shortly afterwards.

Budget Focus

18. The Committee agreed to continue the approach followed by the previous Finance Committee in the fifth Senedd, whereby the Committee takes a strategic approach in scrutinising the Draft Budget which is centred on the four principles of financial scrutiny:

¹⁵ [Finance Committee: Pre-budget consultation](#)

¹⁶ Senedd Cymru, [Citizens Engagement Report](#), December 2021

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

19. After the consultation had closed, the Chair wrote to the Senedd Committees identifying a number of areas that Committees considering individual portfolio spending plans should focus on:

- How resources should be targeted to support economic recovery and what sectors in particular need to be prioritised;
- To what extent alleviating climate change should be prioritised in supporting economic recovery;
- Welsh Government policies to reduce poverty and gender inequality;
- Approach to preventative spending and how this is represented in resource allocations;
- Sustainability of public services, innovation and service transformation;
- How evidence is driving Welsh Government priority setting and budget allocations;
- How the Welsh Government should use taxation powers and borrowing;
- Support for businesses, economic growth and agriculture after EU transition ends;
- What are the key opportunities for Government investment to support 'building back better' (i.e. supporting an economy and public services Scrutiny of the Welsh Government's Draft Budget 2021-22 15 that better deliver against the well-being goals in the Well-being of Future Generations Act).¹⁷

¹⁷ Letter from the Finance Committee to Senedd Committees 7 December 2021

Plenary debate – Budget Priorities 2022-23

20. In previous years the Finance Committee has held a Plenary debate on the Welsh Government's budget priorities prior to publication of the Draft Budget. This type of debate was introduced by the Committee (with the agreement of the Business Committee) to ensure the Senedd had a formal opportunity to debate and potentially influence the Welsh Government's spending priorities prior to formulation of the Draft Budget.

21. This year, the Welsh Government brought forward its own debate on Priorities for 2022-23 Budget Preparations on 13 July 2021.¹⁸ The Committee wrote to the Business Committee and the Minister requesting that in future years this returns to being a Finance Committee-led debate that takes place annually before the summer recess.¹⁹ The Business Committee replied to the Committee and noted that:

"...the government brought forward its own debate on spending priorities this year given the timing of the establishment of committees. However, Business Committee believes this debate should be led by the Finance Committee in the future as has happened in previous years".²⁰

Committee View

22. The Committee recognises the difficulties and challenges that have faced the Welsh Government in preparing its budgets over the past few years given the unprecedented and exceptional circumstances caused by Brexit and the COVID-19 pandemic. Over the past four years, delayed UK fiscal events has meant there has been a delay to the Welsh Government publishing its Draft Budget, which has resulted in curtailed scrutiny by the Senedd. The Welsh Government did not receive its budget settlement until the announcement of the UK Budget and Spending Review on 27 October 2021 and therefore was unable to publish its Draft Budget until December 2021.

23. The UK Government has provided a multi-year funding settlement which has allowed the Welsh Government to set out funding for 2022-23, as well as indicative allocations for 2023-24 and 2024-25. This is the first multi-year settlement since 2017 and it is greatly welcomed by the Committee and something that we have called for over the past few years. The Committee notes the multi-year settlement has been warmly welcomed by the public sector and provided

¹⁸ [Agenda](#) for Plenary, 13 July 2021

¹⁹ [Letter](#) from the Finance Committee to Business Committee and the Minister for Finance and Local Government, 12 July 2021

²⁰ [Letter](#) from the Business Committee to the Finance Committee, 16 July 2021

them with a level of certainty to enable them to plan more effectively over the longer-term. This is particularly the case with those organisations who depend on Welsh Government grant funding and we welcome the Minister's efforts in this area.

24. In addition, we hope that the Welsh Government will return to publishing its next Draft Budget in October to enable the Committee to follow the "normal budget timetable" employed in previous years. Financial scrutiny is more important than ever, with massive public spending to deal with the continuing recovery from the pandemic and huge pressures ahead for Wales. It is paramount that the Committee has the maximum time available to seek views from stakeholders and the public to enable robust scrutiny of the Welsh Government's proposals.

25. In previous years the Committee has held a Plenary debate on the Welsh Government's budget priorities, prior to the publication of the Draft Budget. This year the Welsh Government brought forward its own debate on priorities for 2022-23 given the timing of the establishment of committees following the election. However, we are firmly of the view that this debate should be led by the Finance Committee. In the past, these debates have been informed by the Committee's stakeholder engagement work to identify areas where the Welsh Government should be prioritising spending and it is a very important part of the budget cycle. The Committee intends to hold an engagement event this year to discuss what the Welsh Government's priorities should be for the next budget in 2023-24. The Committee is pleased that the Business Committee has supported our request that this debate should be led by the Finance Committee in the future as has happened in previous years.

Conclusion 1. The Committee welcomes the announcement by the UK Government of its multi-year budget settlement and was pleased to see that the Welsh Government took the opportunity of a three-year Spending Review to give funding certainty to organisations by providing provisional allocations for 2023-24 and 2024-25.

Conclusion 2. The Committee appreciated the views of stakeholders who fed into the scrutiny process but was mindful that many commented that they did not have time to comment on policies and allocations in detail. This was the fourth consecutive year where scrutiny has been truncated.

Conclusion 3. The Committee welcomes the support from the Business Committee that the Plenary debate on the Welsh Government's spending priorities, that takes place prior to the publication of the Draft Budget, should return to being led by the Finance Committee in future years.

Recommendation 1. The Committee recommends that the timetable for scrutinising the Welsh Government's budget returns to the "normal" timetable, which allows 8 sitting weeks, set out in the protocol between the Committee and the Welsh Government for the 2023-24 budget and future years.

Recommendation 2. The Committee recommends that the Welsh Government continues to explore how longer term certainty can be given to organisations relying on grant funding where outcomes and objectives have been demonstrably met.

2. Overview

"I think in the next year or so, while we're still getting over the whole impact of the pandemic, an increase in spending would be a good thing to do. Not indefinitely, but I think we are coming out of quite dark place and a little bit of a spending increase could make a difference."²¹

Lifelong learner

26. The Welsh Government laid its Draft Budget for 2022-23²² (the Draft Budget) on 20 December 2021. It sets out changes to devolved taxation in Wales and also the funding each Welsh Government department will receive. A number of documents were published alongside the Draft Budget, including:

- A Draft Budget narrative, including strategic integrated impact assessment²³
- Budget improvement plan²⁴
- Detailed budget expenditure lines²⁵
- Tax Policy Report²⁶
- A Draft Budget 2022-23 leaflet²⁷
- Chief Economist's report 2020, providing a summary of economic developments and economic and fiscal prospects²⁸
- Distributional Analysis of Devolved Public Spending in Wales aiming to measure the impact of devolved public spending for people in Wales by income²⁹

²¹ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 23

²² Welsh Government, [Draft Budget Proposals 2022-23](#)

²³ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)¹

²⁴ Welsh Government, [Budget improvement plan](#)

²⁵ Welsh Government, [Budget expenditure lines](#)

²⁶ Welsh Government, [Tax Policy Report](#)

²⁷ Welsh Government, [Draft Budget: Leaflet](#)

²⁸ Welsh Government, [Welsh Budget 2021: Chief Economist's report](#)

²⁹ Welsh Government, [Distributional analysis of devolved public spending in Wales 2022 to 2023](#)

- Wales Infrastructure Investment Strategy³⁰ and accompanying Infrastructure Finance Plan³¹
- A ready-reckoner to explain the impact of tax changes³²
- Consultation on local variation of Land Transaction Tax for second homes and holiday lets³³
- The Office of Budget Responsibility (OBR) also published its Welsh taxes outlook - December 2021, forecasts for devolved Welsh taxes along with other documentation³⁴

27. The Minister also published the Provisional Police Settlement for 2022-23 on 16 December³⁵ and the Local Government Settlement for 2022-23, on 21 December³⁶.

UK Government Autumn Budget and Spending Review 2021

28. The levels of funding received by the Welsh Government is largely shaped by the UK Government's Spending Review, published in October 2021.³⁷ While spending priorities have shifted to recovery from COVID-19, the pandemic remains a significant issue. At the accompanying autumn budget the Chancellor of the Exchequer, Rishi Sunak MP, also outlined new fiscal rules, which include:

- to have public sector net debt (excluding the Bank of England) as a percentage of Gross Domestic Product (GDP) falling by the third year of the rolling forecast period;
- a target to balance the current budget by the third year of the rolling forecast period;
- a target to ensure that public sector net investment does not exceed 3 per cent of GDP on average over the rolling forecast period; and

³⁰ Welsh Government, [Wales infrastructure investment strategy 2021](#)

³¹ Welsh Government, [Infrastructure finance plan 2021](#)

³² Welsh Government, [Welsh rates of Income Tax ready reckoner 2022 to 2023](#)

³³ Welsh Government, [Consultation: Second homes: local variation to land transaction tax rates](#)

³⁴ Office for Budget Responsibility, [Welsh taxes outlook](#)

³⁵ Welsh Government, [Written Statement: Provisional Police Settlement 2022-23, 16 December 2021](#)

³⁶ Welsh Government, [Written Statement: Provisional Local Government Settlement 2022-23, 22 December 2021](#)

³⁷ HM Treasury, [Policy paper: Autumn Budget and Spending Review 2021: documents](#)

- a target to ensure that expenditure on welfare is contained within a predetermined cap and margin set by the Treasury.³⁸

29. Meeting the UK Government's fiscal targets and increasing departmental spending is predicated on increasing the tax to GDP ratio to 36 per cent by 2026-27, up from 33 per cent in 2019-20 and, according to Wales Fiscal Analysis (WFA) "its highest level since the 1950s".³⁹ This is the result of three tax increases announced this year:

- corporation tax rate increases;
- income tax threshold freezes; and
- the health and social care levy.

30. The Spending Review sets out the unadjusted Welsh block grant from Treasury through to 2024-25. This showed a rise in combined revenue and capital from a £15.9 billion baseline in 2021-22 to £17.7 billion in 2022-23, followed by modest increases in subsequent years up to 2024-25.⁴⁰ These figures will be adjusted by the Block Grant Adjustment mechanism, based on OBR forecasts and any decisions regarding devolved taxes and borrowing may mean figures in the Welsh Government budget are slightly different.

31. In their joint statement issued shortly after the Spending Review was announced, the Chancellor and the Secretary of State for Wales, Simon Hart MP, said the additional funding:

*"... means the Welsh Government is well-funded to deliver all their devolved responsibilities while the people in Wales will also benefit from this Government's commitment to levelling up opportunity."*⁴¹

32. However, the UK budget received a muted response from the Minister who described the outlook for living standards and the economy as "mediocre".⁴² The Minister told the Committee that "budget preparations continue to respond to a really distinct set of challenges that are building on the unprecedented circumstances of the last few years", adding that:

³⁸ HM Treasury, [Policy paper: Autumn Budget and Spending Review 2021: documents](#)

³⁹ Wales Fiscal Analysis, [Welsh Budget Outlook 2021](#), December 2021, page 6

⁴⁰ HM Treasury, [Autumn Budget and Spending Review 2021: A Stronger Economy for the British People](#), 28 October 2021, Page 182

⁴¹ UK Government, [News story: Record £18 billion a year for Wales in Budget](#), 27 October 2021

⁴² Welsh Government, [Written Statement: The UK Government Spending Review and Autumn Budget 2021](#), 28 October 2021

*"These preparations have really been shaped and impacted by the ongoing nature of the pandemic and the necessary response, and also, of course, the repercussions of the United Kingdom's exit from the European Union ... So, that's an additional challenge for us, as is the UK Government's decision not to acknowledge the full funding needs relating to the remediation of coal tips and border infrastructure. Those are adding further pressures on our Welsh Government settlement."*⁴³

33. Despite these issues, the Chief Economist's report noted that, as a result of certain additional discretionary spending at a UK level, the backdrop for the Welsh Government's budget is "less bleak" than previously expected,⁴⁴ a sentiment echoed by WFA:

*"Previous plans have been very, very difficult and now the Welsh Government is not only able to meet many of its real spending pressures, but it's actually able to expand some services, like the free school meals offer."*⁴⁵

34. The Institute for Fiscal Studies (IFS) added that the UK Government has "significant headroom" against its fiscal rules and that "the [UK] Government could actually substantially increase spending or cut taxes and still meet the rules yet"⁴⁶. The IFS stated that, in addition to the increase in the block grant "higher spend by the UK Government means more coming through the Barnett formula for Wales than you might have expected".⁴⁷

Welsh Government Draft Budget 2022-23

35. The total Welsh budget for 2022-23 is over £24 billion. Of this, £23.7 billion is allocated to Welsh Government departments. Of the allocated budget:

- £17.8 billion is cash revenue (or resource), £1.0 billion non-cash;
- £2.6 billion general capital (no financial transactions allocations have been made to date);
- £2.3 billion is annually managed expenditure (AME).

⁴³ Welsh Government, [Written Statement: The UK Government Spending Review and Autumn Budget 2021](#), 28 October 2021

⁴⁴ Welsh Government, [Welsh Budget 2021: Chief Economist's report](#), December 2021, page 33

⁴⁵ Finance Committee, RoP, 14 January 2022, paragraph 128

⁴⁶ Finance Committee, RoP, 14 January 2022, paragraph 34

⁴⁷ Finance Committee, RoP, 14 January 2022, paragraphs 88-90

36. Based on the Welsh Government's recalculated baselines, that exclude temporary COVID-19 allocations, combined revenue and capital allocations have increased by £2.6 billion compared to 2021-22. Funding for other Welsh Government services could increase by 2.7 per cent in real terms in 2022-23 but would fall in real terms in following years. For example, indicative budget increases in 2023-24 and 2024-25 are far smaller, with WFA estimating that the day-to-day budget in 2024-25 will be £2.8 billion lower than if spending had been increased in line with economic growth since 2010-11.⁴⁸

37. Outside of the NHS, spending will remain below pre-austerity levels, despite the projected growth over the coming three years. However, in contrast to much of the last decade, passing on consequential from additional NHS spending in England will still allow increases in funding for all other areas of spending.⁴⁹ According to the WFA, this represents a step change from previous budgets, concluding that the Draft Budget is "very different from the austerity budgets that we're all very familiar with".⁵⁰

38. The response to the Draft Budget from stakeholders was generally positive. The Bevan Foundation stated that "I'm probably more positive about this budget than most of the previous ones that I've talked to this committee about".⁵¹ The Future Generations Commissioner (the Commissioner) also felt that "there are a number of positives to flag in terms of the budget", stating that:

"We've also seen a distinct improvement this year in terms of the connections in the budget narrative between what will be spent in the budget and the well-being objectives that the Welsh Government have set."⁵²

Prioritisation

39. When asked about the overarching principles underpinning prioritisation of funding within this Draft Budget, the Minister highlighted that budget preparations had been shaped and impacted by the pandemic and repercussions of the UK exit from the EU as well as tackling inequality and the need to respond to the climate and nature crisis. Also, that the Welsh Government had been focused on a vision for a stronger, greener, fairer Wales, with tax

⁴⁸ Wales Fiscal Analysis, [Welsh Budget Outlook 2021](#), December 2021, page 6

⁴⁹ Wales Fiscal Analysis, [Welsh Budget Outlook 2021](#), December 2021, page 25

⁵⁰ Finance Committee, RoP, 14 January 2022, paragraph 134

⁵¹ Finance Committee, RoP, 19 January 2022, paragraph 9

⁵² Finance Committee, RoP, 19 January 2022, paragraph 9

principles to ensure taxes are simple, clear, fair and enable the Government to respond to responsibilities under the Well-being of Future Generations (Wales) Act 2015 (the WFG Act).⁵³

40. The Minister pointed to the “good settlements that we’ve been able to offer both health and local government”. The Minister told the Committee that the general uplift in the settlement allowed the Welsh Government to look at making additional allocations in certain areas, but that this process remained challenging and required the need “to temper ambitions in some areas, in terms of cutting our cloth accordingly”.⁵⁴

41. The Minister also told the Committee that the Welsh Government had adopted different approaches this year, using the zero-base review of capital budgets as an example:

“Another example of where we’ve done this in a particularly focused way would be with the zero-based review of our capital budgets, where we’ve built those budgets from the ground up, very much in line with our Wales infrastructure investment strategy and the focus there on achieving net zero.”⁵⁵

42. The Wales Tourism Alliance (WTA) told the Committee that the Welsh Government should improve the way in which individual budget lines are presented and “have sub-budgets that are accessible to the public” so that organisations could look in more depth at what is provided. (This is covered in more detail in chapter 6)

Departmental Allocations

43. The infographic below sets out a summary of the revenue allocations by portfolio and changes in DEL between the Final Budget for 2021-22 (revised) and the Draft Budget 2022-23. The Final Budget figures for 2021-22 include resource and capital allocations but exclude temporary COVID-19 funding and minor baseline adjustments. As noted in the Draft Budget Narrative, allocations for financial transactions capital have not been set out: they will be made as part of the Welsh Government’s 2022-23 Final Budget preparations.⁵⁶

44. While all MEGs show an increase, the largest increase in absolute terms is for the Health and Social Services allocation (£966 million), with the largest increase in percentage terms shown for the Education and the Welsh Language allocation (32.6 per cent). This approach is in

⁵³ Finance Committee, RoP, 22 December 2021, paragraph 20

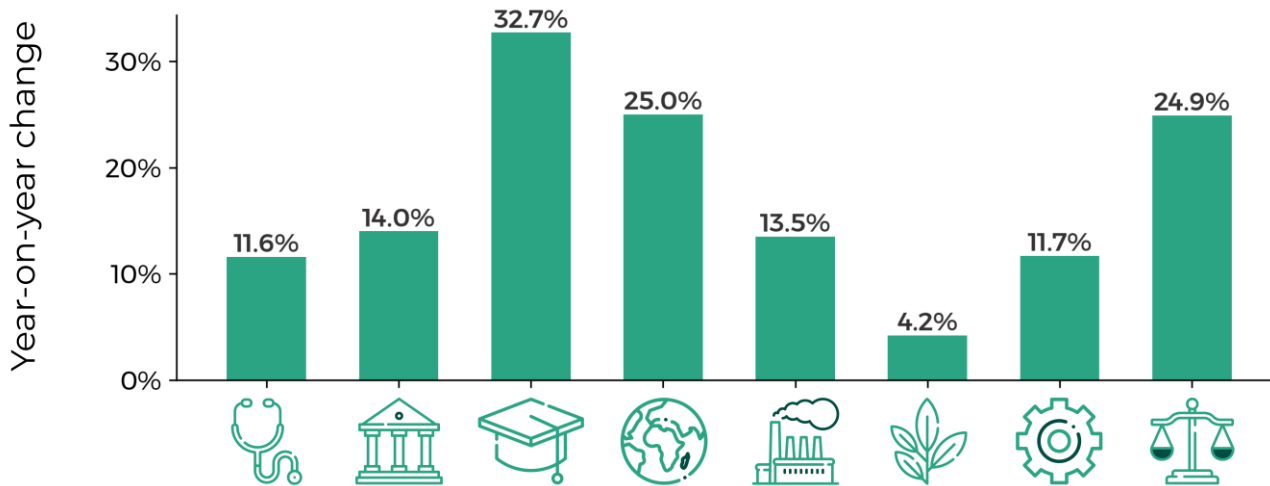
⁵⁴ Finance Committee, RoP, 21 January 2022, paragraph 23

⁵⁵ Finance Committee, RoP, 21 January 2022, paragraph 28

⁵⁶ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 4









line with evidence gathered from the Committee's own engagement work which found that education and health and social care were the two areas that were most heavily selected by participants to receive more funding. This was followed by climate change which, in the majority of the focus groups, was prioritised over the economy.⁵⁷

Changes between the Revenue* Departmental Expenditure Limits in the Draft Budget 2022-23, from the Final Budget 2021-22 (restated to enable comparison)



*Revenue allocations consist of day to day running costs such as staff pay and the purchase of consumable goods and services

⁵⁷ Senedd Cymru, [Citizens Engagement Report](#), December 2021

	Revenue* by portfolio	Change 2021-22 Final Budget (revised baseline) to 2022-23 Draft Budget
 Health and Social Services	£9,802m	£1,019m 11.6%
 Finance and Local Government**	£4,457m	£546m 14.0%
 Education and the Welsh Language***	£2,176m	£537m 32.7%
 Climate Change	£1,180m	£236m 25.0%
 Economy	£402m	£48m 13.5%
 Rural Affairs	£356m	£14m 4.2%
 Central Services and Administration	£344m	£36m 11.7%
 Social Justice	£110m	£22m 24.9%

**Excludes around £1 billion non-domestic rates income.

***Includes allocation of £459 million of non-fiscal revenue due to student loans.

Figures are rounded. Refer to the Welsh Government Draft Budget 2022-23 for exact figures.

Well-being of Future Generation (Wales) Act 2015

45. The WFG Act⁵⁸ aims to put sustainable development at the centre of decision-making, and is designed to ensure actions meet the needs of the present, without compromising the ability of future generations to meet their own needs. The WFG Act places a well-being duty on certain public bodies (including local authorities and the Welsh Government) to set and publish objectives to show how they will achieve the vision for Wales set out in the well-being goals.

⁵⁸ Well-being of Future Generations (Wales) Act 2015

- 46.** This is the first Draft Budget to be published since publication of the Welsh Government's new well-being statement, which accompanied the Programme for Government following the Senedd election in 2021.⁵⁹
- 47.** The Welsh Government aims to align allocations in the Draft Budget with the WFG Act, noting that the well-being objectives "lie at the heart of the Programme for Government".⁶⁰
- 48.** The Commissioner observed "a distinct improvement this year" in terms of the connection in the budget narrative between spending and the Welsh Government's well-being objectives. She also flagged areas requiring more work, suggesting that it is not clear how the Welsh Government is using future trends, prevention and involvement - three of the five ways of working - in its budget:

"That's not to say that they haven't involved people, but it's not clear from what they've presented how that's happened. Members who were in the last Senedd term might recall that the Welsh Government actually piloted a participatory budgeting approach and it wasn't actually that successful at the kind of macro level of the Welsh Government budget. Participatory budgeting tends to be more successful with local initiatives and so on. But nevertheless there is still that involvement process that they need to meet. Prevention is only mentioned seven times in the budget narrative and that's relating to mental health, homelessness and pollution. There's also a case study on looked-after children and preventative budgeting. I think we'd like to see a much fuller analysis of how spend in the budget is preventative."⁶¹

Strategic Integrated Impact Assessment

- 49.** The Draft Budget narrative includes a Strategic Integrated Impact Assessment (SIIA), which the Minister said provides an overview "of the strategic evidence that has informed our spending decisions"⁶². As was the case in 2021-22, the SIIA indicates that the pandemic has impacted on the Welsh Government's ability to draw on official sources of evidence, adding to the complexity of interpreting longer term progress towards the well-being goals.⁶³

⁵⁹ Welsh Government, [Programme for Government 2021 to 2026: Well-being statement](#)

⁶⁰ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 3](#)

⁶¹ Finance Committee, RoP, 19 January 2022, paragraph 10

⁶² Finance Committee, RoP, 22 December 2021, paragraph 135

⁶³ Welsh Government, [Draft Budget 2022-23: Annex D](#)

50. Chwarae Teg questioned whether the SIIA for the 2022-23 budget was fit for purpose, due to the "limited engagement with equalities data or analysis to explain the rationale behind the allocation of resources".⁶⁴

51. The Bevan Foundation said the SIIA "gives some information" and observed that there was "more in the narrative in this budget than there has been in previous years", advocating an approach that looks at the distributional impact of public spending decisions.⁶⁵

52. The Commissioner did not think the SIIA was "particularly good", adding:

*"...there was a summary of statistics and facts with little analysis of how those spending decisions will impact different demographics in Wales, and different demographics are considered, but in silos, so they're overlooking the intersectionality issues there. So, an example of this is the inclusion of information relating to the ageing population. That made links with changes to and increases in the need for health and social care, but it doesn't make links with the likely increase in the number of unpaid carers, who will probably be women. So, you can see that we've looked at one section and identified one trend, but it doesn't then look at that kind of intersectionality."*⁶⁶

53. In relation to calls for a distributional analysis of spending decisions, the Minister indicated that this was being explored as part of the Budget Improvement Plan and is "the start of a journey", with analysis so far focusing on the largest areas of spend. She pointed out that this analysis looks at how funding is distributed but does not currently identify the outcomes for individuals, highlighting the importance of also evaluating programmes.⁶⁷

Engagement and Budget Improvement

54. The Draft Budget narrative reported that the Welsh Government had "listened to ideas from across the breadth of public life in Wales", which included its "partners in public services, business, trade unions and in the third sector".⁶⁸

⁶⁴ Finance Committee, Consultation response: [Chwarae Teg](#)

⁶⁵ Finance Committee, RoP, 19 January 2022, paragraph 90

⁶⁶ Finance Committee, RoP, 19 January 2022, paragraph 56

⁶⁷ Finance Committee, RoP, 21 January 2022, paragraph 182

⁶⁸ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales: Foreword](#)

55. The Minister told the Committee how she intends to improve engagement, as outlined in the Budget Improvement Plan and through the establishment of a Budget Impact and Improvement Advisory Group.⁶⁹

56. The Budget Improvement Plan reaffirms the Welsh Government's commitment to a gender focused approach to budgeting, with two new pilots to start in early 2022. It outlines a plan to engage with other Governments, including Scotland, New Zealand, Iceland and Canada, to learn from their experiences of gender budgeting. The Welsh Government also plans to liaise with the Welsh Women's Budget Group to develop a new approach to gender budgeting.⁷⁰

57. Some witnesses told the Committee that they were happy with the way that the Welsh Government had engaged with their sectors on the budget. The Bevan Foundation welcomed the Welsh Government's work in this area:

*"We're not directly involved in the budget process, but we have had contact with the budget improvement team who have helped to spread the word about the budget process, and I think it's really important that the wider world understands just how it is that expenditure decisions are made and the points at which they can influence it ... I think the very fact that there is a budget improvement plan and that there's a commitment to engagement is really welcome."*⁷¹

58. However, in its written evidence, the WTA emphasised that engagement on the budget between Welsh Government and the industry has declined, which has led to businesses disengaging from the process.⁷² Consequently, the WTA would like to see a commitment in the 2022-23 draft budget to fund an "independent efficiency and effectiveness review of the current [engagement] structure".⁷³

59. Although Chwarae Teg welcomed the opportunity to inform the Committee's scrutiny, it expressed disappointment at the "limited opportunity for civil society to engage with the scrutiny of the actual draft budget" and "continue to be concerned about the relative importance of equalities in the budget setting process".⁷⁴ It recommends adopting a budget

⁶⁹ Finance Committee, RoP, 21 January 2022, paragraph 11

⁷⁰ Welsh Government, [Budget improvement plan, page 9](#)

⁷¹ Finance Committee, RoP, 19 January 2022, paragraph 87

⁷² Finance Committee, Consultation response: [Wales Tourism Alliance](#)

⁷³ Finance Committee, Consultation response: [Wales Tourism Alliance](#)

⁷⁴ Finance Committee, Consultation response: [Chwarae Teg](#)

scrutiny process and timeline similar to that of the Scottish Government, which it believes “allows more time for responses from civil society”. It also called for the mainstreaming of equalities budgeting.⁷⁵

60. Similar views were expressed by those who took part in the Committee's focus groups, with many participants suggesting there was a need for a stronger and genuine channel of communication between the public and the Welsh Government to allow Welsh citizens to express what types of projects and programmes would support them.⁷⁶

Committee View

61. The Committee welcomes the increases in the Welsh block grant through to 2024-25 and shares the views of stakeholders that the settlement for 2022-23 is less bleak than previously expected. As a result, this is a very different Draft Budget compared to previous years in that it enables the Welsh Government to increase budget allocations across all expenditure groups and puts solid foundations in place for future years. Participants in focus groups held as part of the Committee's consultation on the budget told us that an increase in spending could make all the difference as we recover from the pandemic, and the Committee is pleased that those views align with the Welsh Government's priorities.

62. However, it is clear that the economic impact of the pandemic, particularly in light of the Omicron variant, as well as the consequences of the UK leaving the EU, continues to be felt. Furthermore, evidence from witnesses suggests that the fiscal climate will put a substantial squeeze on household income in Wales which will hit poorer areas hard. The Committee also notes that, whilst the Draft Budget for 2022-23 includes significant increases, the increases in 2023-24 and 2024-25 are far smaller.

63. The Committee appreciates the efforts of the Welsh Government in engaging with stakeholders and in developing publications to inform the understanding of the budget and the economic outlook in Wales, particularly the Chief Economist and OBR reports as well as the Distributional Analysis of Devolved Public Spending in Wales.

64. Demonstrating the impact of the budget is crucial to ensure meaningful engagement with those sectors and organisations affected, and in providing an opportunity for them to inform and influence budgetary decisions. Although the Committee notes the number of helpful documents published alongside the Draft Budget it believes that more could be done by the Welsh Government to explain how its budgetary decisions are linked with policy evaluation on

⁷⁵ Finance Committee, Consultation response: [Chwarae Teg](#)

⁷⁶ Senedd Cymru, [Citizens Engagement Report](#), December 2021

the effectiveness of spend. This would also increase the public and Senedd's ability to hold the Welsh Government's budget plans to account.

65. The Committee was pleased to hear details regarding the Minister's budget improvement plans, particularly the establishment of a new Budget Improvement Impact Advisory Group and welcomes the Minister's intention to share details regarding the remit, membership and timescales relating to the group in due course. However, the Committee believes that decisions on these issues, particularly those relating to financial procedures in the Senedd, should not be carried out by the government alone and calls on the Minister to provide further details on how the advisory group intends to engage with the Committee, particularly in relation to matters that relate to the Senedd's budget protocol⁷⁷ and in developing new financial procedures. Furthermore, the Committee would like to see the Welsh Government's budget improvement work relating to gender budgeting widened and incorporated into general policy and spending decision-making across portfolios. These areas are of significant interest and the Committee is looking forward to working with the Minister as we consider how budget transparency and scrutiny in the Senedd can be improved.

Conclusion 4. The Committee notes that the allocations provided over the three-year period has given the Welsh Government the opportunity to provide significant increases in revenue funding in 2022-23, however, increases in 2023-24 and 2024-25 are more modest.

Recommendation 3. The Committee recommends that consideration is given to how budgetary information is presented so that it is linked to outputs and impacts in order to help the Welsh Government's own evaluation as well as to increase the public and Senedd's ability to hold the Welsh Government's budget plans to account.

Recommendation 4. The Committee welcomes the information contained in the Chief Economist's and the Office for Budget Responsibility reports and the extended Distributional Analysis of Devolved Public Spending in Wales, but recommends that the distributional analysis is further developed in future years so that it is linked with policy evaluation on the effectiveness of spend.

Recommendation 5. The Committee calls on the Welsh Government to publish details of the remit and membership of the Budget Impact and Improvement Advisory Group and recommends that the Welsh Government considers how the Committee could be involved in its work.

⁷⁷ Finance Committee (Fifth Senedd), [The Budget Process Protocol between the Senedd and the Welsh Government: 21 June 2017](#)

Recommendation 6. The Committee recommends that the Welsh Government's gender sensitive approach to budgeting is widened beyond small discrete pilot projects and is incorporated into general policy and spending decision-making across portfolios, with the aim that gender equality considerations are taken systematically into account in tax and spending decisions which should be evidenced transparently in future budgets.

3. Tax, Borrowing and Forecasting

*"The risk of increased taxation is you actually end up with people spending less because they have less. I think to get out of the situation we are in we need to borrow and not tax."*⁷⁸

Business Owner

Economic Outlook

66. The OBR⁷⁹ recently revised its forecast of real GDP upwards for the UK, to recover its pre-pandemic (January 2020) level in December 2021 and is forecast to grow by 6.5 per cent in 2021 and 6.0 per cent in 2022, before returning to more historically normal rates of growth in future years.

67. The Chief Economist's report, which accompanies the Draft Budget, attributes this largely to "the success of policies put in place by UK and devolved Governments" but suggests this still reflects an impact of £500 per head on average, each year going forward.⁸⁰

68. Although the OBR emphasised that its latest forecasts had not taken the impact of the Omicron variant into account,⁸¹ it noted that the economy had adapted positively to the impact of the pandemic on the whole⁸².

69. The OBR states that key assumptions around the impact of the UK leaving the EU are in line with expectations. It estimates a 15 per cent reduction in trade intensity as a result of leaving the EU and a 4 per cent long-term loss of potential productivity.

70. Issues going forward will be that UK productivity growth has been poor and is relatively low in Wales. Wales will also face more acute demographic pressures due to the age profile of the population. In the short-term, household income will be particularly impacted upon by fuel costs, general inflation, planned tax rises and the reversal of the £20 uplift to Universal Credit. According to the Office for National Statistics (ONS), consumer price inflation (CPI) rose by 5.4

⁷⁸ Senedd Cymru, [Citizens Engagement Report](#), December 2021

⁷⁹ The Office for Budget Responsibility was established in 2010 to provide independent analysis of the UK's public finances and has been providing independent Welsh tax revenue forecasts for the Welsh Government since 2020-21.

⁸⁰ Welsh Government, [Welsh Budget 2021: Chief Economist's report](#)

⁸¹ Finance Committee, RoP, 14 January 2022, paragraph 11

⁸² Finance Committee, RoP, 14 January 2022, paragraph 69

per cent in the 12 months to December 2021,⁸³ the “highest rate seen in the UK for three decades”.⁸⁴

71. The Chief Economist’s report outlines that growth in living standards is forecast to be “particularly sluggish”⁸⁵ over the next two years, as inflation and tax increases erode the real value of disposable incomes, and welfare cuts reduce the incomes of some groups, particularly those who are not in work. WFA has suggested that the outlook for household finances remains “challenging”.⁸⁶ With the squeeze on household incomes likely to be felt particularly acutely due to the combination of price increases, planned tax rises, as well as the reversal of the £20 a week uplift to Universal Credit. WFA notes:

“Real disposable household income – which measures how much households have available to spend or save after adjusting for the impact of inflation – is projected to fall between the second and fourth quarters of 2021. And between 2021 and 2027, real household income is forecast to grow by less than 1% each year on average, well below the long-run average of 2.6%.”⁸⁷

72. WFA also told the Committee that the rise in energy costs would be felt particularly acutely at the bottom end of the income distribution “because we know that poorer households spend a larger share of their income on energy costs than their richer counterparts”.⁸⁸

73. Further analysis of the Draft Budget’s impact on household income and poverty is included in chapter 8.

Funding Available to the Welsh Government

Funding Flexibilities

74. The Draft Budget notes that the Welsh Government continues to push the UK Government for “broader flexibilities that we need to manage our budget in the most effective way for the people of Wales”.⁸⁹ This includes continuing to press for increases to both the annual and

⁸³ Office for National Statistics, [Consumer price inflation](#), December 2021

⁸⁴ Office for Budget Responsibility, [Welsh taxes outlook](#), December 2021

⁸⁵ Welsh Government, [Welsh Budget 2021: Chief Economist’s report](#), page 23

⁸⁶ Wales Fiscal Analysis, [Welsh Budget Outlook 2021](#), December 2021, page 5

⁸⁷ Wales Fiscal Analysis, [Welsh Budget Outlook 2021](#), December 2021, page 10

⁸⁸ Finance Committee, RoP, 14 January 2022, paragraph 102

⁸⁹ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

aggregate limits in terms of capital borrowing, as well as for greater year-end carry forward and drawdown flexibilities within the Wales reserve.

75. The Minister expects current in-year reserves will be within agreed carry-forward limits. However, with a UK fiscal event taking place in March 2022, there is a possibility that positive or negative Barnett consequentials could take funding outside limits. The Welsh Government suggested that the Treasury should change current rules so that funding provided toward the end of a financial year would not need to be spent that within that financial year. To address this, the Minister told the Committee that the Welsh Government is seeking a full additional financial year to spend any such allocations as “that would help us a great deal with our budget management”.⁹⁰

76. The Minister added that this approach was necessary in practice due to the size of the Wales reserve:

“... if the UK Government came forward with even further allocations in respect of consequentials within this financial year, then if they come very late, as they did last year, that does present us with challenges, because the size of the Wales reserve that we’re able to use to manage the money across years is very small.”⁹¹

77. The IFS has suggested that drawdown limits on the Scotland and Wales Reserves should be enhanced and potentially abolished, and that consideration should be given to increasing the total amount that can be held in reserves and, “at the very least, existing limits should be indexed rather than fixed in cash terms”.⁹² WFA added that, if the UK Government is making very late decisions on consequentials for the Welsh Government’s funding, then “these funds should be rolled forward into future years.”⁹³

78. The Minister reassured the committee that the February Supplementary Budget 2021-22 will allocate reserves to below the carry forward limits. UK Supplementary Estimates could potentially provide additional consequentials late in the financial year and the UK Spring forecast statement is due on 23 March 2022.

⁹⁰ Finance Committee, RoP, 22 December 2021, paragraph 26

⁹¹ Finance Committee, RoP, 22 December 2021, paragraph 33

⁹² Institute of Fiscal Studies, [Options for reforming the devolved fiscal frameworks post-pandemic](#), 21 December 2021

⁹³ Finance Committee, RoP, 14 January 2022, paragraph 178

79. In terms of transparency of funding, the Committee was told that, as consequentials arise from net changes in UK departmental budgets, it is not always possible to link funding to specific UK programme announcements. The Minister told the Committee that "I would say that transparency continues to be a challenge, to be polite, in respect of relationships with the UK Government", with the Director of the Welsh Treasury adding that "the system we've got has some merits, but transparency is not one of them".⁹⁴

Funding Capital Strategy and Management of Reserves

80. The Minister told the Committee that the Welsh Government is changing the way it budgets for and uses reserves and borrowing from 2022-23 onwards. Unlike previous years, the draft budget outlines that the Welsh Government is not initially looking to utilise the maximum drawdown of £125 million from the Wales Reserve in 2022-23.⁹⁵ Previous budgets have included planned borrowing, however commitments have then been funded in-year using additional consequentials or departmental underspends.

81. Plans now include "over-programming" of capital, which will be met by either additional consequentials, use of reserves, borrowing, underspends or managing down spending within the budget.⁹⁶ The Wales Infrastructure Investment Strategy 2021⁹⁷ and Infrastructure Finance Plan 2021⁹⁸ set out the prioritisation and funding for investment going forward. The Minister also explained how the new approach would work in practice, stating that "from 2023-24 the Wales reserve will be used to manage the in-year financial position without holding any unallocated DEL, with any draw-downs included within the appropriate supplementary budget".⁹⁹

82. The Minister told the Committee that this new approach to using reserves and borrowing "helps us when formulating our plans to maximise the benefit of all the funding available to us".¹⁰⁰ In commenting on this new approach, WFA stated that maximising the available funding in this way "makes sense", going on to say:

⁹⁴ Finance Committee, RoP, 22 December 2021, paragraphs 47-48

⁹⁵ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 13](#)

⁹⁶ Finance Committee, RoP, 22 December 2021, paragraph 55

⁹⁷ Welsh Government, [Wales infrastructure investment strategy 2021](#)

⁹⁸ Welsh Government, [Infrastructure finance plan 2021](#)

⁹⁹ Finance Committee, RoP, 21 January 2022, paragraph 33

¹⁰⁰ Finance Committee, RoP, 22 December 2021, paragraph 40

"If this was the ongoing strategy, it would be useful to have more regular updates on the funding contained in the Wales reserve, if that's going to be a key element in this strategy."¹⁰¹

Capital Funding

83. The Welsh Government describes a "constrained outlook"¹⁰² for capital funding in the Draft Budget, with the narrative adding that:

"Overall capital funding falls in cash terms in each year of the Spending Review period and is 11 per cent lower in 2024-25 than in the current year. The Welsh Government's budget in 2024-25 will be nearly £3bn lower than if it had increased in line with the economy since 2010-11. This presents significant challenges for us."¹⁰³

84. WFA suggests¹⁰⁴ that the Welsh Government's core capital block grant will increase in nominal terms in 2022-23, driven by increases in financial transactions funding which reduces in subsequent years. However, the capital block grant will fall in real terms during the Spending Review period. WFA added that recovering from COVID-19 will likely require significant additional capital investment in the NHS, while the multi-year capital settlement will allow the Welsh Government to set out investments to tackle climate change. However, its analysis suggests that increasing capital spending in both these areas over coming years will mean difficult choices for all other areas of capital spending.

85. The Minister told the Committee that the capital budget has been "disappointing" and that she would expect the UK Government to have more of a say on capital spending in coming years:

"... one almost imagines that the UK Government will have more to say on capital across the years ahead, because, as I previously said, we're 11 per cent lower by the end of this period than we are at the moment in terms of the capital allocation. So, it seems—. With all of the importance of tackling the climate emergency, lots of our levers and ability there are within the capital

¹⁰¹ Finance Committee, RoP, 14 January 2022, paragraphs 171-172

¹⁰² Finance Committee, RoP, 14 January 2022, paragraph 134

¹⁰³ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page ii](#)

¹⁰⁴ Wales Fiscal Analysis, [Welsh Budget Outlook 2021](#), December 2021, page 6

sphere; it almost feels that the UK Government will have more to say on capital in the period ahead".¹⁰⁵

86. The IFS added that the Draft Budget "might mean difficult choices in certain areas"¹⁰⁶, adding that while capital budgets would be relatively higher than it was before the pandemic. WFA also believed that it is "on the capital side where we expect the outlook to be a bit more challenging" and told the Committee that:

"... there is no increase in the NHS capital budget in the draft budget itself, and that's perhaps indicative of the general squeeze on the Welsh Government's overall capital allocations in the next three years, as well as perhaps its decision to prioritise other areas, like climate change, which will also demand additional funding."¹⁰⁷

87. To plug this gap, the Welsh Government intends to use the maximum £150 million borrowing available to it, noting "the limited capital settlement that Wales received from the 2021 Spending Review means that we must maximise the levers at our disposal in order to deliver our ambitious capital investments"¹⁰⁸. On this point, the Minister told the Committee that:

"... the limited capital settlement that we received from the UK Government in the spending review means that we have to maximise the levers at our disposal in order to deliver on our capital investments. So, again, this is a new strategy this year. We'll be using an over-allocation of general capital, which will enable us to further stretch every available pound of capital funding, helping us to manage and respond to any underspends that emerge during the financial year. So, the approach to reserves is different within this draft budget, as is the approach to capital allocations."¹⁰⁹

88. The Committee also heard from the IFS which suggested that the Welsh Government "could shift some of the resource funding to capital if it wanted to"¹¹⁰. When asked whether this approach was a consideration, the Minister confirmed that switching revenue to capital for suitable projects had been used "extensively" by the Welsh Government, adding that:

¹⁰⁵ Finance Committee, RoP, 22 December 2021, paragraph 55

¹⁰⁶ Finance Committee, RoP, 14 January 2022, paragraph 132

¹⁰⁷ Finance Committee, RoP, 14 January 2022, paragraph 136

¹⁰⁸ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 13](#)

¹⁰⁹ Finance Committee, RoP, 22 December 2021, paragraph 53

¹¹⁰ Finance Committee, RoP, 14 January 2022, paragraph 139

"We've done it in 2020/21 and 2021/22. One of the things I'm always mindful of when we do this is to ensure that we're also thinking about the revenue implications of any capital investment".¹¹¹

Financial Transactions Capital

89. Financial Transactions Capital (FTC) relates to a part of the draft budget that can only be used for loans and equity investments to third parties, for example to support businesses and the housing sector, with funding usually needing to be repaid to the Treasury.

90. Allocations for this fund have not been made in the draft budget but are expected to be made in the final budget, with £265 million currently shown as a reserve. The Minister told the Committee that:

"I can confirm it is still my intention to make the financial transactions capital allocations at the final budget, and an exercise is currently underway across Government to identify those allocations and where they'll be made, so until that exercise is complete, I don't want to pre-judge what decisions might be arrived at."¹¹²

91. When asked whether their members intended to maximise the support available to business through FTC, both the CBI and WRC told the Committee that they were not aware of its existence.¹¹³ However, the FSB suggested that FTC could be used to drive "positive environmental benefit(s)" by offering support for businesses to move to electric fleets, electric vehicles or any other sustainable modes of transport without them waiting for demand to increase first.¹¹⁴

92. In response, the Minister noted that highlighting the availability of FTC to interested parties is really important and that she would "look for additional ways to promote the funds if needed".¹¹⁵ The Minister also provided an update to the Committee on the use of financial transactions capital on 26 January 2021.¹¹⁶

¹¹¹ Finance Committee, RoP, 21 January 2022, paragraph 131

¹¹² Finance Committee, RoP, 21 January 2022, paragraph 25

¹¹³ Finance Committee, RoP, 19 January 2022, paragraphs 281-283

¹¹⁴ Finance Committee, RoP, 19 January 2022, paragraph 296

¹¹⁵ Finance Committee, RoP, 19 January 2022, paragraph 29

¹¹⁶ [Letter](#) from the Minister for Finance and Local Government to Mike Hedges MS, 26 January 2021

Review of Intergovernmental Relations

93. On 13 January 2022, the UK Government published the conclusions of a review of intergovernmental relations, stating that all four administrations have agreed to work under these new arrangements.¹¹⁷ The review sets out how finance ministers in each jurisdiction can “escalate disagreements as a dispute” and how they will be considered. The document states that:

“... all parties acknowledge that policy decisions on funding are strictly reserved to Treasury ministers, with engagement with the devolved administrations as appropriate.”¹¹⁸

94. The document adds that disputes raised in relation to the Welsh and Scottish Governments’ fiscal frameworks will continue to be managed through the “arrangements set out in their respective fiscal agreements”. When asked whether this review will have any positive impacts on the way funding disagreements are discussed and resolved between the UK Government and Treasury, the Minister stated that:

“I would hope that the new mechanisms for raising disputes will provide a new way in which we can get some fair play from the UK Government.”¹¹⁹

Devolved Taxes

95. The Minister published the Welsh Government’s Tax Policy Framework¹²⁰ together with the Tax Policy Work Plan 2021-2026¹²¹ in November 2021. This was followed by the Welsh Tax Policy Report which was published alongside the draft budget on 20 December 2021 that sets out annual progress on delivering its tax policy priorities.¹²²

96. The Minister explained the Welsh Government’s approach to tax policy as follows:

“... we’ve got our well-established tax principles that underpin our decision making in respect of tax, and that’s about ensuring that taxes here in Wales are simple, clear, fair and that they also enable us to respond to our responsibilities under the future generations Act and so on. So, the principles

¹¹⁷ UK Government, [Policy paper: Review of intergovernmental relations](#), 13 January 2022

¹¹⁸ UK Government, [Policy paper: Review of intergovernmental relations](#), 13 January 2022

¹¹⁹ Finance Committee, RoP, 19 January 2022, paragraph 53

¹²⁰ Welsh Government, [Tax policy framework update](#)

¹²¹ Welsh Government, [Tax policy work plan 2021 to 2026](#)

¹²² Welsh Government, [Tax Policy Report](#)

*that underpin the tax element are very in tune, if you like, with our decision-making principles in respect of the spending.*¹²³

97. The issue of tax featured heavily in the Committee's citizens engagement work. Many participants wanted a fairer tax system with a particular focus on taxing bigger companies or richer members of society.¹²⁴ Many groups also highlighted a need to maintain spending but spend smarter and have better checks on accountability to stop funds being "wasted". Participants also asked for much more transparency of funding, including introducing a tax specifically ringfenced for the NHS as that would assure people about where those extra funds were going.¹²⁵

Tax Forecasts

98. The OBR's latest Welsh taxes outlook¹²⁶ was published alongside the Welsh Government's Draft Budget for 2022-23 on 20 December 2021 and sets out the OBR's forecast for each of the devolved Welsh taxes:

- Welsh rates of income tax (WRIT);
- Land transaction tax (LTT); and
- Landfill disposal tax (LDT).

99. WFA suggested that all the devolved taxes will have a positive effect on the Welsh budget over coming years given that forecast revenues are growing faster than the corresponding forecasts for Block Grant Adjustments. It states that, of the £2.9 billion boost to day-to-day spending, "£185 million of that is to do with the improved outlook for devolved revenues".¹²⁷

100. The WFA also noted an advantage for Wales compared to Scotland in terms of forecasting given that, as OBR provide projections for the tax bases in Wales, England and Northern Ireland, a forecast error will hopefully be offset by an equal error on the other side. This is less likely to be the case in Scotland where there is an independent Scottish Fiscal Commission with a different forecasting approach to different timescales.¹²⁸

¹²³ Finance Committee, RoP, 22 December 2021, paragraph 20

¹²⁴ Senedd Cymru, [Citizens Engagement Report](#), December 2021

¹²⁵ Senedd Cymru, [Citizens Engagement Report](#), December 2021

¹²⁶ Office for Budget Responsibility, [Welsh taxes outlook](#), December 2021

¹²⁷ Finance Committee, RoP, 14 January 2022, paragraph 147

¹²⁸ Finance Committee, RoP, 14 January 2022, paragraph 148

101. The OBR uses UK-level macroeconomic forecasts to model Welsh income tax liabilities. This means that the OBR assumes that the tax base in Wales and the UK as a whole move in parallel.¹²⁹ However, given there are currently large differences between Wales and the UK as a whole any further divergence or a period of convergence would represent downside or upside risks to the OBR's forecast. To mitigate the impact of this on its forecasts, the OBR plans to publish a paper relating to this issue in 2022:

*"We will present a detailed investigation of these trends and the effects they have on our forecasts in a forthcoming working paper on devolved income tax next year. This will help to inform future forecast judgements in respect of trends in the Welsh share of income tax over time."*¹³⁰

102. When asked about uncertainties of the input data relating to the current forecasting of Welsh tax revenues, the OBR stated that "the picture has improved considerably over the past few years" with better data being collected than a few years ago.¹³¹ However, the OBR acknowledged that there were areas where the forecasting models for Wales could be improved, adding that:

*"I think, as we've alluded to, the biggest return we can get now is to get a better grip on the tax base for Wales's No. 1 source of revenue, which is income tax, and that's going to be a priority for us in the year to come."*¹³²

103. The Minister welcomed the work the OBR was undertaking in this area, stating that it "will help inform future judgments about relative growth in income tax revenues in Wales as compared to elsewhere in the UK".¹³³ The Minister also considered that:

*"Any further insight into relative changes in the tax base here and elsewhere will of course be really valuable, because it's the relative growth in tax revenues that impacts on our budget arithmetic"*¹³⁴

104. WFA felt that the current forecasts lacked some detail, particularly in terms of how tax bases differ across the UK, stating that "there's not a lot of information about what is driving that

¹²⁹ Office for Budget Responsibility, [Welsh taxes outlook](#), December 2021, page 23

¹³⁰ Office for Budget Responsibility, [Welsh taxes outlook](#), December 2021, page 23

¹³¹ Finance Committee, RoP, 14 January 2022, paragraph 46

¹³² Finance Committee, RoP, 14 January 2022, paragraph 74

¹³³ Finance Committee, RoP, 21 January 2022, paragraph 68

¹³⁴ Finance Committee, RoP, 21 January 2022, paragraph 69

positive differential to the Welsh tax base."¹³⁵ It also believed that it would be helpful if more information was available to explain the divergence in future forecasts.¹³⁶

Welsh Rates of Income Tax

105. WRIT is the most significant source of tax revenue controlled by the Welsh Government. The OBR's forecast highlighted that key uncertainties include:¹³⁷

- The path of the pandemic through this winter, with the risk that a stronger than expected seasonal spike could require the reintroduction of restrictions.
- The impact of the pandemic on longer-term internal and international migration flows, which would affect the relative size of the Welsh population compared to the UK as a whole.
- How the recovery from the pandemic continues to play out across different sectors of the economy and different parts of the income distribution.

106. The Welsh Government is proposing no changes to the WRIT in its Draft Budget. LTT rates will be set as they were previously in 2021 (excluding temporary changes) and LDT is due to increase in line with Retail Price Index (PRI), which is the same increase that will be applied in England. This reflects the Welsh Government's Programme for Government commitment to "not take more in WRIT from Welsh families for at least as long as the economic impact of coronavirus lasts".¹³⁸

107. In commenting on the Welsh Government's approach, the IFS felt that it was unclear when this commitment to retain current rates would change:

*"... it's quite hard to say what is meant by this ... we need, potentially, a more precise definition, rather than one that can be interpreted in many different ways, if you want to give some certainty to taxpayers."*¹³⁹

108. When asked what this commitment meant in practice, the Minister told the Committee that:

¹³⁵ Finance Committee, RoP, 14 January 2022, paragraphs 147-148

¹³⁶ Finance Committee, RoP, 14 January 2022, paragraph 155

¹³⁷ Office for Budget Responsibility, [Welsh taxes outlook](#), December 2021, page 22

¹³⁸ Welsh Government, [Welsh Government Programme for government: update](#)

¹³⁹ Finance Committee, RoP, 14 January 2022, paragraph 150

*"I think that what it says, really, is that it's too early to take a view over the medium-term effects of the pandemic, because we don't yet know, really, what the impact of measures such as furlough have been. I think that it'll take some time yet before that becomes clear."*¹⁴⁰

Land Transaction Tax

109. LTT rates are unchanged in the draft budget, so the additional one percentage point increase to the higher residential rates of LTT that are paid on the purchase of additional properties, such as second homes and buy-to-let investments, is maintained.

110. Due to unexpected increases in house prices, which were "magnified in Wales",¹⁴¹ total LTT forecast receipts are £93 million (35 per cent) higher in 2022-23 when compared to March 2021. The OBR explained the reasons for this increase was due to a higher volume of transactions and higher prices, adding:

*"... some of that is driven by, as I said, the sort of savings effect and the race for space. I think part of it has also been generated by the tax reliefs and opportunities offered, both by the UK Government and by the Welsh Government."*¹⁴²

111. Alongside the budget the Welsh Government published a consultation on LTT rates, requesting views on proposed local variation to LTT rates for second homes, short-term holiday lets and potentially other additional residential properties.¹⁴³ The proposals included could provide for increased rates of LTT for some transactions in areas which are identified as requiring support to manage issues associated with second homes and short-term holiday lets.

112. WFA welcomed the consultation but emphasised that the whole suite of devolved and local tax levers should be considered to address this policy area, adding that:

*"... it seems to me that a recurrent tax, maybe paid annually or monthly, like the council tax premium, if it was properly designed, would be a more effective measure to achieve that policy aim."*¹⁴⁴

¹⁴⁰ Finance Committee, RoP, 21 January 2022, paragraph 55

¹⁴¹ Finance Committee, RoP, 14 January 2022, paragraph 51

¹⁴² Finance Committee, RoP, 14 January 2022, paragraph 51

¹⁴³ Welsh Government, [Consultation: Second homes: local variation to land transaction tax rates](#)

¹⁴⁴ Finance Committee, RoP, 14 January 2022, paragraph 157

Landfill Disposals Tax

113. LDT forecast revenues have increased by £2 million to £34 million in 2022-23. The OBR has revised receipts in 2021-22 up £11 million in light of the strong outturn data in the first half of the year.¹⁴⁵ The OBR noted that part of this strength is assumed to persist, but its effect on the forecast is partly offset from 2022-23 onwards by updated inputs to its modelling of the effect of additional use of incineration.¹⁴⁶

114. The OBR explained that they could not adequately explain the reasons behind the stronger than expected tax receipts for LDT:

*"... the landfill forecast is a source of relatively large surprises and also uncertainty. I don't have a good handle on why the tax receipts have been so much stronger than expected in the first half of the year. It could be some rebound from the depressed year before, it could be some disruption in other ways of disposing, particularly trade routes. But we don't have a good handle on what has driven it."*¹⁴⁷

115. Shortly after the Draft Budget was published, the Minister laid The Land Disposals Tax (Wales) (Amendment) Regulations 2021¹⁴⁸ which increased the LDT rate in line with inflation from April 2022 to make them consistent with UK landfill rates and to mitigate the risk of waste tourism.¹⁴⁹

Other Taxes

116. The Welsh Government's Programme for Government includes a commitment to "reform council tax to ensure a fairer and more progressive system".¹⁵⁰ The Minister stated in December that:

*"The council tax system should be more progressive in its design and it should be modernised in its delivery, having existed in its current form since 1993."*¹⁵¹

¹⁴⁵ Office for Budget Responsibility, [Welsh taxes outlook](#), December 2021

¹⁴⁶ Office for Budget Responsibility, [Welsh taxes outlook](#), December 2021

¹⁴⁷ Finance Committee, RoP, 14 January 2022, paragraph 59

¹⁴⁸ [The Land Disposals Tax \(Wales\) \(Amendment\) Regulations 2021](#)

¹⁴⁹ Finance Committee, RoP, 22 December 2021, paragraph 52

¹⁵⁰ Welsh Government, [Welsh Government Programme for government: update](#)

¹⁵¹ Plenary, RoP, [7 December 2021](#), paragraph 190

117. The IFS has conducted research into a simulated council tax revaluation for Wales and concluded that “council tax is out of date, regressive and distortionary” and that “it needs to be revalued and reformed”.¹⁵²

118. The Draft Budget also includes details of changes to business rates in Wales for 2022-23, as well as proposals to bring forward a new tourism levy is also mentioned in the Welsh Tax Policy Report 2021,¹⁵³ which is discussed in more detail in Chapter 8.

119. Some stakeholders were supportive of devolving powers to enable the introduction of new taxes in Wales. The Bevan Foundation argued that a “greater use of devolved taxation powers” could “change behaviour” and raise revenue. However, the Welsh Government describes interactions with the UK Treasury regarding devolving powers over taxes, specifically in regard of a vacant land tax, as “protracted and challenging”.¹⁵⁴ The Minister told the Committee that:

“This continues to be a painful and disappointing process, unfortunately. I did meet with the new Financial Secretary to the Treasury last month to understand what further information is required in respect of the request to devolve powers for a vacant land tax, and I've recently received a letter from her, which unfortunately doesn't move the process forward in any kind of meaningful way.”¹⁵⁵

Committee View

120. The Committee welcomes the upgrading of GDP and tax revenue forecasts by the OBR and is pleased that the UK and Wales's economic performance is returning to pre-pandemic levels, although it notes that the full economic impact of the Omicron variant remains unclear.

121. The Committee believes that the forecasts provided by the OBR are essential to the formulation of the budget for current and future years. In particular, the Committee welcomes predictions that the Welsh Government is expected to be around £185 million better off in 2024-25 due to faster tax-rate growth compared to England and looks forward to seeing the outcome of OBR's investigation of the historic trends and drivers behind such changes.

¹⁵² Welsh Government, [Reforming Local Government Finance in Wales: Summary of Findings](#), February 2021, page 42

¹⁵³ Welsh Government, [Tax Policy Report](#)

¹⁵⁴ Welsh Government, [Tax Policy Report](#)

¹⁵⁵ Finance Committee, RoP, 22 December 2021, paragraph 68

122. However, the Committee believes that further work is required in this area to fully understand the differences between the Welsh tax base and other tax bases across the UK, particularly given the impact that improved tax forecasts could have on the funding available to the Welsh Government. The Finance Committee in the Fifth Senedd recommended that the responsible committee of the Sixth Senedd continues to seek and closely monitor developments in improving Welsh-specific data and research to support fiscal policies, and the evidence received to date suggests that this is still an area that is ripe for exploration.

123. The Committee continues to be disappointed that a resolution still has not been reached with the UK Government regarding the annual drawdown limits from the Wales reserve and the flexibility for the Welsh Government to carry forward funding provided late in the financial year. The Committee believes the Welsh Government should be afforded the autonomy to push funding from one year to the next and supports the Minister's on-going efforts to pursue this issue, to maximum budgetary agility.

124. The Committee also reiterates calls made by its predecessor committee in the Fifth Senedd that the UK Government increases limits on carrying forward funding in the Welsh reserve, to maximise the funding available and to prevent any Welsh funding being lost.

125. The Committee is pleased that the UK Government's conclusions of a review of intergovernmental relations has been published and shares the Minister's hopes that the new mechanisms provides appropriate channels for raising disputes and that this will have a positive impact on the way funding disagreements are discussed and resolved. The Committee intends to monitor these developments during the course of this Senedd and will work with the Minister to ensure that these structures provide appropriate ways to resolve funding issues.

126. The Committee is concerned by the constrained outlook for capital funding in the Draft Budget and believes that, as a result, difficult choices will need to be made in certain areas given that the settlement is likely to be a real terms cut over the three year budget period. However, the Committee is pleased that the Welsh Government has changed its approach to allocating funding to capital projects, which is intended to make more use of available funding, including borrowing and potential funding through consequentials. The Committee agrees that this is a sensible way for the Welsh Government to maximise its finances but would welcome regular updates from the Minister on the funding contained in the Wales Reserve so that this approach can be monitored.

127. In terms of FTC, the Committee notes that the Minister is undertaking an exercise across the Welsh Government to identify how the £265 million currently shown in reserve will be allocated when the Final Budget is laid before the Senedd. The Minister told the Committee that

she would provide further information about these allocations as soon as the review had been completed and the Committee welcomes this approach. It is unclear why the Minister has taken this approach and why such a potentially significant element of the budget does not feature in the published Draft Budget. Leaving out this element of funding provides the Committee with an incomplete picture of the Welsh Government's intended allocations for 2022-23 and impacts on the Senedd's ability to scrutinise the budget.

128. The Committee is surprised by the lack of awareness amongst the business and retail sector of the funding available through FTC and believes that further work is required by the Welsh Government to promote the financial support available to businesses and other sectors who may benefit from such funding.

129. The Committee notes the Minister's intention to retain WRIT tax rates for "as long as the economic impact of the pandemic lasts", however, it is concerned that this commitment is too ambiguous and open-ended. The Committee believes that further details should be provided by the Minister to explain what is meant by retaining tax rates for this period and for this reason.

130. The Committee welcomes the Welsh Government's consultation on LTT rates, requesting views on proposed local variation to LTT rates for second homes, short-term holiday lets and potentially other additional residential properties. However, it agrees with evidence heard from WFA that there is a need to consider the whole suite of fiscal levers available to address this particular areas and that other levers, such as a recurrent tax for second home owners, could be a more effective measure given that the number of properties being sold, and therefore subject to any new LTT rates, would be relatively small.

Recommendation 7. The Committee recommends that the Welsh Government continues to work with the Office for Budget Responsibility to develop and utilise relevant Welsh data to support forecast modelling and develop a better understanding of the Welsh income tax base to further inform tax policy and its impact on Welsh taxpayers.

Recommendation 8. The Committee recommends that the Welsh Government continues to press the UK Government to provide greater flexibility for the Welsh Government to manage in-year funding, including the ability to carry over funding from one financial year to the next.

Recommendation 9. The Committee recommends that the Welsh Government calls on the UK Government to increase limits on carrying forward funding in the Wales reserve, to maximise any in-year funding available and to prevent any Welsh funding being lost.

Recommendation 10. The Committee recommends that the Welsh Government provides regular updates to the Committee on the intergovernmental mechanisms established to ensure that they are an effective means to escalate disagreements and resolve funding disputes.

Recommendation 11. The Committee recommends that the Welsh Government reports back to the Committee on the in-year funding position associated with over-programmed capital plans and that regular updates are provided on the funding contained in the Wales Reserve.

Recommendation 12. The Committee recommends that the Welsh Government: provides an update on Financial Transactions Capital allocations before the Final Budget is laid before the Senedd; explains why it was appropriate to leave out these allocations from the Draft Budget; and calls on the Welsh Government to provide regular updates to the Committee on such allocations in future.

Recommendation 13. The Committee recommends that the Welsh Government raises awareness of the funds available through Financial Transactions Capital and ensures businesses are engaged in the allocation of these funds so that its benefits can be maximised.

Recommendation 14. The Committee recommends that the Welsh Government provides clarity on what is meant by retaining tax rates for the Welsh rates of income tax for "as long as the economic impact of the pandemic lasts".

Recommendation 15. The Committee welcomes the Welsh Government's consultation on Land Transaction Tax rates, but recommends the Welsh Government considers using other fiscal levers to address issues in the second homes market, such as a recurrent tax for second home owners, rather than using Land Transaction Tax only.

4. Impact of the Co-operation Agreement

131. On 22 November 2021, Welsh Labour and Plaid Cymru announced a Co-operation Agreement ('the agreement').¹⁵⁶ The agreement includes significant additional spending commitments, such as free school meals for all primary school pupils, expansion of early years childcare to all two-year olds, and the ambition for a national care service free at the point of need.

132. The agreement's full policy programme also includes proposals for council tax reform and a commitment to develop a greater understanding of the prospects for devolved public finances:

"We will continue to work with the Wales Governance Centre, and OBR and others to develop greater understanding of the prospects for devolved public finances and the future needs of the Welsh public services, looking for new ways to address any funding gaps identified, grow our tax base, and consider the implications of the newly established Constitutional Commission."¹⁵⁷

Budget Preparation

133. The Minister told the Committee that "budget preparation was quite well advanced by the point at which the co-operation agreement crystallised"¹⁵⁸ but that the impact of the agreement can be seen in particular allocations, such as £4 million to expand Arfor. The Minister added:

"... I think the FM's been really clear that there's nothing that's contained within the co-operation agreement that is fundamentally inconsistent with our values as a Welsh Government ... it wasn't a case of finalising a draft budget and then having to look for places to cut so that we could accommodate the items within the agreement. I think the timing was all very fortuitous really in terms of being able to consider the agreement alongside the other preparations with colleagues in Welsh Government."¹⁵⁹

¹⁵⁶ Welsh Government, [The Co-Operation Agreement 2021](#)

¹⁵⁷ Welsh Government, [The Co-Operation Agreement 2021](#)

¹⁵⁸ Finance Committee, RoP, 22 December 2021, paragraph 74

¹⁵⁹ Finance Committee, RoP, 22 December 2021, paragraph 77

134. The agreement is underpinned by a three year budget cycle and establishes a number of mechanisms for its operation, particularly around the budget. The document states that:

*"... oversight of the delivery and budget allocations for it will be jointly monitored through a Finance Committee whose membership shall include the Welsh Minister responsible for Finance and the relevant Plaid Cymru designated member. The frequency of the meetings shall be determined but they will be regularly convened in the period leading up the Senedd's annual Budget procedures, and any discussions on supplementary budgets and on end of year underspends / adjustments."*¹⁶⁰

135. The document adds that:

*"Any additional resources would be jointly identified and considered on a year by year basis by Plaid Cymru and the Welsh Government around the issues in the Co-operation Agreement."*¹⁶¹

136. The Minister told the Committee that the agreement represents "the very start of the journey" and that "we're feeling our way through the mechanisms document and the various structures that will be put in place". In terms of budget monitoring, the Minister explained that:

*"A finance committee has been set up to monitor and evaluate the progress on those 13 areas where there is finance attached ... There'll be a role, I think, within that finance committee for me to be providing updates on the financial position, for example, in respect of any UK Government budgets or statements on what that means for Wales as well ... I think that that committee will particularly have an interest in the areas where there is finance attached to commitments within the programme for government."*¹⁶²

137. When asked whether the Draft Budget included funding to deliver the commitments outlined in the agreement, the Minister stated that:

"... the funding will be for the specific areas that have funding attached to them within the programme for government and the co-operation agreement with Plaid Cymru. That said, we'll be monitoring spend closely ... There will be always, I think, an element of estimation, so we need to just

¹⁶⁰ Welsh Government, [The Co-Operation Agreement: Mechanisms](#)

¹⁶¹ Welsh Government, [The Co-Operation Agreement: Mechanisms](#)

¹⁶² Finance Committee, RoP, 21 January 2022, paragraph 85

*watch closely that if those commitments do require additional funding, then we can explore ways in which that could be done within the relevant MEG, for example. I think it's just a case of watching closely to ensure that we are delivering on the commitments made and that funding isn't an impediment to delivery.*¹⁶³

Affordability

138. In its Welsh Budget Outlook 2021, WFA suggested¹⁶⁴ that the agreement includes “significant additional spending commitments”. WFA has assessed the costs of the large elements of the agreement, estimating that:

- the free school meals (FSM) policy could cost an additional £86 million a year;
- expansion of early-years childcare could cost an additional £40 million; and
- the creation of a national care service which is free at the point of need could cost approximately £200 million a year.¹⁶⁵

139. The Bevan Foundation welcomed the commitment to provide £90 million for the FSM programme up to 2024-25, noting that this figure “should provide adequate resource”.¹⁶⁶

140. The WLGA told the Committee that the policy to extend FSM to all primary school children resulted in not only additional revenue costs but also capital, given that its implementation requires improvements to facilities in schools. In supplementary written evidence, WFA questioned whether “additional capital funding has been made available to fund the investment in school catering facilities that may be required to deliver this policy”.¹⁶⁷ It also stated that “the draft budget does not make allocations to reform the arrangements governing how people currently pay for care”.¹⁶⁸

Committee View

141. The Committee welcomes the information provided by the Minister on the impact of the Co-operation Agreement on the Draft Budget for 2022-23 and future years. Given that the

¹⁶³ Finance Committee, RoP, 21 January 2022, paragraph 88

¹⁶⁴ Wales Fiscal Analysis, [Welsh Budget Outlook 2021](#), December 2021, page 6

¹⁶⁵ Wales Fiscal Analysis, [Welsh Budget Outlook 2021](#), December 2021, page 6

¹⁶⁶ Bevan Foundation, [Inquiry into the Welsh Government Draft Budget 2022-23](#), November 2021

¹⁶⁷ Finance Committee, [Written evidence: Wales Fiscal Analysis – January 2022](#)

¹⁶⁸ Finance Committee, [Written evidence: Wales Fiscal Analysis – January 2022](#)

agreement is in its infancy, it is understandable that it has had little impact on the budget prioritisation process for 2022-23. However, the Committee expects information on how the Welsh Government plans to fund the agreement's policy commitments to be set out in budgets for future years. The Committee is particularly grateful for the information provided by the Minister relating to how policies linked to the agreement will be funded and calls for such transparency to be extended in future years so that the costs of each commitment can be identified and monitored.

142. The Committee welcomes the details provided by the Minister regarding the mechanisms underpinning the budget processes, including how the delivery and oversight of budget allocations relating to the agreement will be monitored. This includes information regarding the role of the newly established Welsh Government Finance Committee. The Committee understands that these processes are new and will take time to develop, however, the Committee expects to be informed of how the structures will operate, once they are fully established, to ensure transparency and to allow for effective scrutiny.

Recommendation 16. The Committee accepts that it has not been possible to reflect costs relating to the Co-Operation Agreements in the Draft Budget for 2022-23 but recommends that the Welsh Government provides clarity on how the funding of associated policy commitments is reflected in future budget allocations.

Recommendation 17. The Committee recommends that the Welsh Government provides information regarding the remit and membership of the Welsh Government's Finance Committee, established as a result of the Co-Operation Agreement, and provides further information about its role, including its terms of reference, in the formulation and monitoring of the Welsh Government's budget.

5. Health, Social Care and Local Government

"Health and social care services were already going downhill and the last two years has been disastrous".¹⁶⁹

Older person

"Most local governments if they were a business, they'd be bust within a week. I don't know how anybody can get it so wrong so consistently."¹⁷⁰

Participant from the Agricultural Sector

Overall Funding

143. The net increase in DEL for the Health and Social Services MEG (£966 million) reflects additional resource funding of just over £1 billion (or 11.6 per cent compared with the revised Final Budget 2021-22), which is offset by a reduction in capital of £52.6 million (or -13.6 per cent compared with the revised Final Budget 2021-22).¹⁷¹

144. After adjusting for transfers, overall core funding for local government in the Provisional Revenue and Capital Settlement for 2022-23 increases by £437 million or 9.4 per cent compared with 2021-22.¹⁷²

145. In addition, local authorities will receive general capital funding of £150 million, a decrease from £198 million set out in the Final Settlement for 2021-22. This will increase to £200 million for the following two years, including £20 million in each year to enable authorities to respond to decarbonisation.¹⁷³

¹⁶⁹ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 8

¹⁷⁰ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 20

¹⁷¹ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), December 2021, page 13

¹⁷² Welsh Government, [Local government revenue and capital settlement: provisional 2022 to 2023](#)

¹⁷³ Welsh Government, [Letter from the Minister for Finance and Local Government - Final Local Government Settlement 2021-22](#)

146. While the Minister described this as a 'good' Settlement, she acknowledged it would not reverse the impact of austerity and local government would need to "make some difficult decisions" when setting budgets.¹⁷⁴

147. The Draft Budget says it is "committed to prioritising social care", providing over an additional £250 million for social services. This includes £180 million funding provided within the Local Government settlement, direct investment of £45 million and £50 million of additional social care capital relative to 2021-22 and £60 million direct additional funding to drive forward wider reforms to the sector and "place it on a sustainable long-term footing".¹⁷⁵

148. The Welsh Local Government Association (WLGA) believed the settlement reflects the "prioritisation of local services and a valuing of those services" but said it is a good settlement for a reason:

*"the reason being the huge pressure that local services are under, especially in a post-pandemic respect and a post-austerity respect, and also it reflects the fact that we have shared priorities with Welsh Government, things that can't be delivered without the work of local services."*¹⁷⁶

149. The WLGA felt that "the outcome and the process of the budget" showed the Welsh Government had "listened to", consulted and "recognised the pressures facing local authorities".¹⁷⁷

150. While the Welsh NHS Confederation agreed the Draft Budget prioritises funding for health, social care and local government, it noted its concerns about the demands on the system, including latent demand¹⁷⁸, as well as the level of uncertainty:

*"at some point over the planning cycle we will move from a pandemic response into an endemic situation, and we're therefore planning with a degree of uncertainty, with significant operational uncertainty."*¹⁷⁹

¹⁷⁴ Welsh Government, [Letter from the Minister for Finance and Local Government - Final Local Government Settlement 2022-23](#)

¹⁷⁵ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page iii

¹⁷⁶ Finance Committee, RoP, 14 January 2022, paragraph 207

¹⁷⁷ Finance Committee, RoP, 14 January 2022, paragraph 226

¹⁷⁸ Finance Committee, RoP, 14 January 2022, paragraph 264

¹⁷⁹ Finance Committee, RoP, 14 January 2022, paragraph 202

151. This view was echoed by the ADSS Cymru, which stated that whilst the settlement is “hugely encouraging...we do move into uncertain times”¹⁸⁰.

152. The report on the Committee's citizen engagement focus groups noted:

*“It was clear to almost all participants that the health service is struggling on a number of levels and that more funding could help but it came with the caveat that extra funding might not necessarily be the only answer to the issues.”*¹⁸¹

153. The Minister said she makes a “really strong point of trying to engage as widely as possible with stakeholders before we even know our settlement, so at least we have a strong idea of stakeholders' broad areas of interest and broad priorities”¹⁸².

154. The Minister also recognised the important role that public services will have in terms of continuing to respond to the pandemic and that had been reflected in the “good settlements” for health and local government. She added:

*“It should give them the level of flexibility that they will need in order to respond to what continues to be an evolving situation that cannot be easily predicted.”*¹⁸³

Multi-year Settlement

155. The multi-year settlement was welcomed by the Welsh NHS Confederation¹⁸⁴, the ADSS Cymru¹⁸⁵ and the WLGA¹⁸⁶.

156. The WLGA said publishing funding allocations for the next two years placed “councils in much better stead to plan ahead with more certainty”¹⁸⁷. It told the Committee the multi-year

¹⁸⁰ Finance Committee, RoP, 14 January 2022, paragraph 204

¹⁸¹ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 8

¹⁸² Finance Committee, RoP, 21 January 2022, paragraph 10

¹⁸³ Finance Committee, RoP, 22 December, 2021, paragraph 24

¹⁸⁴ Finance Committee, RoP, 14 January 2022, paragraph 213

¹⁸⁵ Finance Committee, RoP, 14 January 2022, paragraph 211

¹⁸⁶ Finance Committee, RoP, 14 January 2022, paragraph 209

¹⁸⁷ WLGA, [Best settlement in decades a boost for communities and vital local services, says WLGA](#)

settlement makes a “huge difference” and that its decision-making in the long-term would be “hugely transformed by the ability to plan on a multi-year basis”.¹⁸⁸

157. The Provisional Local Government Settlement included Wales-level core funding allocations for 2023-24 and 2024-25 but not the amounts for individual local authorities. The Minister explained this was because the data needed to determine the distribution of funding across local authorities, such as population data, would be “changing over the coming year”. She added:

“It was a difficult choice, because I want to provide as much clarity as I can, but then it would be difficult in the third year, when new population data, for example, has been provided, and other kinds of data that are used within the settlement, and within the formula—then it would be very difficult for local authorities to be redoing the sums and looking at what they could have had had we only used the most up-to-date data. I think that would have potentially opened a whole world of other considerations and problems.”¹⁸⁹

158. The Welsh NHS Confederation said the multi-year settlement aligned with its the planning requirement for health boards. Whilst it noted the “significant uplift” of 2.8 per cent on its baseline allocation for 2022-23, it added:

“when you look at the funding settlements in years 2 and 3, that’s 1.5 per cent and 0.75 per cent. There will be some real challenges for us as we get later on, certainly, in the planning cycle; I’m not saying the first year will be easy. But there are a number of long-term issues that we’re trying to address here, and I think having that certainty will help us begin to address those.”¹⁹⁰

159. The ADSS Cymru agreed that the settlement would be “sufficient for us moving forward in the current year” but that the potential uplifts for 2023-24 and 2024-25 were going to be “more challenging”.¹⁹¹

160. The Minister explained why the increases in the Draft Budget are front-loaded in the first year of the three-year budget period:

¹⁸⁸ Finance Committee, RoP, 14 January 2022, Paragraph 209

¹⁸⁹ Finance Committee, RoP, 22 December 2021, Paragraph 117

¹⁹⁰ Finance Committee, RoP, 14 January 2022, paragraph 213

¹⁹¹ Finance Committee, RoP, 14 January 2022, paragraph 298

"We've responded, really, by prioritising public services to ensure that they have significant uplifts in the first year, which, hopefully, will be able to put them in good stead for future years in a couple of ways."¹⁹²

161. The Minister said that the multi-year settlement means that public services can now "plan on a three-year basis" allowing them to "make different decisions in terms of investments, and potentially changes that they want to introduce and that can drive better value for money".¹⁹³

162. The Minister's official noted that the timing of the UK Budget and Spending Review also meant the Welsh Government "genuinely had very little idea of what our funding levels would be for next year. So, we really had a very rapid piece of work to do between 28 October and 20 December, when we eventually published the budget". He added:

"there should be much more information available to stakeholders about the funding levels they're likely to get in future years in the next two budgets than there has been in the last couple."¹⁹⁴

Capital Funding

163. The WGC stated that the capital allocation for the Welsh Government "will be falling in real terms over the three years" and that the "UK capital investment in health is fairly low by international standards". It said the level of the Welsh Government's capital funding would be challenging given "there are quite a few areas that will demand significant additional capital spending" including infrastructure, facilities, and equipment.¹⁹⁵

164. The Welsh NHS Confederation said its members were "disappointed in the lack of investment in capital infrastructure to improve and redesign NHS estates and facilities". It said capital funding was "key to improving services" but also had wider implications, such as the sector's ability to reduce its environmental impact and respond to the climate emergency.¹⁹⁶ It also noted the issues with backlog maintenance.¹⁹⁷

165. The WLGA¹⁹⁸ and the ADSS Cymru agreed. The ADSS Cymru added:

¹⁹² Finance Committee, RoP, 21 January 2022, paragraph 44

¹⁹³ Finance Committee, RoP, 21 January 2022, paragraph 45

¹⁹⁴ Finance Committee, RoP, 21 January 2022, paragraph 16

¹⁹⁵ Finance Committee, RoP, 14 January 2022, paragraph 136

¹⁹⁶ NHS Confederation, [Response to Welsh Government draft budget](#)

¹⁹⁷ Finance Committee, RoP, 14 January 2022, paragraph 219

¹⁹⁸ Finance Committee, RoP, 14 January 2022, paragraph 226

*"At the moment, in Wales, we are extremely reliant on the independent sector as far as adult services are concerned, and almost totally reliant on the private sector as far as children's services are concerned ... If we want to rebalance that market and bring some of those key services back within the public sector in Wales, then there's going to be a significant capital cost attached to that."*¹⁹⁹

166. However, the IFS said that Welsh Government capital funding is still at a level that is "pretty high historically" and that "if the Welsh Government did feel that, actually, capital was more of a priority, it could shift some of the resource funding to capital if it wanted to".²⁰⁰

167. The Minister said the Welsh Government had "used that facility extensively. We've done it in 2020-21 and 2021-22"²⁰¹. When asked if this was an option for NHS bodies, the Minister's official confirmed there had been cases where the Welsh Government had "switched revenue funding to capital on the health side, but we would do that centrally, rather than allowing local health boards to do that themselves". He continued:

*"They would come to the health finance team in the Welsh Government and say, 'We would like to use some of our settlement for capital'. That's certainly something that can be done. We have to get Treasury approval for changes in our DEL level spending. So, we have a capital DEL limit and a resource DEL limit, and we can switch from resource to capital, but we need to tell Treasury about that at the appropriate time. So, we need to co-ordinate all of this across the Welsh Government, but there is scope to do that and, as the Minister said, we certainly did a lot of that in the previous financial year and the current financial year."*²⁰²

168. The Minister noted she is "mindful" when switching funding of the "revenue implications of any capital investment—for example, maintenance and so on".²⁰³

¹⁹⁹ Finance Committee, RoP, 14 January 2022, paragraph 327

²⁰⁰ Finance Committee, RoP, 14 January 2022, paragraph 139

²⁰¹ Finance Committee, RoP, 14 January 2022, paragraph 131

²⁰² Finance Committee, RoP, 21 January 2022, paragraph 132

²⁰³ Finance Committee, RoP, 21 January 2022, paragraph 131

COVID-19

169. The Draft Budget allocates £180 million a year from 2022-23 onwards to “help the NHS manage the financial impact of the pandemic on their underlying financial position, including recognising the impact the pandemic has had on productivity and efficiency”.²⁰⁴

170. In her letter to local authorities about the Provisional Settlement, the Minister said the Comprehensive Spending Review did not provide additional financial support for the pandemic. She adds:

“I have carefully considered how to manage pandemic support for authorities and concluded the balance lies in providing funding in the first year through the Settlement. But in determining the overall Settlement, I have recognised the ongoing impact of the pandemic on services which authorities will need to manage.”²⁰⁵

171. The ADSS Cymru²⁰⁶ and the Welsh NHS Confederation²⁰⁷ noted the ongoing impact of the pandemic on their respective sectors.

172. The WLGA said the Local Authority Hardship Fund had been “key to the success of the response” in supporting the most vulnerable during the pandemic.²⁰⁸ However, the ADSS Cymru noted its uncertainty over the future availability of this support. It said:

“Perhaps the most significant issue is the uncertainty over the Welsh Government hardship fund, going into the next financial year. We have been hugely reliant on that. It has been a massive, massive help in stopping social care going into a crisis. So, as we begin to see that hardship money move away and we begin to lose that, it does raise some concerns going into future years.”²⁰⁹

²⁰⁴ Welsh Government [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 17

²⁰⁵ Welsh Government, [Letter from the Minister for Housing and Local Government - Final Local Government Settlement](#)

²⁰⁶ Finance Committee, Written evidence [Association of Directors of Social Services Cymru](#)

²⁰⁷ Finance Committee, Consultation response: [Welsh NHS Confederation](#)

²⁰⁸ Finance Committee, Consultation response: [Welsh Local Government Association](#)

²⁰⁹ Finance Committee, RoP, 14 January 2022, paragraph 224

173. The WLGA highlighted the ongoing uncertainty for areas like libraries in a “post hardship fund world”. It said that local government funds are “still down 17 per cent in real terms over the last decade”²¹⁰. It noted:

*“the lack of options that are there for us as councils as we try to explore savings. Many of the usual targets that we’d have to save on in order to protect areas like social care and schools from cuts just can’t be cut back during a pandemic and I think some back office functions have really shown how important they are in the last two years.”*²¹¹

174. The WLGA also told the Committee that the level of reserves held by local authorities, which Audit Wales reported²¹² had increased by over £450 million in the year to 31 March 2021, reflected the “benefit of having that hardship fund”. It said it had “allowed local authorities to get through this [the pandemic] without reserves being drained”.²¹³

175. Other cost pressures were identified, such as those arising from demand, inflation and the “crisis in energy costs”. The Welsh NHS Confederation said that for Hywel Dda University Health Board alone rising energy costs would be “upwards of £3.5 million to £4 million for the next couple of years” and “one way to address that would have been decarbonisation measures, which are hampered by the availability of capital”.²¹⁴

176. The Minister confirmed “there won’t be a continuation of the local government hardship fund in the next financial year, and that’s partly because there is no specific COVID funding for us in the next financial year.”²¹⁵

177. She said that the WLGA leaders had been clear in their evidence to the Local Government and Housing Committee “that had the settlement been different, then potentially, a hardship fund would have been something that they would have been calling for, but given the level of the settlement at the moment, they think it’s fair to be expecting continued responses to be made through the existing settlement”.²¹⁶

²¹⁰ Finance Committee, RoP, 14 January 2022, paragraph 227

²¹¹ Finance Committee, RoP, 14 January 2022, paragraph 227

²¹² Audit Wales, [Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic](#)

²¹³ Finance Committee, RoP, 14 January 2022, paragraph 239

²¹⁴ Finance Committee, RoP, 14 January 2022, paragraph 220

²¹⁵ Finance Committee, RoP, 21 January 2022, paragraph 115

²¹⁶ Finance Committee, RoP, 21 January 2022, paragraph 115

Local Government Funding Formula

178. In relation to local government reserves, the Minister acknowledged that, during the pandemic, authorities had a “wide range of additional new responsibilities”. These included supporting businesses through the grant schemes, and the self-isolation payments, while also “delivering on their core services”. While recognising the “significant increase in money local authorities have put to their reserves at the end of 2020-21”, she noted this reflected a “snapshot at the end of a very unusual year”. The Welsh Government would continue to publish each year information about the level of reserves held by local authorities.²¹⁷

179. The Minister said she would be “open” to reviewing the local government funding formula if she had a formal request from the WLGA. However, she said “we do have lots of opportunities to discuss the formula” through the distribution and finance sub-groups.²¹⁸

180. In a statement on extending free school meal entitlement to all primary school children, the Minister for Education and Welsh Language noted “we will no longer be able to use Free School Meal eligibility as a proxy indicator for disadvantage for children in this age group”.²¹⁹

181. The Committee asked how the Minister will mitigate the impact of this when calculating the distribution of funding for local government. She confirmed:

“...further changes to the arrangements for free-school-meal eligibility won't be introduced until after the 2022 pupil level annual school census data, which is published this month. And, as the 2023-24 settlement relies on the data from 2022, there won't be any impact until 2024-25. So, that does give us some time, and I know Welsh Government officials are currently working on a solution on this, and I believe that a piece of work will be included in the work programme of the distribution sub-group, which will then come to the finance sub-group for sign-off, I believe in February.”²²⁰

Workforce Issues

182. The Welsh NHS Confederation told the Committee staff vacancies and gaps in the workforce was the “biggest single issue” and that large vacancies were resulting in a “big agency

²¹⁷ Finance Committee, RoP, 21 January 2022, paragraph 153

²¹⁸ Finance Committee, RoP, 21 January 2022, paragraph 157

²¹⁹ Welsh Government, [Written Statement: Extending free school meal entitlement to all primary school children](#)

²²⁰ Finance Committee, RoP, 21 January 2022, paragraph 159

bill". It also noted its concerns that, following the pandemic, NHS and social care staff were making alternative career choices.²²¹

183. The Welsh NHS Confederation called on the Welsh Government to increase its investment in the NHS workforce so that more students and trainees are recruited across different professions.²²²

184. The Draft Budget allocates a "further £31m in educating and training the workforce of the future and will continue to provide £7m towards meeting our commitment to establish a new medical school in North Wales".²²³

185. The Welsh NHS Confederation welcomed this and the earlier increase in funding for training and development but warned that it was "not going to have an immediate impact to address our workforce challenges"²²⁴. It continued:

*"But, of course, as we look into the next few years, it's particularly welcome to see the investment in the medical school in Bangor and the nursing school in Aberystwyth, which disperses some of the training requirement and means that people can train closer to home. So, I just wanted to allude to some of those demand challenges we've got and supply challenges and emphasise that this is a long-term problem. That three-year funding package starts to give us certainty that we can address those and make some inroads."*²²⁵

186. The WLGA reported that local government has "for many years" struggled to recruit in several key areas, including social work, legal services and more recently HGV drivers and supply teachers.²²⁶ However, it said the Settlement gave the sector a chance to "start to address" the issues with workforce and capacity but "there are both systemic and immediate pressures in winter, for example, in social care, that we've got to get to grips with".²²⁷

187. The WLGA also reported "real challenges" with the recruitment and retention for in-house and commissioned services across adult and children's services. It says a number of issues has exacerbated the position, including the lack of recognition for the profession and competition

²²¹ Finance Committee, RoP, 14 January 2022, paragraphs 216 & 270

²²² Finance Committee, Consultation response: [Welsh NHS Confederation](#)

²²³ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

²²⁴ Finance Committee, RoP, 14 January 2022, paragraph 217

²²⁵ Finance Committee, RoP, 14 January 2022, paragraph 217

²²⁶ Finance Committee, Consultation response: [Welsh Local Government Association](#)

²²⁷ Finance Committee, RoP, 14 January 2022, paragraph 273

from the NHS and other sectors, which are able to offer better terms and conditions.²²⁸ The ADSS Cymru called for “an urgent focus on parity of esteem with health in relation to pay, terms and conditions and career progression”, noting this “requires additional investment now and over the next 3 years”.²²⁹

188. In her letter to local authorities on the Provisional Settlement for 2022-23, the Minister said the increase includes funding to “enable authorities to meet the additional costs of introducing the Real Living Wage for care workers”²³⁰, announced by the Deputy Minister for Social Services on the same day²³¹. However, the ADSS Cymru told the Committee:

“... if we're going to want to reverse the flow and actually bring people back into social care from retail, from hospitality, then, to be honest, the real living wage isn't going to do it. We have to be much more ambitious than that. We probably need to be moving into the region of somewhere in the region of £12 an hour.”²³²

189. Depending how this was implemented and other factors, the ADSS Cymru estimated this would “probably cost somewhere in the region of between £330 million and £500 million ... That costing needs to be pulled apart, but it is a significant investment in our workforce”. It added much was being done to “publicise the workforce” but “we have to be realistic that money talks, fundamentally”.²³³

190. At a focus group session on the Draft Budget, a health care professional said:

“There is little incentive within the sector. Lidl are now offering £10.10 an hour shelf stacking. Sometimes you've got senior care staff working on less than that within a care home. We need the system to be made fairer.”²³⁴

²²⁸ Finance Committee, Consultation response: [Welsh Local Government Association](#)

²²⁹ Finance Committee, Written evidence, [Association of Directors of Social Services Cymru](#)

²³⁰ Welsh Government, [Letter from the Minister for Housing and Local Government - Final Local Government Settlement](#)

²³¹ Welsh Government, [Written Statement: A Real Living Wage for Social Care Workers in Wales](#)

²³² Finance Committee, RoP, 14 January 2022, paragraph 251

²³³ Finance Committee, RoP, 14 January 2022, paragraphs 257 and 279

²³⁴ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 10

191. In a written statement, the Minister said that ensuring “hardworking staff receive well-deserved pay rises in the future” was factored into decisions around the level of funding for local government.²³⁵

192. However, the statement noted:

“... I will not be making any further funding available in-year in recognition of the 2022/23 teachers' pay deal, and authorities' budget planning must accommodate these costs in the light of this Settlement.”²³⁶

193. The Minister highlighted that it was going to be “more difficult” to meet the cost of pay awards in years 2 and 3 if additional funding isn't provided by the UK Government. She added:

“We know they've lifted the pay freeze for public sector workers, but we don't know yet how the UK Government will respond to that. Will they provide uplifts? Will they provide Barnett consequentials as a result? Or do they expect anything to be managed within individual departments? So, as those decisions are made and fed through, we can obviously consider the impacts for us.”²³⁷

Savings and Transformation

194. The Welsh NHS Confederation reported the delivery of savings remained a challenge, and the NHS forecast it would not deliver a “significant proportion” of the planned recurrent savings for 2021-22, which had an impact on the underlying financial position. It said “further efficiency savings are required to help secure financial sustainability and support service and quality improvements going forward”. It noted its “concern” that NHS organisations’ ability to recover services and to shift the focus onto achieving sustainability and delivering transformation will be “significantly” affected by the ongoing impact of the COVID-19 pandemic.²³⁸

195. The Welsh NHS Confederation told the Committee the sustainability funding from the Welsh Government did not fully address the issues the sector had experienced over the last two years in delivering recurrent savings.²³⁹

²³⁵ Welsh Government, [Written Statement: Provisional Local Government Settlement 2022-23](#)

²³⁶ Welsh Government, [Written Statement: Provisional Local Government Settlement 2022-23](#)

²³⁷ Finance Committee, RoP, 21 January 2022, paragraph 119

²³⁸ Finance Committee, Consultation response, [Welsh NHS Confederation](#)

²³⁹ Finance Committee, RoP, 14 January 2022, paragraph 302

196. The Draft Budget includes additional specific grant allocations for social care of up to £60 million to 2024-25, in addition to the uplift provided in the Local Government settlement to “promote reform and improvement in social care”. The Welsh Government is also providing capital funding of £180 million to 2024-25.²⁴⁰

197. The Deputy Minister for Social Services told the Health and Social Care Committee the aim of the capital funding is to “support the development of integrated health and social care hubs across Wales and the rebalancing of social care through investing in the social care estate”. The Welsh Government would work with Regional Partnership Boards, who would develop investment plans for this funding alongside their plans for the new regional integration fund for which £144.6 million has been allocated.²⁴¹

198. While welcoming the increases in funding earmarked by the Welsh Government, the ADSS Cymru said the Draft Budget allocations are “not going to put social care on a longer-term path to stability and sustainability”.²⁴² It told the Committee:

“If we want to rebalance that market and bring some of those key services back within the public sector in Wales, then there's going to be a significant capital cost attached to that. There are some risks in doing that. We have to be very careful that we don't throw the baby out with the bath water. We can't go down the route of 'public sector good, private sector bad'. The reality is much more complex than that. But if we feel there is a role for the public sector to a greater degree in providing those key social care services, then that has to be backed up with capital funding.”²⁴³

199. Many of the submissions to the Committee's **consultation on the Draft Budget** noted the pressures on the social care system, with some respondents noting the need for reform.²⁴⁴

Waiting Times Backlog

200. In its Draft Budget, the Welsh Government states that addressing the backlog of treatments delayed by the pandemic is its “highest priority”. It allocates £170 million a year to local health boards to “support the implementation of plans to strengthen planned care services”. It is also investing an additional £20 million a year to “support the implementation of a

²⁴⁰ Welsh Government, **Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales**, page 19

²⁴¹ Health and Social Services Committee, RoP, **13 January 2022**, paragraph 167

²⁴² Finance Committee, Written evidence: **Association of Directors of Social Services Cymru**

²⁴³ Finance Committee, RoP, 14 January 2022, paragraph 327

²⁴⁴ Finance Committee, **Consultation on Welsh Government Draft Budget 2022-23**

value-based approach to recovery over the medium term, with a focus on improving outcomes that matter to patients".²⁴⁵

201. At November 2021, over 680,000 people in Wales were waiting to start NHS treatment. Of these, over 240,000 had been waiting over 36 weeks.²⁴⁶

202. The Welsh NHS Confederation told the Committee the challenges to addressing the backlog were "as much workforce as they are financial—more workforce than financial". While the NHS workforce remained a concern, "the independent sector is itself constrained. So, it's not as if we can go out to the private sector and seek support there either. We will, but not to the extent that we need to".²⁴⁷

203. The Minister explained the targets for the additional £170 million a year to strengthen planned care services and £20 million a year for value-based healthcare:

*"So, the investment in recovery will achieve a number of [things]...supporting some of the high-volume services that may be better delivered in a regional context. So, they would be namely orthopaedics, cataracts, endoscopy and diagnostics generally. Transformation and redesign will have to play a key role in recovery, so you'll see that supported by the planned care five goals for recovery...And then, in terms of the value-based investment of £20 million, that's going to complement the £170 million recurrent funding, supporting NHS organisations to make progress with adopting a value-based approach, particularly through improving the data that we have on patient-reported outcomes and through the implementation of evidence-based best practice clinical pathways."*²⁴⁸

204. She added "... recovery timelines and details will need to form part of the health boards' integrated medium-term plans. Those are due by the end of March".²⁴⁹

²⁴⁵ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 17

²⁴⁶ Welsh Government, [Patient pathways waiting to start treatment by month, grouped weeks and treatment function](#)

²⁴⁷ Finance Committee, RoP, 14 January 2022, paragraph 223

²⁴⁸ Finance Committee, RoP, 21 January 2022, paragraph 110

²⁴⁹ Finance Committee, RoP, 21 January 2022, paragraph 110

Committee View

205. The Committee welcomes the views that health, social care and local government have received a good settlement, which reflects the prioritisation of local services. We hope this will allow the sectors a level of flexibility whilst they continue to respond and recover from the pandemic. It is encouraging to hear that the Welsh Government has engaged well during the budget process and that stakeholders feel their views have been listened to.

206. The return to a multi-year funding settlement has been welcomed and we are pleased the Welsh Government has taken the opportunity to give some certainty over funding levels for the two years beyond 2022-23, which enables the sectors to plan more effectively. The Committee notes, at the time of undertaking its scrutiny of the Draft Budget, the Welsh Government had not yet published on its website, the 2022-23 funding allocations for local health boards although they were agreed on 30 December 2021.²⁵⁰ We are therefore not clear whether, in doing so, the Welsh Government has provided indicative allocations for 2023-24 and 2024-25 for these bodies or, consistent with the approach for local government, it has set out the aggregate funding levels only.

207. The Committee notes the uplift in years 2023-24 and 2024-25 will be challenging. While acknowledging the reasons for not doing so, the Committee believes future budgets should provide indicative allocations for individual organisations for the three years to provide more certainty and to allow organisations to plan longer-term.

208. As noted in chapter 3, the Committee is concerned that the capital allocation for the Welsh Government will fall in real terms over the three years. The availability of capital funding has been highlighted as a particular constraint for health and local government, particularly for the transformation of how services are delivered, as well as for investment in infrastructure to improve estates and facilities. Investment in infrastructure could lead to improved services, as well as the wider implications of decarbonisation and reducing environmental impact. Whilst the Committee accepts that there is a general squeeze on the Welsh Government's overall capital allocations, we urge the Welsh Government to give further consideration to switching revenue to capital or providing revenue support for capital projects for these sectors, given the long-term benefits this would provide.

209. The Committee heard the additional funding provided by the Welsh Government during the pandemic has been key to the response and the sectors' financial stability. The Minister clarified that the UK Government has subsumed COVID-19 funding into its baseline budgets and

²⁵⁰ Welsh Government, [Decision Reports : 2021 – 6th Government](#), 30 December 2021

therefore, there are no specific allocations for 2022-23 for responding to the pandemic. This is disappointing. Even in the absence of new restrictions, some pandemic-related pressures are likely to continue into the next financial year and beyond, including reduced income from sales, fees and charges. The sectors are also likely to face other financial pressures, arising from increased demand, inflation and the rising energy costs, to name but a few.

210. The Committee notes the level of reserves held by local government and recognises that, during the pandemic, the sector has taken on a wide range of additional new responsibilities in addition to delivering its core services. While we acknowledge that the Welsh Government publishes each year information about them, the Committee believes further analysis and understanding is needed about the level of reserves held by local government bodies since it varies considerably across the sector. Such a review should consider whether there are implications for the formula for distributing core funding to local government bodies.

211. The Committee is concerned about staff shortages and workforce issues. These include short term issues, such as staff burnout and COVID-19 absences, to more longer-term challenges, such as dealing with staff vacancies, competition from private and other public services and wage pressures. The Committee pays tribute to the work of staff at the forefront of dealing with the pandemic and recognises the sustained pressure on them. We are concerned to hear that many in the health and social care sector are making alternative career choices and leaving these professions. Organisations are holding staff vacancies, which is resulting in higher agency staff costs.

212. We welcome the Welsh Government's view that addressing the backlog of treatments delayed by the pandemic is its "highest priority". The Committee would welcome information about the specific outcomes the additional funding set out in the Draft Budget will deliver. However, the Committee heard the challenges to addressing the backlog are both financial and workforce related. We note the Welsh Government's additional investment in education and training for the future NHS workforce. However, we are not clear how the allocations in the Draft Budget will alleviate the immediate pressures on staffing across the three sectors.

213. The Committee welcomes the move to paying the Real Living Wage for care workers, but urges the Welsh Government to engage with these sectors to ensure the investment in staff pay and wellbeing is supported. The Committee also notes the challenges meeting the cost of pay awards beyond 2022-23, particularly if further funding is not allocated by the UK Government.

214. The Committee is unclear what the impact of extending free school meal entitlement to all primary school children will have on the formula for determining the Revenue Support Grant for each Council. This uses the number of primary school children eligible for free school meals is

an indicator to calculate aspects of Standard Spending Assessments (SSA). The Committee notes that work will be carried out by the distribution sub-group and would welcome clarification once this work is completed.

Conclusion 5. The Committee notes the positive comments from the health and local government sector about the Welsh Government's responsiveness and financial support during the pandemic.

Recommendation 18. The Committee recommends that the Welsh Government provides further detail on future years' indicative funding allocations for local government bodies once the data has been released and it has more certainty over the distribution to individual organisations.

Recommendation 19. The Committee recommends that future budgets should include indicative allocations for individual organisations over the three-year budget period to enable them to plan more efficiently.

Recommendation 20. The Committee recommends that the Welsh Government provides details of the funding for local health boards for 2022-23, together with any indicative allocations for 2023-24 and 2024-25.

Recommendation 21. The Committee recommends that the Welsh Government considers switching revenue to capital as part of future budgets, and allows the health sector to do the same, thereby providing flexibility given the limited capital funding available.

Recommendation 22. The Committee recommends that the Welsh Government undertakes a review of the reserves held by local government bodies to gain a better understanding of them, and that the outcomes of the review should consider whether there are any implications for the formula for distributing core funding to individual local government bodies.

Recommendation 23. The Committee recommends that, following the receipt in March of the integrated medium term plans from local health boards, the Welsh Government provides information about the specific outcomes expected to be delivered by the additional funding for addressing the backlog of treatments.

Recommendation 24. The Committee recommends that the Welsh Government provides information to demonstrate how the allocations for 2022-23 alleviate the immediate pressures on staffing across the health, local government and social care sectors.

Recommendation 25. The Committee recommends that the Welsh Government provides clarity on what it is considering as a replacement indicator to calculate the Local Government settlement for each council when it is no longer able to use the free school meals entitlement as proxy for disadvantage for children of primary school age.

6. Supporting Business

"The economy needs to recover and the more robust the economy is the more it can feed into almost every other area of funding."²⁵¹

Business owner

215. The Draft Budget outlines how the Welsh Government will invest in its delivery of the Programme for Government. This includes creating "a stronger Wales", noting:

"There is an opportunity to invest now so the road to recovery – whenever it comes - is one which invests in people, services, infrastructure and business support. As part of this investment the Welsh Government will be demonstrating how effective funding for key services will create more and better opportunities, post pandemic."²⁵²

216. The Minister said that in the lead up to the Draft Budget she met with the Welsh Retail Consortium (WRC), and their social partnership council, including the Federation of Small Businesses (FSB) and the Confederation of British Industry (CBI). She mentioned that evaluation has been built into business support schemes and the impact of support through the Development Bank of Wales and Business Wales which would be considered by the Minister for Economy when preparing departmental budgets.²⁵³

217. The WRC felt the budget engagement had "been hugely accessible" both in terms of with the Welsh Government and the Committee.²⁵⁴

218. The Wales CBI²⁵⁵ and FSB agreed. However, the FSB noted:

"within the model of social partnership, we don't now have things like the council for economic development, a formal group that may have been able to provide for a more detailed look at the budget across the groups in industry, and that might be a recommendation going forward, how we use

²⁵¹ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 17

²⁵² Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

²⁵³ Finance Committee, RoP, 22 December 2021, paragraph 123 & 125

²⁵⁴ Finance Committee, RoP, 19 January 2022, paragraph 175

²⁵⁵ Finance Committee, RoP, 19 January 2022, paragraph 182

*the partners around the table for that. But I think the engagement was there to be had, to be fair to Welsh Government, I guess.*²⁵⁶

Budget Transparency

219. The WTA outlined its views relating to the transparency of the Draft Budget:

*"The annual report on the Welsh Government's consolidated fund provides us with no information with which we can usefully use to respond to this consultation. The fact that the final current annual budget MEG for the economy is £1.75bn tells us nothing about investment in tourism."*²⁵⁷

220. It also noted that the "narrative accompanying the budget identifies some key areas of expenditure, which could include tourism. However, without overt reference, it is unlikely that those recipients will think of how our industry can help them fulfil their aims and vice versa".²⁵⁸

221. The WTA recognised it's a "tricky operation" producing a budget that answers "every single question" but that a way to improve that would be through "mini sub-budgets that are accessible to the public and so that, certainly, organisations like ours could look in more depth at what's provided for tourism".²⁵⁹

222. The FSB agreed:

*"I think it is difficult to pick out, I guess, the money that's available with strategic intent. I think that reflects the fact that there isn't, clearly, at the moment, an economic strategy for Wales. It's very difficult to understand the way in which Welsh Government wants to develop particular sectors of the economy, and that's not reflected in the budget."*²⁶⁰

COVID-19 Pandemic

223. The WRC noted that the "past eighteen months of the COVID pandemic have been the most challenging and tumultuous period for the Welsh retail industry in decades, with sharp

²⁵⁶ Finance Committee, RoP, 19 January 2022, paragraph 180

²⁵⁷ Finance Committee, Consultation response: [Wales Tourism Alliance](#)

²⁵⁸ Finance Committee, Consultation response: [Wales Tourism Alliance](#)

²⁵⁹ Finance Committee, RoP, 19 January 2022, paragraph 117

²⁶⁰ Finance Committee, RoP, 19 January 2022, paragraph 173

consequences for large swathes of the industry many of whom continue to face an uncertain future."²⁶¹

224. The WRC further noted that the “industry has publicly praised the substantial and swift support that has been on offer from government for the sector during the crisis, especially the business rates waiver, furlough scheme, grants and loans”. However, it highlighted the need for alternative government support as programmes such as the furlough scheme are removed.²⁶²

225. FSB Wales commented on the need for contingency funding to be put in place in anticipation of other shocks the pandemic could potentially pose. It highlighted the prudence of the Welsh Government in their use of support funds, which has allowed them to have funds held back for a potential crisis in 2021-22, which it noted was the correct approach given the Omicron variant.²⁶³ Subsequently, FSB Wales noted:

“We would urge a similar approach for 2022-23, with clear benchmarks and timelines for when such funding can be released from 'crisis funding' to support the wider budget should circumstances allow.”²⁶⁴

226. The OBR said it was surprised how the UK economy was able to “adapt” to pandemic conditions, both in terms of businesses providing and consumers buying goods and services.²⁶⁵

227. The Wales CBI said that engagement with the Welsh Government during the pandemic had “been exceptional”. It added “I think where our members are focused now is the new normal: how do we keep the benefits of the approach during the pandemic to economic funding? That’s going to be the challenge for Welsh Government—not to revert to type.”²⁶⁶

228. Both the WTA²⁶⁷ and FSB²⁶⁸ agreed.

229. The Minister said that, through the course of the pandemic, in excess of £2.5 billion of funding had been provided to Welsh businesses “and our package of funding has been

²⁶¹ Finance Committee, Written evidence: [Welsh Retail Consortium](#)

²⁶² Finance Committee, Written evidence: [Welsh Retail Consortium](#)

²⁶³ Finance Committee, Written evidence: [FSB Cymru](#)

²⁶⁴ Finance Committee, Written evidence: [FSB Cymru](#)

²⁶⁵ Finance Committee, RoP, 14 January 2022, paragraph 69

²⁶⁶ Finance Committee, RoP, 19 January 2022, paragraph 196

²⁶⁷ Finance Committee, RoP, 19 January 2022, paragraph 198

²⁶⁸ Finance Committee, RoP, 19 January 2022, paragraph 200

designed to complement and build on the support of the UK Government, identifying gaps that exist".²⁶⁹ The Minister went on:

*"I know that our 100 per cent rate relief for retail hospitality and leisure businesses for the whole financial year has been very welcome and very timely as well in respect of the omicron variant, which we didn't have any concept of at the time of making that decision, but I think it's proved useful. And we know that we've managed to protect in excess of 160,000 Welsh jobs, which might have otherwise been lost, through our interventions, which have been really, really important."*²⁷⁰

Business Rates and Rents

230. The Draft Budget provides "over £110 million in additional non-domestic rates relief to businesses in the retail, leisure and hospitality sectors". It allocates:

- £116 million package of non-domestic rates (NDR) relief for eligible businesses.
- Retail, leisure and hospitality ratepayers in Wales will receive 50 per cent NDR relief for the duration of 2022-23.
- The NDR multiplier will not increase in 2022-23 at an estimated cost of £35 million.²⁷¹

231. The WRC highlighted that the business rates relief implemented by the Welsh Government during the pandemic had been absolutely critical for the industry. The consortium mentioned "it provided timely cashflow assistance, and helped firms fund Covid safety expenditure and changes to their business models".²⁷²

232. FSB Wales highlighted that its members routinely put business rates "in the top three concerns" when considering pressures. It also felt business rates were "an outdated form of taxation".²⁷³

233. FSB Wales noted that the 2022-23 Draft Budget was drafted prior to the Omicron crisis and before the severity of the significant additional challenges within these sectors were felt.²⁷⁴ It

²⁶⁹ Finance Committee, RoP, 21 January 2022, paragraph 162

²⁷⁰ Finance Committee, RoP, 21 January 2022, paragraph 162

²⁷¹ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

²⁷² Finance Committee, Written evidence: [Welsh Retail Consortium](#)

²⁷³ Finance Committee, RoP, 19 January 2022, paragraph 217

²⁷⁴ Finance Committee, Written evidence: [FSB Cymru](#)

has called for the 100 per cent business rates relief to be retained for 2022-23 due to the impact of Omicron and because business are facing “a cocktail of issues” with the rise in national insurance contributions, energy costs and inflation.”²⁷⁵

234. The WRC agreed that the Draft Budget did not go “anywhere near far enough on business rates”.²⁷⁶

235. In addition, the WRC highlighted concern of revaluation and that rental rates are “completely out of kilter with the economy”. It said that in Wales there wouldn't be “a revaluation now for a number of years.” However, it noted that England will be moving to a three-year revaluation in-line with what already happens in Scotland.²⁷⁷

236. The FSB agreed that “the way in which business rates adjust to rents is very variable and really problematic”.²⁷⁸

237. The IFS noted that the Welsh Government's measures “next year mirror those made by the UK Government for England. Both are freezing the multiplier, which will permanently reduce revenues, and both are providing a 50 per cent reduction in rates for the retail, hospitality and leisure sectors, subject to a cap of £110,000 per business.”²⁷⁹

238. The IFS added:

“...in the long run, I expect the freeze in the multiplier, which, as I said, has a permanent effect on revenues, to cost less than the funding received by the Welsh Government. Given the lower average value of properties in Wales, it means that it costs less to freeze business rates for a year than it does in England—than a population-based share of the English funding provides to the Welsh Government. So, in the long run I expect the net effect on the Welsh budget from the English changes and the Welsh changes combined to be a bit positive, although of course money spent on freezing business rates is money that could have been spent on other service areas, and, in the longer run, I'd probably expect the biggest beneficiaries of this one-year freeze in rates to be not the occupiers of businesses or properties, but to be

²⁷⁵ Finance Committee, RoP, 19 January 2022, paragraph 207

²⁷⁶ Finance Committee, RoP, 19 January 2022, paragraph 204

²⁷⁷ Finance Committee, RoP, 19 January 2022, paragraph 204

²⁷⁸ Finance Committee, RoP, 19 January 2022, paragraph 223

²⁷⁹ Finance Committee, RoP, 14 January 2022, paragraph 188

*the landlords, because there's very good evidence that in the long run lower rates get reflected in higher rent.*²⁸⁰

239. The Minister confirmed that business rates provide £1 billion for the Welsh Government's budget each year. She said "we often hear calls to just scrap business rates, but then we'd have to know what we're going to scrap alongside that £1 billion". The Minister said the Welsh Government provides "significant support for businesses to help them with their rates" but does so in a way that is coherent with the Welsh Government's approach to tax "which is a fair one, to ensure that we're supporting the businesses that need it".²⁸¹

240. The Minister's added that she intends to "do a statement in due course on reforming or changes to non-domestic rates".²⁸²

Retail Strategy

241. The WRC reported that "shopper footfall remains 17% below pre-pandemic levels, shop vacancies have spiked with one in five premises now vacant and retail sales in Wales, while recovering, have yet to claw their way back to pre-pandemic levels and remain lacklustre".²⁸³

242. The WRC²⁸⁴ and IFS highlighted the "Northern Ireland's high-street voucher scheme" and whether it would be possible to have a similar scheme in Wales. IFS suggested:

*"a pre-paid card that could be spent in bricks and mortar retail, leisure and hospitality venues. That could be an energy card scheme or it could still actually be a high-street voucher scheme and people could spend that and then save some of the money and spend that on energy bills. And perhaps that could also not only help households meet some of the rising costs of energy, but actually provide a bit of a boost to bricks-and-mortar businesses in Wales as well, because, as money will be spent in bricks and mortar, not online, that could be of some benefit."*²⁸⁵

²⁸⁰ Finance Committee, RoP, 14 January 2022, paragraphs 189 & 190

²⁸¹ Finance Committee, RoP, 21 January 2022, paragraph 136

²⁸² Finance Committee, RoP, 21 January 2022, paragraph 149

²⁸³ Finance Committee, Written evidence: [Welsh Retail Consortium](#)

²⁸⁴ Finance Committee, Written evidence: [Welsh Retail Consortium](#)

²⁸⁵ Finance Committee, RoP, 14 January 2022, paragraph 106

Digital Infrastructure

243. The Draft Budget notes that the Welsh Government is providing an additional £1 million to take forward its digital strategy for Wales which aims to stimulate innovation in Wales's economy and support businesses to develop the resilience they need to succeed.²⁸⁶

244. When scrutinising the Welsh Government's 2021-22 Draft Budget, the previous Finance Committee heard from the WTA that there was a lack of IT skills in the tourism sector, which posed challenges during the pandemic.²⁸⁷

245. The WRC said "we need to support particularly our smaller retailers to be able to have a multiplatform approach to retailing to be able to fit in with our everyday lives."²⁸⁸

246. The WRC highlighted two issues:

"One is making sure that we've got the digital infrastructure in place, particularly in our rural areas, to enable online activity. So, again, I don't see what's in the budget that is around digital infrastructure investment, in terms of superfast broadband. So, that's an area that we might want to focus in on.

In terms of the digital skills themselves for small businesses and others that want to get online, there's an opportunity there through the evolving retail strategy. Let's look at best practice. Let's see how we can support smaller businesses to match them up with bigger businesses to learn the skills that they need to develop that multi-channel offer."²⁸⁹

247. The FSB added that a number of small business during the pandemic "through necessity" moved to having an online presence and that "we do need to push more businesses to do that".²⁹⁰ However, it noted:

"It isn't for all, though. I think, if you're looking at a clothing retailer, clothing is one of those things where there tends to be a significant proportion of returns, and that then represents an additional cost for quite a small business in not only the financial cost of administering that, but, obviously, the cost in terms of hours worked in administering that. So, we need to understand, I

²⁸⁶ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

²⁸⁷ Fifth Senedd Finance Committee, RoP, [15 January 2021](#), paragraph 259

²⁸⁸ Finance Committee, RoP, 19 January 2022, paragraph 244

²⁸⁹ Finance Committee, RoP, 19 January 2022, paragraphs 246 & 247

²⁹⁰ Finance Committee, RoP, 19 January 2022, paragraph 252

guess, sectors of the SME economy where it is most relevant. But there is more that can be done to bring smaller businesses to having an online presence in addition to that high-street footprint. I think we'd be very reluctant to see a one-or-the-other scenario emerge."²⁹¹

248. The Minister said the Draft Budget includes more than £66 million over three years for Business Wales activity, including supporting businesses with their digital skills needs. She said this "will enable the service overall to engage with over 60,000 businesses".²⁹²

Skilled Workforce

249. The WRC noted that "a more highly skilled workforce will be key as the industry transforms itself for the future".²⁹³ It added:

"Level 2 and 3 apprenticeships should be encouraged and increased through Government support to enable a pathway of development. This is increasingly acute at a time when retailers are devoting more of their budgets towards training staff to implement public policy e.g. minimum unit pricing of alcohol and Covid restrictions."²⁹⁴

250. The WRC said that "now more so than ever" apprenticeships and skills training are really important, especially given the "changing way in which retailing is taking place and the importance of digital skills particularly within the retail offer."²⁹⁵

251. However, the WRC went on to say that "in terms of the budget itself, I don't really understand the detail enough. I know there's some strong funding in there around apprenticeships, but how that actually plays out for retail I'm not sure at this stage."²⁹⁶

252. The Wales CBI noted that its members "want more advanced apprenticeships if possible, and the other thing is around frameworks—new frameworks. It takes quite a long time to sign them off, and if you are a big business dealing with dozens of apprentices, that can be a real frustration."²⁹⁷

²⁹¹ Finance Committee, RoP, 19 January 2022, paragraphs 252

²⁹² Finance Committee, RoP, 21 January 2022, paragraph 168

²⁹³ Finance Committee, Written evidence: [Welsh Retail Consortium](#)

²⁹⁴ Finance Committee, Written evidence: [Welsh Retail Consortium](#)

²⁹⁵ Finance Committee, RoP, 19 January 2022, paragraph 260

²⁹⁶ Finance Committee, RoP, 19 January 2022, paragraph 263

²⁹⁷ Finance Committee, RoP, 19 January 2022, paragraph 268

253. The Minister said she was:

*"excited by the work we're doing through our personal learning accounts programme, which supports individuals to do just that—to move up the ladder or to retrain for different work. And we know, of course, there are particular gaps now within our workforce in terms of skills, so we look at plugging those at the same time, which will be important."*²⁹⁸

254. The Minister said she hoped to grow the Welsh tax base by "maximising the income that individuals are able to achieve by investing in their own individual skills is important".²⁹⁹

Greener Economy

*"It might sound a bit counterintuitive, but the economy could survive for a year with less because there's no point people being really rich if the planets going to die."*³⁰⁰

Young person

255. The Draft Budget notes that "businesses need to adapt to climate change and respond to the rapid increases in digitisation and shifts in town centres driven by the pandemic".³⁰¹

256. The Draft Budget includes an additional £3 million revenue and a total £100 million capital up to 2024-25 to support the sustainable growth of towns and cities and their transformation into places of living, working, learning and leisure. It notes:

"this funding will enable both the delivery and accessibility of key public services and at the same time, drive business development and job creation opportunities. In this way, town centres can be the focal point of communities".³⁰²

257. The FSB said it was "very difficult to unpick the levels of support that will be angled in for businesses" within the Draft Budget.³⁰³ It added:

²⁹⁸ Finance Committee, RoP, 21 January 2022, paragraph 163

²⁹⁹ Finance Committee, RoP, 21 January 2022, paragraph 163

³⁰⁰ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 17

³⁰¹ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

³⁰² Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

³⁰³ Finance Committee, RoP, 19 January 2022, paragraph 234

"We know that we need to push businesses to do better, to understand decarbonisation, and I was involved in a conversation yesterday with other partners on this. But we don't yet know what proportion of business support will be made available to businesses to guide that conversation. And I should just caveat that business support isn't just financial support, it is signposting through things like the Business Wales service."³⁰⁴

258. Wales CBI commented:

"One thing we found that's missing is around energy-intensive users. There doesn't seem to be much in either strategy or budget that says how we're going to help these large firms decarbonise. They're major employers, and a lot of them are not sure what support is available at a Wales level. That didn't use to be the case. I've been here for 10 years, and previous Welsh Governments have supported firms significantly to make the investments required. And this is not about Welsh Government funding everything. As multinationals, how they function is that it's an internal competition for additional waves of investment, and it's whichever site can offer the best return on investment that's often chosen by the headquarters, which can be anywhere."³⁰⁵

Circular Economy

259. The Draft Budget states that the Welsh Government is investing an additional £5 million towards the Circular Economy, and the Circular Economy Fund for business has also been expanded to £10 million over the next three years.³⁰⁶

260. The FSB said the funding was "positive". It continued:

"you're looking at two areas: you're looking at businesses, innovators coming up with solutions for that, and businesses as, obviously—'practitioners' is the wrong word—consumers, and the conversation about systems change. I think a lot of that is delivered, obviously, through business support—so, things like the Business Wales service."³⁰⁷

³⁰⁴ Finance Committee, RoP, 19 January 2022, paragraph 234

³⁰⁵ Finance Committee, RoP, 19 January 2022, paragraph 238

³⁰⁶ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#)

³⁰⁷ Finance Committee, RoP, 19 January 2022, paragraph 272

261. The WTA agreed that its “not really clear how our businesses could be supported to be proactive and positive contributors to that.”³⁰⁸

262. Whilst the WRC supported the circular economy agenda, it needs to be “read alongside some of those wider policy interventions” and also “around things like a plastics tax, extended producer responsibility and a deposit-return scheme, all these things are going to start to come back on the table now as we move from this pandemic period”.³⁰⁹

Tourism Levy

263. The Welsh Government's Welsh Tax Policy Report 2021³¹⁰ noted it was conducting preparatory work to undertake a consultation on proposals to permit local authorities to raise a tourism levy:

*“Plans are in development for collaboration and engagement with partners to identify levy design and administration options, alongside their relative costs and benefits to support the formal consultation on draft legislative proposals which will commence in autumn 2022.”*³¹¹

264. The WTA told the Committee it had “no direct contact” or engagement with the Welsh Government on the tourism levy.³¹² In relation to the impact the levy might have, WTA said:

*“There are plenty of other pressures on all businesses at the moment; everyone on this panel knows that...One of the main concerns about the current proposals is that ring fencing is not necessarily one of the options, and it isn't also noted who would be subject to a levy...But, naturally, the industry as a whole is concerned about it, because they don't know how they're affected, and they're paying VAT in a way that countries that do have tourism tax don't.”*³¹³

Committee View

265. The Committee is pleased to hear that, in general, the Welsh Government has engaged well with the business sector on the Draft Budget. However, it is disappointing to hear that

³⁰⁸ Finance Committee, RoP, 19 January 2022, paragraph 274

³⁰⁹ Finance Committee, RoP, 19 January 2022, paragraph 277

³¹⁰ Welsh Government, [Welsh Tax Policy Report December 2021](#)

³¹¹ Welsh Government, [Welsh Tax Policy Report December 2021](#)

³¹² Finance Committee, RoP, 19 January 2022, paragraph 187

³¹³ Finance Committee, RoP, 19 January 2022, paragraphs 189 and 190

respondents found it difficult to understand what the budget and allocations contained within the Draft Budget meant for their industries or sectors. FSB Wales also felt the Welsh Government lacked an economic strategy. It was suggested this could be addressed through the inclusion of sub-budgets in the Draft Budget documentation to make it more accessible for organisations to find information relating to their areas.

266. The Committee acknowledges the substantial and swift support provided to businesses by the Welsh Government during the pandemic, particularly the business rates waiver, furlough scheme, grants and loans. However, the Committee recognises the on-going concerns businesses still face and believes contingency funding should be put in place in anticipation of other shocks the pandemic could potentially pose.

267. The Committee heard that the business rates relief implemented by the Welsh Government during the pandemic had been critical for businesses in providing timely cashflow assistance and in supporting them to change their business models to comply with COVID-19 safety measures. We note that stakeholders have called for the 100 per cent business rates relief to be retained for 2022-23, especially given the additional pressures facing them as a result of rising national insurance contributions, energy costs and inflation. However, business rates provide £1 billion for the Welsh Government's budget each year and the continuation of the relief could mean a reduction in funding elsewhere. Therefore, the Committee believes the Welsh Government should undertake work to consider alternative means of taxation on businesses to ensure a fairer system before any changes are introduced. We also believe that the Welsh Government should undertake a deeper analysis of the impact of rate reliefs to make sure that the support available is reaching and benefiting the right people.

268. The Committee believes the Welsh Government should follow England and Scotland and move to a three-year revaluation of rental properties, to ensure rental rates are in-line with the economy.

269. The Committee recognises that high-streets and town centres have been severely affected by the pandemic. The Committee believes there is merit in considering a high-street voucher scheme, similar to the scheme in Northern Ireland to help retailers recover post pandemic. Support is needed for smaller businesses and retailers with their digital skills, to enable them to create an online presence to develop resilience, particularly competing against much larger retailers. More investment is also needed in digital infrastructure, to ensure businesses are able to operate online, particularly in rural areas.

270. The Committee notes the support provided for apprenticeships and wider skill development programmes. However, we feel that more investment is required in upskilling the

workforce, given that improving skills and raising aspirations are a route out of poverty. In addition, maximising the income individuals can achieve would help grow the Welsh tax base.

271. The Committee is disappointed to hear that respondents felt that the Welsh Government was lacking a strategy to help large businesses understand decarbonisation and that it was difficult to identify the level of support that would be available. Large businesses will be key to building a greener economy and the Committee believes more should be done by the Welsh Government not just in terms of financial support but also signposting businesses to support services such as Business Wales and funding through financial transaction capital (issues relating to FTC transaction capital are discussed in Chapter 2).

272. The Committee notes that the Welsh Government is intending to consult on a tourism levy in the autumn. The Committee urges the Welsh Government to provide clarity on the consultation, including remit and timescales. It should also ensure that all businesses irrespective of their size, are aware of and able to engage with the consultation.

Recommendation 26. The Committee recommends that the Welsh Government considers how to respond to feedback from stakeholders that they find it difficult to understand what the budget and allocations contained within the Draft Budget mean for their industries or sectors.

Recommendation 27. The Committee recommends that, as part of the consideration into further allocations being made in the Final Budget, the Welsh Government considers increasing the support for Business Rates relief.

Recommendation 28. The Committee recommends that the Welsh Government provides information to the committee on the beneficial impact of rate relief for businesses to ensure that it is an effective means of support and reaches those that need it.

Recommendation 29. The Committee recommends that the Welsh Government looks at:

- prioritising investment in digital infrastructure to deliver a more agile workforce; and
- pays particular focus to supporting investment in digital infrastructure and helping small retailers and other businesses to develop digital skills and online presence;

so that businesses are able to respond robustly to the pandemic, particularly with the disappearance of EU funding from this area.

Recommendation 30. The Committee recommends that the Welsh Government provides clarity on the tourism levy consultation, including remit and timescales. The Welsh Government

should also respond to the Welsh Tourism Alliance's concerns and ensure that all businesses, irrespective of their size, are aware of and able to engage with the future consultation.

7. Climate Change and Carbon Reduction

"Climate change should be integrated into every single area of spending not as a silo."³¹⁴

Business owner

"I think ultimately, if we don't do something to fix climate change nothing else is going matter for that much longer."³¹⁵

Lifelong learner

273. The Draft Budget sets out a commitment to "embed our response to the climate and nature emergency in everything we do".³¹⁶ It includes a "£1.8bn targeted investment in our response to the climate and nature emergency including the national forest, biodiversity, active travel, decarbonising housing, the circular economy, renewable energy, and flooding".³¹⁷

274. The Climate Change MEG is due to receive an increase of 15.2 per cent in revenue and capital allocations in 2022-23 (above the total increase of 13.7 per cent), though activity to address the climate and nature emergencies can span portfolios.³¹⁸

275. The Draft Budget maps out capital investment against service area, with £4.8 billion provisionally allocated to the Climate Change MEG over the next three years (£1.6 billion in 2022-23). This equates to more than half of the Welsh Government's total capital allocations.³¹⁹

276. Alongside the Draft Budget, the Welsh Government published a new 10 year Wales Infrastructure Investment Strategy (WIS)³²⁰ and the Infrastructure Finance Plan (IFP)³²¹, reflecting the Welsh Government's infrastructure investment plans over the financial years 2022-23 to 2024-25.

³¹⁴ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 11

³¹⁵ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 11

³¹⁶ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 30

³¹⁷ Welsh Government, [page v](#)

³¹⁸ Senedd Research, [Welsh Government Budget 2022-23 – Explore the budget](#), December 2021

³¹⁹ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), pages 46 and 48

³²⁰ Welsh Government, [Wales Infrastructure Investment Strategy](#), December 2021

³²¹ Welsh Government, [Infrastructure Finance Plan 2021](#), December 2021

277. The Commissioner emphasised the importance of this Draft Budget, the first of the new Senedd term and the first post-COP26.³²²

Decarbonisation

278. In February 2021, the previous Welsh Government laid regulations that set the delivery of net-zero emissions by 2050 on a statutory basis.³²³ The Draft Budget commits to making “maximum progress towards decarbonisation”.³²⁴

279. Addressing the allocations in the Draft Budget, the Minister told the Committee:

*“The climate change MEG has capital allocations of more than £4.8 billion—that’s over half of our capital departmental expenditure limit budget over the next three years. So, you’ll see significant investment in that area, and it’s driven by our net-zero plan...”*³²⁵

280. A significant element of the capital funding allocated is focussed on decarbonising homes, with £580 million allocated over the next three years to decarbonise social housing stock (£180 million in 2022-23). The IFP outlines a further £189 million (£49 million in 2022-23) over the next three years in relation to fuel and energy.³²⁶

281. Last year, the Commissioner published research into the total funding needed for the decarbonisation of homes in Wales. This estimates that a national programme will cost £14.75 billion up to 2030, including £5.5 billion for social housing, £4.8 billion for fuel poverty and £4.4 billion for the owner occupied and private rented sectors.³²⁷ The Commissioner has also suggested that this long-term investment plan cannot be “achieved alone or within current mechanisms”, instead requiring innovative ways of leveraging other sources of funding and investment.³²⁸

282. The IFP notes that the total cost of decarbonising housing stock in Wales “will far exceed” what the Welsh Government can directly finance, and suggests that investments generating the

³²² Finance Committee, RoP, 19 January 2022, paragraph 8

³²³ Senedd Research, [Climate change: the path to zero emissions, May 2021](#)

³²⁴ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 21](#)

³²⁵ Finance Committee, RoP, 21 January 2022, paragraph 106

³²⁶ Welsh Government, [Infrastructure Finance Plan 2021, December 2021, pages 10 and 36](#)

³²⁷ Future Generations Commissioner for Wales and New Economics Foundation, [Homes fit for the Future: The Retrofit Challenge, page 3](#)

³²⁸ Future Generations Commissioner for Wales and New Economics Foundation, [Homes fit for the Future: The Retrofit Challenge, page 8](#)

necessary capacity and skills, and developing approaches that other tenures can benefit from is “an equally important outcome”.³²⁹

283. The Commissioner has also suggested that investment should prioritise the worst performing homes first, on the basis that:

*“The poorest and most marginalised populations are least responsible for climate change but the most likely to be exposed to its negative effects, more susceptible to damage and have the least resources to respond, cope and recover, so Wales should target the worst homes first...”*³³⁰

284. When asked whether budget allocations sufficiently support the aspirations of the Net Zero Wales plan, the Commissioner said:

*“The £1.8 billion, which has been the headline capital figure for net zero or for climate and nature emergencies, is certainly positive. If you look at that as £600 million per annum, our estimations are that that's probably an increase of about £380 million based on last year. So, that's significant and welcome. We do think, however, that it's perhaps lacking a really clear assessment back to Net Zero Wales. What we're not clear on, because they haven't done this analysis, is which of the Net Zero Wales commitments—and there are over 100 of them—are being funded as part of this budget, which aren't, or which are only being partially funded and perhaps need more work. I think there we need to be seeing that kind of analysis so that we can see...where we're making really good progress and where the gaps might be.”*³³¹

285. While not anticipating that all funding would come from the Welsh Government, the Commissioner emphasised the huge challenge to get from £1.8 billion over the next three years to the £3 billion per annum the UK Climate Change Committee says Wales should be spending on tackling climate change, suggesting it could require “really significant investment and pump-priming within the private sector to enable the private sector to help them meet the burden of that cost”.³³²

³²⁹ Welsh Government, [Infrastructure Finance Plan 2021, December 2021, page 12](#)

³³⁰ Future Generations Commissioner for Wales, [Press Release: We can end fuel poverty with £15bn retrofit investment plan for our homes, July 2021](#)

³³¹ Finance Committee, RoP, 19 January 2022, paragraph 13

³³² Finance Committee, RoP, 19 January 2022, paragraph 15

286. The Commissioner said investment would need to be backed up by regulation and flow through procurement, raising concerns with the existing procurement process:

"...we're spending between £6 billion and £7 billion per year on procuring goods and services, infrastructure and so on, in Wales. In 2019-20, I did a section 20 review into procurement, and we looked at 363 Sell2Wales contracts...Not a single one of those tenders referenced carbon reduction as a requirement in terms of those tenders... We're in the process of looking again at those Sell2Wales tenders. We've got through 41 at the moment, looking at construction and food procurement, and again, not a single one has a reference to decarbonisation. This is when we're in the middle of a climate emergency."³³³

287. The Commissioner suggested that there was no mechanism for monitoring the requirement to work towards decarbonisation as part of the Welsh Government's economic contract with private sector firms receiving public money.³³⁴

288. On the issue of support for businesses to adapt to climate change, the FSB felt it was difficult to ascertain where support will be targeted from the budget narrative, providing the example:

"If there is a move to air-source heat pumps, for instance, significantly in domestic properties, what we'd like to see is looking at the opportunity of deriving the skills that are needed and angling that in, particularly on growing the small business economies. It's very difficult to get that narrative out of the budget."³³⁵

289. While the Wales CBI said there is not much in the Draft Budget and WIIS to help large energy-intensive users to decarbonise, calling for a stronger focus on renewable energy investment.³³⁶

290. When asked what outcomes the Welsh Government is expecting to achieve from the targeted investment in the climate and nature emergency, the Minister referred to the 'greener Wales' section of the budget narrative and specific allocations set out in the IFP, with the

³³³ Finance Committee, RoP, 19 January 2022, paragraph 16

³³⁴ Finance Committee, RoP, 19 January 2022, paragraph 67

³³⁵ Finance Committee, RoP, 19 January 2022, paragraph 234

³³⁶ Finance Committee, RoP, 19 January 2022, paragraph 238

Minister's official adding that they have tried to provide a high-level view in the budget document.³³⁷

Wales Infrastructure Investment Strategy

291. The Draft Budget notes a "fundamental zero-base review" of capital budgets, with the SIA explaining that:

*"Instead of bringing forward baseline budgets from the previous year, and then revising for reprioritisation and additional pressures, all departmental budgets have been reset to zero."*³³⁸

292. The Minister told the Committee that the zero-base review of capital in developing the WIIS and the IFP has "helped us to refocus our minds really on the nature and the climate emergency and to allocate our resources in line with that".³³⁹

293. The SIA states that "by undertaking a zero-based review, we have been able to immediately operationalise our new 10 year Wales Infrastructure Investment Strategy (WIIS), published alongside this draft Budget".³⁴⁰ Many of the allocations described in the Draft Budget narrative link to capital investments identified in the WIIS, which states:

*"Addressing the climate and nature emergency is the overarching ambition of this infrastructure investment strategy, which has been designed specifically to support the delivery of a zero carbon economy."*³⁴¹

294. The WIIS goes on to say:

*"Whilst there will be some investments which are directly designed to reduce carbon and greenhouse gas emissions, we need to position all our ongoing and future infrastructure investments to play their part in achieving our reduction requirements and offer positive action for nature."*³⁴²

³³⁷ Finance Committee, RoP, 21 January 2022, paragraphs 92 and 97

³³⁸ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 74](#)

³³⁹ Finance Committee, RoP, 22 December 2021, paragraph 80

³⁴⁰ Welsh Government, [Draft Budget 2022-23: A Budget to build stronger, fairer and greener Wales, page 74](#)

³⁴¹ Welsh Government, [Wales Infrastructure Investment Strategy, December 2021, page 19](#)

³⁴² Welsh Government, [Wales Infrastructure Investment Strategy, December 2021, page 19](#)

295. The Commissioner said the WIIS is “incredibly positive” and has “really shifted on from where the last one was to really clearly align to the Well-being of Future Generations Act”. She went on to say that the change in focus “is a real step change in the whole approach”.³⁴³

296. While acknowledging that the ‘zero base’ approach to reviewing infrastructure investment is positive in terms of Ministers measuring their portfolios against the WFG Act, the New Economics Foundation highlighted some confusion around new and pre-determined capital spend:

“...if we look at the £1.8 billion figure, that includes things like, in relation to the retrofit of housing, I believe it includes the major repairs dowry fund funding. Now, that has been in place for many years, you know; it supports repairs of social housing. Yes, if managed well, it can support decarbonisation, but it's not new money per se. There are also other lines in the £1.8 billion that address things that are key priorities for the Government but don't necessarily address decarbonisation.”³⁴⁴

297. This was echoed by Wales Environment Link, who question whether spending identified in the budget is a “re-labelling of existing spend”, which “doesn't help us to break down what has changed or been re-prioritised over the years”.³⁴⁵

298. The New Economics Foundation said to reach the suggested level of investment, any funding needed to be additional. It added that the full £600 million a year implied by the budget could not “stack against” that additional funding figure. The New Economics Foundation suggested that the additional funding figure is actually “quite a bit lower”, going on to say that, of the £600 million per year (£1.8 billion over the next three years), “we would say the figure is closer to something like a £290 million increase between 2019-20 and today in terms of what can truly be called new and additional decarbonisation spend”.³⁴⁶

299. The WIIS sets out factors relating to climate and nature emergencies that must be considered when developing proposals:

- In developing all infrastructure proposals, the Welsh Government's response must embed our commitment to tackling the climate and nature emergency.

³⁴³ Finance Committee, RoP, 19 January 2022, paragraphs 9 and 63

³⁴⁴ Finance Committee, RoP, 19 January 2022, paragraph 20

³⁴⁵ Finance Committee, Written evidence: [Wales Environment Link](#)

³⁴⁶ Finance Committee, RoP, 19 January 2022, paragraph 21 and 22

- When developing projects and programmes for investment under this Strategy, policy officials must carry out robust analysis as to the holistic impact on carbon emissions from proposed programmes.³⁴⁷

300. When asked who is responsible for deciding which capital projects go forward, the Minister confirmed that she has overall responsibility for the WIIS and ensures funding is available to each investment area. She continued:

*"...it's the responsibility then for Cabinet colleagues to ensure that when they are deploying their own departmental envelopes to fund the specific projects within those investment areas that they can satisfy themselves that the project will deliver on the key objectives of the investment area, and therefore the strategic outcomes of the strategy."*³⁴⁸

301. In terms of measuring the impact of the IFP and WIIS, the Budget Improvement Plan contains the following action for 2022:

*"Development of evaluation and monito[r]ing approach to assess the extent to which the investments set out in the IFP have delivered against the outcomes in the WIIS and exploration of how Welsh Government internal processes and machinery can be op[t]imised to maximise delivery against outcomes."*³⁴⁹

Carbon Impact of the Budget

302. Following last year's Draft Budget scrutiny, the previous Finance Committee raised concerns that the Welsh Government had not gone far enough in embedding climate change in the budget:

*"While the Committee welcomes the increased investment and examples of funding allocations outlined by the Minister, it is not clear how the climate change and decarbonisation agenda is being mainstreamed in the budget process. To meet its ambitions, more systemic and transformational change is required."*³⁵⁰

³⁴⁷ Welsh Government, [Wales Infrastructure Investment Strategy, December 2021, page 20](#)

³⁴⁸ Finance Committee, RoP, 21 January 2022, paragraph 129

³⁴⁹ Welsh Government, [Budget Improvement Plan, December 2021, page 10](#)

³⁵⁰ Finance Committee (Fifth Senedd), [Scrutiny of the Welsh Government's Draft Budget 2021-22, page 74](#)

303. This is the first Draft Budget since new portfolios were established following the 2021 elections, creating a new Department for Climate Change and a Climate Change MEG. While welcoming the new department, Wales Environment Link raised concerns that the much larger MEG makes it harder to understand allocations.³⁵¹

304. The Welsh Government published 'Net Zero Wales Carbon Budget 2 (2021-25)' in October 2021, setting out how Wales will meet its second carbon budget, the 2030 emissions reduction target and net zero by 2050.³⁵² At the time, the Commissioner welcomed its publication but expressed disappointment at the approach to carbon assessment, stating:

*"...there is a disappointing lack of clarity provided on the approach that government is taking to assess the carbon impact of budget decisions and no commitment to adopting a 'net zero test' as recommended by the UK Committee on Climate Change."*³⁵³

305. In the past, both the Committee³⁵⁴ and Commissioner³⁵⁵ have called for a deeper understanding of the carbon impact of the budget. Some steps were made toward this, with an analysis of the carbon impact of spending included alongside the 2021-22 budget.³⁵⁶ However, the Commissioner suggests the usefulness of this work was "limited"³⁵⁷ and the previous Committee recommended that the Welsh Government develop a comprehensive assessment of its spending decisions in this regard³⁵⁸. An updated analysis of the 2021-22 budget was published alongside the Final Budget 2021-22.³⁵⁹

306. However, work has been undertaken alongside the Net Zero plan to consider the relative contribution to decarbonisation of policies proposed by Welsh Government's Transport

³⁵¹ Finance Committee, [Consultation response: Wales Environment Link](#)

³⁵² Welsh Government, [Net Zero Wales Carbon Budget 2 \(2021-25\), 28 October 2021](#)

³⁵³ Climate Change, Environment and Infrastructure Committee, [Consultation response: NZ05: Future Generations Commissioner for Wales](#)

³⁵⁴ Finance Committee (Fifth Senedd), [Scrutiny of the Welsh Government's Draft Budget 2020-21, pages 67-68](#)

³⁵⁵ Future Generations Commissioner for Wales, [Briefing to Assembly Members, December 2019, page 3](#)

³⁵⁶ Welsh Government, [Chief Economist's Report, December 2020, page 33](#)

³⁵⁷ Finance Committee, [Consultation response: Future Generations Commissioner for Wales](#)

³⁵⁸ Finance Committee (Fifth Senedd), [Scrutiny of the Welsh Government's Draft Budget 2021-22, Recommendation 27](#)

³⁵⁹ Welsh Government, [Towards a greenhouse gas assessment of the Welsh Government Budget: Illustrative results for the 2021-22 Draft Budget, March 2021](#)

department. The Net Zero plan discusses assessment of the carbon impact of different kinds of spending, suggesting this is "complicated in many cases". It later goes on to say:

*"Over Carbon Budget 2, working with Wales Centre for Public Policy, we aim to improve our understanding of how to effectively count the carbon impact of decisions and how multiple decisions interact to impact our overall targets. This will help increase awareness across sectors and society to enable better decisions to be made by everyone."*³⁶⁰

307. The Commissioner warns that without detailed carbon impact assessment of the majority of policies in the Net Zero plan it is "not possible to fully assess whether the plan is indeed of sufficient scope".³⁶¹

308. In terms of assessing the carbon impact of the Draft Budget, the Minister indicated that the IFP sets out some of the carbon impacts in the health and social services and public transport sections, adding "I think that's taking us a step forward on this journey of demonstrating the carbon impact of our choices".³⁶²

309. The Budget Improvement Plan includes some activity in relation to appraising financial decisions, including to:

*"Enhance approach or promote existing approach to appraising financial decisions to avoid the risk that Welsh Government would support infrastructure that increases emissions without a clear understanding of how the impact would be mitigated, and how the mitigation would be funded. Continue to explore the principle of aligning financial and carbon budgets, alongside the developing evidence base."*³⁶³

Nature and the Environment

310. Following the declaration of a climate emergency³⁶⁴, the Senedd also voted to declare a 'nature emergency', in June 2021³⁶⁵. This is reflected in the Welsh Government's Programme for

³⁶⁰ Welsh Government, [Net Zero Wales Carbon Budget 2 \(2021-25\), pages 33, 81 and 208](#)

³⁶¹ Finance Committee, [Consultation response: Future Generations Commissioner for Wales](#)

³⁶² Finance Committee, RoP, 21 January 2022, paragraphs 107-108

³⁶³ Welsh Government, [Budget Improvement Plan, December 2021](#)

³⁶⁴ Welsh Government, [Press Release: Welsh Government makes climate emergency declaration, 29 April 2019](#)

³⁶⁵ Plenary, RoP, 30 June 2021, paragraph 412

Government, which contains the commitment to “embed our response to the climate and nature emergency in everything we do”.³⁶⁶

311. While the declaration was welcomed by the Commissioner, she went on to say that “the actions and steps being taken in response are less clear”, referring to funding in recent budgets as “stagnant”.³⁶⁷

312. RSPB Cymru has called on the Welsh Government to ensure delivery of Welsh Government objectives is not limited to avoiding or mitigating harm to biodiversity in their departmental priorities, but also prioritises how spending can contribute to nature’s restoration and recovery.³⁶⁸

313. The IFP identifies £154 million of investment in nature and environment over the next three years (£41 million in 2022-23).³⁶⁹ There is also a further £142 million investment over the next three years for flood and water (£44 million in 2022-23).³⁷⁰

314. Responding to the publication of the Draft Budget, Wales Environment Link emphasised:

“Whilst we consider the climate and nature crisis as one – both sides of which should be given equal political priority and importance – tackling them does often require different mechanisms. Some actions can help both reduce carbon and restore nature, but to declare that there is £1.8bn set for “Wales’ response to the climate and nature emergency”, when in reality, much of that appears to be to help reduce carbon and will not have any knock on effects to benefit nature. This isn’t to criticise carbon reducing areas of spend; this is very welcome and necessary, but it would be disingenuous and misleading to describe this much being put towards nature.”³⁷¹

315. When asked for her views on capital funding allocations to address the nature emergency, the Commissioner emphasised that most of the £1.8 billion is directed towards “more pure decarbonisation, rather than the nature-related and biodiversity-related spend”, adding:

³⁶⁶ Welsh Government, [Programme for Government 2021-2026](#)

³⁶⁷ Finance Committee, Consultation response: [Future Generations Commissioner for Wales](#)

³⁶⁸ Finance Committee, Consultation response: [RSPB Cymru](#)

³⁶⁹ Welsh Government, [Infrastructure Finance Plan 2021, December 2021, page 40](#)

³⁷⁰ Welsh Government, [Infrastructure Finance Plan 2021, December 2021, page 74](#)

³⁷¹ Finance Committee, Written evidence: [Wales Environment Link](#)

*"We have found it quite challenging to understand the exact spend in relation to direct benefit to nature...We've been calling for a number of years now for a really forensic analysis across budget lines back to decarbonisation, and we probably need that same thing in terms of spend on nature, if we're genuine about the actions that need to be taken in terms of the nature emergency as well as the climate emergency."*³⁷²

Training and Skills

316. The Commissioner highlights skills and retraining as both a critical pillar of decarbonisation and in supporting the economy to adjust to the changes brought about by the pandemic and Brexit, suggesting that 60,000 jobs could be created with infrastructure investment.³⁷³ However, the Commissioner feels investment in skills has been inadequate, stating "a skills pipeline along with investment is urgently needed for developing skills in key infrastructure projects in green industries and nature restoration".³⁷⁴

317. The Commissioner is concerned that the Welsh economy has been moving away from 'green industries', outlining low apprenticeship and training numbers in key sectors compared to potential job growth.³⁷⁵ Prior to the publication of the Draft Budget, the Commissioner said:

*"The investments announced to date are unlikely to be sufficient to provide the retraining and upskilling required or to offset the dramatic declines in participation in further education, adult and part-time higher education, and work-based learning seen over the past decade."*³⁷⁶

318. Research by the Commissioner also found that females and people of non-white ethnicity are under-represented in green industries, with traditional green jobs currently held in the majority by white males. Without progressive policies, the Commissioner warns that the Welsh Government risks the green recovery being "whitewashed".³⁷⁷

³⁷² Finance Committee, RoP, 19 January 2022, paragraphs 33-34

³⁷³ Future Generations Commissioner for Wales, [Skills through Crisis: Upskilling and \(Re\)Training for a Green Recovery in Wales](#)

³⁷⁴ Finance Committee, [Consultation response: Future Generations Commissioner for Wales](#)

³⁷⁵ Future Generations Commissioner for Wales, [Skills & \(Re\)Training for a Prosperous, Green & Equal Recovery](#)

³⁷⁶ Finance Committee, [Consultation response: Future Generations Commissioner for Wales](#)

³⁷⁷ Future Generations Commissioner for Wales, [Press release: Equality skills gaps in green jobs, finds new analysis by Future Generations Commissioner, Wales TUC and NEF](#)

319. Elaborating on the development of a low-carbon economy, the Commissioner highlighted that 3,000 apprenticeships last year (47 per cent) were in public services and healthcare, compared to 50-100 in forestry and agriculture and 50-120 in areas such as reforestation and flood defences. The Commissioner told the Committee the whole skills system needs to shift in order to generate the skills required to deliver the policy aspirations being funded, with the Welsh Government needing to demonstrate “real leadership” in this area and “targeted interventions for those people who are furthest away from those skills, so women, black, Asian, minority ethnic people, disabled people”.³⁷⁸

320. The Minister for Economy has previously outlined work the Welsh Government is undertaking to understand the needs of employers in terms of net-zero skills and what support it can offer to workers.³⁷⁹ An employability and skills strategy is intended for publication in early 2022, which will “ensure that our system is fit for purpose in meeting the skills that a net-zero future demands”.³⁸⁰

Committee View

321. With the climate and environmental agenda gathering momentum following the critical COP26 summit, the Committee welcomes the Welsh Government's efforts to target investment at the climate and nature emergencies. This demonstrate a shift in priorities from previous years, with the Welsh Government attempting to embed its ambitions around climate change in the budget, medium term infrastructure plans and projects throughout the Welsh Government.

322. The zero-base review of capital in constructing infrastructure plans, with a focus on the WFG Act at its core, is also a positive development. This approach provides the opportunity for the Welsh Government to initiate a step change in its approach to the climate and nature emergencies. However, the Committee is concerned that the level of new and additional funding identified within the Draft Budget falls short of what might be required. The Committee heard that the £1.8 billion funding identified to support the Welsh Government's response to the climate and nature emergencies included funding lines that existed in previous Welsh Government budgets. Stakeholders also suggested that it was challenging to identify whether investments are new or pre-determined and difficult to pinpoint funding that directly benefits nature and biodiversity.

³⁷⁸ Finance Committee, RoP, 19 January 2022, paragraphs 40, 41 and 44

³⁷⁹ Plenary, [RoP, 2 November 2021, Statement by the Minister for Economy: A greener economy](#).

³⁸⁰ Plenary, [RoP, 2 November 2021, paragraph 260](#).

323. While the Committee believes that, through the Draft Budget, WIS and IFP, the Welsh Government has made progress in the way in which it links together its climate strategy and investments, some gaps remain. The Committee heard that the Draft Budget lacks a clear assessment of expenditure back to Net Zero Wales, including which of those commitments are being funded as part of this budget, which are not, or which are only being partially funded. The Welsh Government needs to demonstrate specifically where it is meeting its commitments and how much funding it needs to put to those commitments in order to deliver the required outcomes.

324. The Committee notes the Commissioner's assessment that a significant gap remains between the funding identified as being required to address climate change by the UK Climate Change Committee and that being deployed by the Welsh Government, despite the increase in investment in 2022-23. It is clear that the investment required to tackle the climate and nature emergencies will be significant and will require public and private sectors working closely together. We reiterate the Commissioner's call for greater collaboration in this regard and the need to explore how this might be achieved.

325. While recognising the focus on meeting net zero aspirations, the Committee believes the budget and infrastructure plans need to clearly show impacts on all policy objectives. The Committee feels the IFP in particular makes good progress in identifying where Welsh Government investments are targeting Welsh Government objectives. However, key to this will be understanding the actual outcomes of that expenditure across those priorities. The Welsh Government has finite resources and will need to prioritise how it spends its funding. Making sure the outcomes of those difficult decisions have delivered the maximum benefit across as many objectives as possible is critical to ensuring the budget delivers value for money.

326. While the Committee feels the Draft Budget is presented in a way that demonstrates the priorities and objectives the Welsh Government aims to achieve, it is concerned with the outcome of the Commissioner's public procurement analysis, which highlighted that a cultural change within the Welsh Government is needed if it is going to achieve its ambitions of creating a greener Wales. This includes embedding the climate and nature emergencies across public sector procurement processes and making sure its budget narrative is backed up by action and policy delivery.

327. The Committee is disappointed that the Draft Budget does not go further to assess the carbon impact of the Welsh Government's spending decisions. If the climate and nature emergencies are truly a basis on which the Welsh Government is making its investments, it must have a clear idea of what it will achieve through its spending. However, we note that the IFP

contains some carbon impacts in relation to health and social services and public transport and the activities identified in the Budget Improvement Plan to accelerate this important analysis. This needs to be delivered as a matter of priority for the Welsh Government and work in the Budget Improvement Plan should be fast-tracked.

328. The Committee notes the Minister for Economy's forthcoming employability and skills strategy and advocates the Commissioner's calls for greater emphasis on developing a workforce with the right skills to support a green economy, including targeting under-represented groups.

Recommendation 31. The Committee recommends that the Welsh Government provides a breakdown of where the zero-base review has led to new capital investment within the Final Budget, highlighting pre-existing spend separately alongside that new funding.

Recommendation 32. The Committee recommends that the Welsh Government provides clarity on which specific Net Zero Wales commitments have been funded in the Final budget and also confirms which commitments are not being funded and those being partially funded.

Recommendation 33. Given the limitations of public resources, the Committee urges the Welsh Government to explore ways in which it can leverage private sector finance to address climate change funding challenges.

Recommendation 34. The Committee welcomes the change in the Welsh Government's capital prioritisation process and its focus on climate change, but calls on the Minister to provide clarity on how outcomes across priority areas will be monitored and evaluated.

Recommendation 35. The Committee recommends that the Welsh Government outlines the practical ways in which the strategies and objectives outlined in the Draft Budget (and accompanying documentation) are being implemented in recognition of the climate and nature emergencies.

Recommendation 36. The Committee recommends that the Welsh Government reviews its public procurement policy and frameworks and monitors contracts to ensure they align with well-being objectives and support net zero ambitions.

Recommendation 37. The Committee recommends that the Welsh Government prioritises evidencing how its carbon and finance budgets align in future budgets. The Draft Budget next year must go further in demonstrating the carbon impact of the budget.

8. Tackling Poverty and Inequality

*"There's so much need for social housing because people generally can't afford private rent."*³⁸¹

Young Person and Care Leaver

*"It really would be valuable to have a [Universal Basic Income] pilot that includes a really diverse range of people."*³⁸²

Arts and Culture Professional

329. In addition to the impact of the UK's departure from the EU, and the need to react to the climate and nature emergency and changes, the Welsh Government states its Draft Budget is also set in context of the ongoing pandemic "highlighting and widening inequalities in our society".³⁸³

330. The Bevan Foundation identified a series of issues as Wales emerges from the pandemic, including:

- Demand for healthcare services and wellbeing support (physical and mental) at a record high;
- Employment numbers below pre-pandemic levels in 'large areas of Wales, with claimant figures higher than those in February 2020', immediately before the pandemic; and
- Social security benefits have been frozen or reduced, while cost of living, including rents, are rising sharply.³⁸⁴

331. The Bevan Foundation also noted that these circumstances, combined with the legacy of lockdown, is creating "substantial... additional pressures on households" and its recently published report, 'A snapshot of poverty in Winter 2021', estimated that:

³⁸¹ Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 37

³⁸² Senedd Cymru, [Citizens Engagement Report](#), December 2021, page 38

³⁸³ Welsh Government, [Draft Budget 2022-23: A Budget to build to a stronger, fairer and greener Wales](#), page 68

³⁸⁴ Finance Committee, Consultation response: [Bevan Foundation](#)

- 39 per cent of Welsh households do not have enough money to buy anything beyond everyday items, up from 33 per cent in May 2021;
- More than three in ten of households with a net income of below £40,000 have seen a drop in their income since May 2021, with one in five of households with a net income above £40,000 reporting an increase;
- More than half of households have seen their food costs increase, with more than six in ten reporting increased utility costs;
- More than one in five families with children has had to cut back on children's items, including books, toys, nappies and clothing. One in ten families with two children have had to cut back on food;
- More than one in twenty households are concerned about losing their home in the next three months, whilst 6 per cent have already been informed they will lose their home.³⁸⁵

332. The Chief Economist's report for 2021 states that:

*"Poverty levels in Wales show little trend over recent years, and while levels are somewhat higher than for the UK as a whole, particularly for working age adults, they are lower than in some English regions."*³⁸⁶

333. The report goes on to say that pressures on incomes, rises in energy costs and increased living costs could lead to Wales being "particularly affected", because of lower income levels and higher incidence of poverty, compared to the rest of the UK.³⁸⁷

334. In its written evidence, Chwarae Teg commented that the pandemic has "made clear the need for a comprehensive strategy to tackle poverty in Wales" and question the "lack of clear commitments in the Programme for Government".³⁸⁸

335. The Bevan Foundation calls on the Welsh Government to "use its 2022-23 budget to put in place the building blocks that will reduce poverty in the longer-term" and to address "the root cause of poverty and inequality".³⁸⁹ The Bevan Foundation was generally positive about the Draft

³⁸⁵ Bevan Foundation, [A snapshot of poverty in Winter 2021](#)

³⁸⁶ Welsh Government, [Chief Economist's Report, December 2021](#)

³⁸⁷ Welsh Government, [Chief Economist's Report, December 2021](#)

³⁸⁸ Finance Committee, Consultation response: [Chwarae Teg](#)

³⁸⁹ Finance Committee, [Consultation response: Bevan Foundation](#)

Budget and told the Committee that the Draft Budget had “gone some way towards putting in place what we call the building blocks for solving poverty”.³⁹⁰

Eliminating Inequality and Poverty

336. In its Draft Budget the Welsh Government refers to £12 million of targeted funding to “support delivery of our priorities of tackling poverty and inequality”.³⁹¹ It also includes £10 million of “radical” investment in a Basic Income Pilot up to 2024-25, initially focussing on a “cohort of care experienced young people from across Wales”. The aim of the pilot is to “test the benefits of addressing poverty and unemployment, and improving health and financial wellbeing”.³⁹²

337. The Commissioner has previously stated that Universal Basic Income in Wales would “cut poverty in half”,³⁹³ based on a feasibility study³⁹⁴ performed by think tank Autonomy. A recent report by the Welsh Parliament’s Petitions Committee stated that a pilot based on a larger group would provide more “robust results”.³⁹⁵

338. The Draft Budget refers to a £16.5 million funding allocation “in a range of targeted interventions up to 2024-25 to tackle inequality”. This investment will include funding action within the Race Equality Action Plan, the Disability Rights Taskforce, the LGBTQ+ Action Plan and to “further embed” period dignity.³⁹⁶

339. It also allocates £3 million for the Family Resources Survey³⁹⁷, with the aim of better understanding the “incomes and living circumstances of households across Wales in order to better tackle inequality and poverty”.³⁹⁸

340. The Commissioner’s report ‘Inequality in a Future Wales’ highlights that “those who were already living in poor health, poverty or in marginalised communities have been the hardest hit [by the pandemic]”, compounding inequalities. To address this, the report suggests looking for opportunities to promote equality in policy development across all areas; and creating

³⁹⁰ Finance Committee, RoP, 19 January 2022, paragraph 81

³⁹¹ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 5](#)

³⁹² Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 77](#)

³⁹³ Future Generations Commissioner for Wales, [Universal Basic Income \(UBI\) study](#)

³⁹⁴ Future Generations Commissioner for Wales, [A Future Fit for Wales: a basic income for all](#)

³⁹⁵ Petitions Committee, [A UBI Pilot for Wales](#)

³⁹⁶ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 33](#)

³⁹⁷ UK Government, [Family Resources Survey](#)

³⁹⁸ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 34](#)

opportunities for equalities advocates and policymakers to think and plan for the long-term in partnership, as part of policy development processes.³⁹⁹

341. The Commissioner told the Committee that it was difficult to determine whether the Draft Budget had addressed her concerns in relation to socio-economic inequalities. The Commissioner noted the additional funding allocation to address the skills gap and welcomed the investment in improving the energy efficiency of social housing as a means of tackling fuel poverty, but also commented on the lack of detail within Draft Budget documentation in terms of intersectionality.⁴⁰⁰

Employability and Skills

342. The Draft Budget states that:

"... skills and qualifications are the biggest single influence on a person's chance of being in employment, and on them earning a good income and offering a route out of poverty and protection against it."⁴⁰¹

343. The Draft Budget includes £30 million for employability support up to 2024-25, including delivery of the Young Person's Guarantee as part of the Welsh Government's "key priority to help ensure there is no lost generation following the pandemic".⁴⁰²

344. An additional £30 million is also allocated, up to 2024-25, to continue delivery of an all-age apprenticeship programme, along with expansion of the Shared Apprenticeships and Degree Apprenticeships programme in Wales.⁴⁰³

345. In response to whether more needs to be done to increase skills in order to get people out of poverty, the Bevan Foundation told the Committee:

"Skills are crucial and not just in terms of higher education skills; vocational qualifications are at least as important...but irrespective of somebody's qualifications, we will always need and employ care workers, teaching assistants, refuse workers, bus drivers and so on. And unless something is

³⁹⁹ Future Generations Commissioner for Wales, [Inequality in a Future Wales, November 2021](#)

⁴⁰⁰ Finance Committee, RoP, 19 January 2022, paragraph 55-56

⁴⁰¹ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 35

⁴⁰² Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 34

⁴⁰³ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 34

done about their pay rates, irrespective of their qualifications, we won't get that shift out of poverty that we want to see."⁴⁰⁴

Children, Education and Young People

346. The Draft Budget says that investment in early years and education remains "one of our most powerful levers to tackle inequality, embed prevention and invest in our future generations". The Draft Budget commits to an additional £320 million of spending up to 2024-25 for a "long-term programme of education reform", including funding for the following resource allocations:⁴⁰⁵

- £90 million up to 2024-25 for the Free School Meals (FSM) programme;
- £64.5 million for "wider schools and curriculum reform";
- £30 million for childcare and early year provision. This includes supporting families with the costs of childcare where parents are either in training or education and increasing early year's provision to all two year olds, with a focus on Welsh-medium provision;
- £40 million for the Flying Start and Families First programmes, "in recognition of the importance of supporting more children and families across Wales"; and
- £63.5 million to invest in post-16 provision, covering local authority sixth forms, Further Education colleges and lifelong learning provision.

347. The Draft Budget includes capital investment of £60 million in Welsh Higher Education Institutions, to "continue our long-term programme of education reform, and ensure educational inequalities narrow and standards rise".⁴⁰⁶

348. The Bevan Foundation welcomed the additional £30 million funding allocation to Early Years and Childcare but stated that it's "unclear" who will benefit. It noted the Draft Budget's narrative description of where the funding will be targeted, but questioned how the provision will be increased for two-year-olds and for children of parents who are not in work or training.

⁴⁰⁴ Finance Committee, RoP, 19 January 2022, paragraph 134

⁴⁰⁵ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 5

⁴⁰⁶ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales](#), page 33

349. Cwlwm stated that “quality, affordable childcare enables parents/carers to access employment/training opportunities, lifting families out of poverty and breaking the often-generational link of poverty, educational attainment and career opportunities”.⁴⁰⁷

350. The Bevan Foundation welcomed the Welsh Government’s commitment to providing Free School Meals for all children in primary school, agreed as part of their co-operation agreement with Plaid Cymru. It urged “a rapid roll-out of that provision”, adding:

*“I actually would regard the free school meals for primary school children as an investment. I think it has the potential to transform the well-being of a lot of Wales’s children. I accept there’s some dead weight, as you might want to call it, in that children from better-off families are getting a free meal, but I think it’s the price we pay for making sure our future generations are fit and healthy.”*⁴⁰⁸

351. While the Bevan Foundation welcomed the free school meal policy, it identified older children and young adults as “arguably the group that are most overlooked”, and stated:

*“The Welsh Government’s decision to expand free school meals to all primary school children offers little comfort to the families of the nearly 10,000 children who are denied free school meals in secondary school despite living in poverty. The Education Maintenance Allowance is also conspicuous by its absence, suggesting that the support available to young adults from low-income households who want to continue in education and training will be frozen for a further three years. By the time that the Co-Operation Agreement comes to an end, EMA will have been frozen in real terms for 20 years.”*⁴⁰⁹

352. The Welsh Social Enterprise Stakeholder Group identified a link between poverty and mental health issues in children and young people. It says that “universal preventative support and early intervention” must be put in place to “stop more children reaching crisis point”.⁴¹⁰

353. In its written evidence, Barnardo’s Cymru referred to the importance of Mental health support for children and young people in Wales, stating:

⁴⁰⁷ Finance Committee, Consultation response: [Cwlwm](#)

⁴⁰⁸ Finance Committee, RoP, 19 January 2021, paragraph 101

⁴⁰⁹ Bevan Foundation, [What does the Co-operation Agreement mean for poverty?](#)

⁴¹⁰ Finance Committee, Consultation response: [The Welsh Social Enterprise Stakeholder Group](#)

*"...children and young people in Wales have been through an incredibly traumatic period since the pandemic began....We are only beginning to understand what the longer-term physical and mental health impacts of this will be."*⁴¹¹

Debt and Cost Pressures

354. The Bevan Foundation welcomed the Equality and Social Justice Committee's report on 'Debt and the pandemic' and its recommendations for the Welsh Government in relation to tackling debt.⁴¹² It went on to inform the Committee that whilst additional funding for debt advice is welcomed, "prevention is the way forward".⁴¹³

355. The IFS told the Committee that it had looked at how inflation might impact different income groups.

*"So, for the poorest 10 per cent of households, inflation is expected to rise to about 6.7 per cent by April, compared to 5.3 per cent for the richest tenth of households. In that context, it's worth recognising of course that benefit rates went up or are set to go up in line with inflation as of September, which was 3.1 per cent. So, benefit rates have gone up by just half the rate of inflation, and even less than that for the poorest tenth of households."*⁴¹⁴

356. The Draft Budget refers to £7 million of additional funding for the Discretionary Assistance Fund (DAF), to "ensure support is there for people when it is needed most".⁴¹⁵ It notes that the number of people receiving support from the Fund has increased significantly, and states that £14 million had been paid out between March 2020 and May 2021.⁴¹⁶

357. The Bevan Foundation said it was doubtful that the additional £7 million of funding allocation for the DAF would be enough, with the level of demand unclear and the discretionary aspect of the fund meaning "a lot of people who apply don't get it".

"It is a demand-led fund, as you know. What will the demand be? What will be the eligibility criteria? Will we lose the flexibilities that we've had during

⁴¹¹ Finance Committee, Consultation response: [Barnardo's Cymru](#)

⁴¹² Equality and Social Justice Committee, [Debt and the pandemic, 2021](#)

⁴¹³ Finance Committee, RoP, 19 January 2022, paragraph 119

⁴¹⁴ Finance Committee, RoP, 14 January 2022, paragraph 105

⁴¹⁵ Welsh Government, [Discretionary Assistance Fund](#)

⁴¹⁶ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 33](#)

*COVID? And, what decisions will be taken to manage that fund?... If you asked me to bet, I would bet it's not going to be enough.*⁴¹⁷

358. The Minister told the Committee:

*"DAF is important for people in emergencies, but I think we need to be careful about thinking that it can solve all problems because it is quite a focused fund. And, at the end of the day, it's not Welsh Government's responsibility to be stepping into the welfare space, even though through the DAF we're doing that in a sort-of way."*⁴¹⁸

359. In response to whether more could be done to address the cost of living crisis that has worsened since the publication of the Draft Budget, the Minister referred to the importance of DAF and the "£100 payment to help with winter fuel bills". She also stated that many of the important levers that could "put money in people's pockets", such as the benefits system and energy, lie with the UK Government.⁴¹⁹

360. In its evidence, Unison Wales highlighted the impact of in-work poverty, noting that public sector pay has not kept pace with living costs. It said that until this is addressed, "poverty and gender inequality will not be overcome". It added that "fair pay must be a priority".⁴²⁰

361. In response to concerns raised about in-work poverty, the Bevan Foundation told Committee that although it welcomed the Welsh Government's commitments:

*"I would like to see the Welsh Government do more on fair work in general. Pay is obviously important, but so too are hours and terms and conditions, things like whether or not people have sick pay or get their holiday entitlements and so on."*⁴²¹

⁴¹⁷ Finance Committee, RoP, 19 January 2022, paragraph 127

⁴¹⁸ Finance Committee, RoP, 21 January 2022, paragraph 41

⁴¹⁹ Finance Committee, RoP, 21 January 2022, paragraph 37

⁴²⁰ Finance Committee, Consultation response: [Unison Wales](#)

⁴²¹ Finance Committee, RoP, 19 January 2022, paragraph 129

Social Housing and Homelessness

362. The Bevan Foundation previously proposed, 'four essential actions to improve housing for people on low incomes and reduce housing inequalities', namely, to build more social housing; to build better homes; to prevent homelessness; and to reform Council Tax.⁴²²

363. The Bevan Foundation told the Committee that it welcomed the Draft Budget's £1 billion of capital funding up to 2024-25, with the aim of building 20,000 low carbon social homes. However, having undertaken its own further research, it believed that actual demand for social housing is considerably greater:

"...there is actually a big shortfall between the 20,000 target and what we think is probably a better estimate of need."⁴²³

364. The Draft Budget also refers to revenue funding of £27.5 million that will be allocated to Homelessness Prevention and Housing Support across Wales, up to 2024-25, along with £1 million to establish Unnos, a "national construction company to support councils and social landlords to improve the supply of social and affordable housing."⁴²⁴

Universal Benefits

365. In October 2020, the Bevan Foundation proposed that the Draft Budget should invest in providing universal essential services for Wales's citizens, defining these services as providing: a decent home; care and development of children; good health and social care; good education; money; and connection with others.⁴²⁵

366. In its written evidence, the Bevan Foundation noted that Welsh Government support schemes have "variable eligibility requirements and a low public profile" and that means that "people in greatest need may miss out".⁴²⁶ It told the Committee that a "more streamlined system" would lead to better results for low-income families.

"The difficulty is that they're separate, discrete and quite obscure. So, people have heard of free school meals; they may not have heard of the tenancy

⁴²² Bevan Foundation, [Transforming Wales: how Welsh public services and benefits can reduce poverty and inequality, October 2020](#)

⁴²³ Finance Committee, RoP, 19 January 2022, paragraph 113

⁴²⁴ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 36](#)

⁴²⁵ Bevan Foundation, [Transforming Wales: how Welsh public services and benefits can reduce poverty and inequality, October 2020](#)

⁴²⁶ Finance Committee, Consultation response: [Bevan Foundation](#)

*hardship grant. They may not have heard of the educational maintenance allowance. Each one has to be applied for separately rather than being passported through.*⁴²⁷

367. In response to the Bevan Foundation's comments, the Minister told the Committee that she would discuss its concerns with the Minister for Social Justice, and explore what more could be done "to try and ensure that there is a joined-up approach".

368. The Minister also commented:

"... are people, when they're accessing the single advice service, also being told about support that's available through the Discretionary Assistance Fund or support that's available through council tax reduction? So, it's ensuring that people understand really the range of support that is available for them, but, I think it's a good challenge and one I'm very keen to take up with colleagues."⁴²⁸

369. During scrutiny of the Draft Budget 2021-22, the previous Finance Committee called for the simplification and consolidation of Welsh benefits and for the Welsh Government to consider how it can streamline and better promote the financial assistance schemes available. It recommended:

"Recommendation 28. *The Committee recommends that the Welsh Government improves communication of financial assistance schemes and reviews the application processes to ease access to support, particularly for vulnerable applicants, with consideration given to implementing a "no wrong door" approach for applicants.*"⁴²⁹

Committee View

370. The Committee recognises the significant pressure that will be placed on household incomes, particularly poorer households as a result of increasing inflation, energy and commodity prices.

371. The Committee notes the Welsh Government's ongoing efforts in this area to address the cost of living crisis. In particular, the Discretionary Assistance Fund, as well as payments to help

⁴²⁷ Finance Committee, RoP, 19 January 2022, paragraph 154

⁴²⁸ Finance Committee, RoP, 21 January 2022, paragraph 175

⁴²⁹ Finance, Committee: [Scrutiny of the Welsh Government's Draft Budget 2021-22](#)

with winter fuel bills are crucial to ensure that financial support reaches people who need it most. The Committee also welcomes steps taken by the Welsh Government to mitigate the impact of the crisis, including the support for employability programmes and the extension of Free School Meals. The Committee further notes that using additional financial levers, such as the benefits system and energy, lies with the UK Government and is not within the Welsh Government's control.

372. However, the Committee is concerned that funding in certain areas, notably the Discretionary Assistance Fund, does not go far enough and calls on the Minister to look at whether the allocations made to support the fund are keeping up with demand. The Committee is concerned to hear that the Bevan Foundation believes that the range of Welsh Government support schemes have a "low profile" which means that often the most vulnerable people are missing out. The Committee urges the Minister to liaise with the Minister for Social Justice/her colleagues in government to ensure the public and support agencies understand the range of support that is available. The Committee reiterates the view of the previous Finance Committee that Welsh benefits should be simplified and consolidated and calls on the Welsh Government to take steps to improve awareness and accessibility of its grants and benefits systems. For example, the Welsh Government's Single Advice Service could be a single point of access rather than multiple applications for support.

Recommendation 38. The Committee recommends that the Welsh Government takes steps to raise the profiles of grants and schemes designed to address the cost of living crisis, such as the Discretionary Assistance Fund and payments to help with winter bills so that people are aware of the range of financial support available and how to access them.

Recommendation 39. The Committee recommends that the Welsh Government increases the funding allocation to support the Discretionary Assistance Fund to alleviate the worsening cost of living crisis and to ensure that it can meet ongoing demand.

Recommendation 40. The Committee recommends that the Welsh Government provides an update on the progress made in developing an integrated system of support in response to the acute financial pressures many families are experiencing. Furthermore, the Committee calls for the establishment of single entry points that links across the key services and schemes so people can easily access the support they are entitled to.

9. EU funding Replacement

373. A briefing paper by WFA on the UK Government's Spending Review outlined that Welsh projects have been successful in bidding for £121 million of funding from the first tranche of the Levelling Up Fund. The Spending Review also provided more detail on the funding profile of the UK Shared Prosperity Fund (UKSPF) – the successor to EU structural funding. The UK-wide fund will amount to £0.4 billion next year, rising to £0.7 billion in 2023–24, and £1.5 billion in 2024–25.⁴³⁰

374. In commenting on the economic impact of leaving the European Union, the OBR stated that:

"... looking at the UK as a whole, we do expect Brexit to have a long-term impact on the level of potential output in the UK, to reduce it by about 4 per cent. And the data that we've seen so far in terms of trade flows, on which that estimate was based, is more or less in line with that estimate of about a 4 per cent UK-wide reduction in output."⁴³¹

375. The Minister reiterated the Welsh Government's opposition to the UK Government directly allocating funding in Wales through the Levelling Up Fund, and stated that the funds awarded represent 7 per cent of funding allocated, compared to the 24 per cent received previously from EU Structural funds. She described the first allocations under the Levelling Up Fund as falling short of the "full replacement we were promised to tackle inequality".⁴³²

376. The Draft Budget stated:

"...we have faced further difficulties particularly relating to choices made by the UK government regarding the lack of replacement funding for the £375m a year of EU funding the Welsh Government would have received from January 2021."⁴³³

377. The Minister told the Committee of her serious concerns regarding the lack of replacement EU funding:

⁴³⁰ Wales Fiscal Analysis, [Briefing paper: UK Government Budget and Spending Review 2021: Implications for Wales](#)

⁴³¹ Finance Committee, RoP, 14 January 2022, paragraph 29

⁴³² UK Government, [Written Statement: The UK Government Spending Review and Autumn Budget 2021, October 2021](#)

⁴³³ Welsh Government, [Draft Budget 2022-23: A Budget to build a stronger, fairer and greener Wales, page 8](#)

"... the loss of EU funding is going to have a big impact. It's partly, or in May now, due to the methodology that UK Government is using in terms of netting off existing receipts for EU structural and investment programmes and development projects here in Wales, and had we remained in the EU, obviously, we would have had a new and full round of funding. So, it's not feasible for us to replace the lost EU funding, and we estimate now, because of the methodology, that we're set to lose close to £1 billion of funding due to the UK Government's netting off. So, I've raised this with a procession of Chief Secretaries to the Treasury, but I'm not sure that they've understood the issue which we're trying to describe to them, so I'd warmly welcome the opportunity to have another discussion with the CST on this, and sit down and talk through the issue very clearly, because the impact is going to be absolutely huge."⁴³⁴

Committee View

378. The Committee has regularly stated its concern over the lack of clarity and transparency regarding the UK Shared Prosperity Fund and Levelling Up Fund, and these concerns remain.

379. The Committee is very concerned that the Minister continues to report funding that is considerably below what would have been expected from the EU. The Committee intends to undertake a short inquiry later this year to consider the impact of this issue.

Recommendation 41. The Committee recommends that the Welsh Government provides further information on replacement EU funding as a matter of urgency, so that the shortfall identified in the budget can be addressed.

⁴³⁴ Finance Committee, RoP, 21 January 2022, paragraph 194

Annex A: List of oral evidence sessions.

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

Date	Name and Organisation
<u>22 December 2021</u>	<p>Rebecca Evans MS, Minister for Finance and Local Government, Welsh Government</p> <p>Andrew Jeffreys, Director, Welsh Treasury, Welsh Government</p> <p>Emma Watkins, Deputy Director, Budget and Government Business, Welsh Government</p>
<u>14 January 2022</u>	<p>Richard Hughes, Chairman, Office of Budget Responsibility</p> <p>Andy King, Budget Responsibility Committee member Office of Budget Responsibility</p>
<u>14 January 2022</u>	<p>David Phillips, Associate Director, Institute of Fiscal Studies</p> <p>Dr Ed Poole, Senior Lecturer, Wales Governance Centre (Wales Fiscal Analysis)</p> <p>Cian Siôn, Research Assistant, Wales Governance Centre (Wales Fiscal Analysis)</p>
<u>14 January 2022</u>	<p>Huw Thomas, Director of Finance, Hywel Dda University Health Board (Representative for the Welsh NHS Confederation)</p> <p>Cllr Anthony Hunt, Leader, Torfaen Country Borough Council (WLGA Spokesperson for Finance and Resources)</p> <p>Dave Street, Director of Social Services, Caerphilly County Borough Council (Representative for the Association of Directors of Social Services)</p>

Date	Name and Organisation
<u>19 January 2022</u>	<p>Sophie Howe, Future Generations Commissioner for Wales</p> <p>Alex Chapman, Senior Researcher, New Economics Foundation</p>
<u>19 January 2022</u>	<p>Victoria Winckler, Director, Bevan Foundation</p>
<u>19 January 2022</u>	<p>Sara Jones, Head of Welsh Retail Consortium</p> <p>Suzy Davies, Chair, Wales Tourism Alliance</p> <p>Ben Cottam, Head of Wales, Federation of Small Businesses (FSB Wales)</p> <p>Leighton Jenkins, Head of Policy – Wales, CBI Wales</p>
<u>21 January 2022</u>	<p>Rebecca Evans MS, Minister for Finance and Local Government Welsh Government</p> <p>Andrew Jeffreys, Director, Welsh Treasury</p>

Annex B: List of written evidence

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

Reference	Organisation
WGDB_22-23 1	Institute of Civil Engineers
WGDB_22-23 2	Dyfodol i'r Iaith
WGDB_22-23 3	Ty Hafan & Ty Gobaith
WGDB_22-23 4	Wales Tourism Alliance
WGDB_22-23 5	Welsh Independent Schools Council
WGDB_22-23 6	Barnados Cymru
WGDB_22-23 7	Welsh NHS Confederation
WGDB_22-23 8	Llamau
WGDB_22-23 9	Older People's Commissioner for Wales
WGDB_22-23 10	Welsh Women's Aid
WGDB_22-23 11	Chwarae Teg
WGDB_22-23 12	Cwlwm
WGDB_22-23 13	Wales Women's Budget Group
WGDB_22-23 14	NSPCC
WGDB_22-23 15	Welsh Social Enterprise Stakeholder Group
WGDB_22-23 16	Wales Council for Voluntary Action
WGDB_22-23 17	The Children's Society
WGDB_22-23 18	Community Housing Cymru
WGDB_22-23 19	Cancer Research UK
WGDB_22-23 20	Sport Wales

Reference	Organisation
WGDB_22-23 21	Royal Town Planning Institute Cymru
WGDB_22-23 22	Wales Co-operative Centre
WGDB_22-23 23	Unison Wales
WGDB_22-23 24	Care & Repair Cymru
WGDB_22-23 25	Leonard Cheshire Cymru
WGDB_22-23 26	Wales Environment Link
WGDB_22-23 27	Adferiad Recovery
WGDB_22-23 28	Future Generations Commissioner for Wales
WGDB_22-23 29	Colleges Wales
WGDB_22-23 30	Music Venues Trust
WGDB_22-23 31	Joint submission from Barnardo's Cymru, The Children's Society, Children in Wales, NSPCC Cymru, Save the Children and Home Start Cymru
WGDB_22-23 32	Chartered Institute of Housing Cymru
WGDB_22-23 33	Farmers' Union of Wales
WGDB_22-23 34	RPSB Cymru
WGDB_22-23 35	Universities Wales
WGDB_22-23 36	Cardiff University
WGDB_22-23 37	Response on behalf of members of the eight National Companies funded by the Arts Council of Wales
WGDB_22-23 38	Bevan Foundation
WGDB_22-23 39	Association of Chartered Certified Accountants
WGDB_22-23 40	Teledwyr Annibynnol Cymru (TAC)
WGDB_22-23 41	Arts Council of Wales
WGDB_22-23 42	Welsh Local Government Association
WGDB_22-23 43	Joint submission from Cymorth Cymru and Community Housing Cymru
WGDB_22-23 44	Welsh Retail Consortium

Additional Information

Title	Date
Written evidence from Wales Environment Link	January 2022
Written evidence from Ramblers Cymru	January 2022
Written evidence from FSB Cymru	January 2022
Written evidence from ADSS Cymru	January 2022
Written evidence from Wales Fiscal Analysis	January 2022
Written evidence from Wales Tourism Alliance	January 2022