

Finance Committee's Report: Inquiry into a legislative budget process

The Welsh Government has welcomed the opportunity of this inquiry to reflect on the changes to the Budget process over the course of this administration and the suitability of the current arrangements, building on close working between the Welsh Government and the Finance Committee over many years to improve these processes.

During this term there have been significant increases in the fiscal responsibilities of the Senedd, representing a significant milestone in the devolution journey for Wales and placing even greater emphasis on the Budget process.

Context for Review of the Budget Process

In recognition of these additional fiscal responsibilities, the Welsh Government engaged with the Finance Committee's inquiry into Best Practice Budget Process, which resulted in an agreed Budget Process Protocol in 2017. These changes were introduced in the 2018-19 Budget and followed in the two Budgets since then.

In this period a number of uncertainties, such as the UK's exit from the EU, more frequent UK elections and now the pandemic, have impacted on UK fiscal events and hence the timing of the Welsh Government's annual Budget. Under these exceptional circumstances the Budget Protocol has provided sufficient flexibility to enable Budgets to be produced by the Welsh Government without unduly compromising the scrutiny arrangements. The exceptional circumstances of the period since the changes agreed in 2017 has, however, also impacted on the ability to fully review the impact of these changes.

Despite these circumstances, the Welsh Government has continued to work to improve the transparency of Budget proposals and has included progressively greater levels of detail and supporting information. Working with the Committee, the Welsh Government has acknowledged the complexity of the information presented at various points of the cycle and the variety of purposes for which stakeholders use the information. This has led to the publication of a number of additional supporting documents as part of the Budget package to improve understanding and aid transparency.

Case for a legislative process

The Welsh Government agrees that any process needs to have the flexibility to cope with the UK Government's recent variable and unpredictable timetable for fiscal events. As identified earlier, the current process has provided sufficient flexibility to allow for 8 weeks scrutiny of the Welsh Government's budget proposals despite delays caused by the UK Government. However it is important to recognise that a legislative process will have additional time restrictions, including the Llywydd's determination period, and the intimation period before obtaining Royal Assent, all before the start of the financial year, factors which will adversely impact on timescale

flexibility and, potentially, scrutiny. This is also of significant importance to providing early funding certainty for delivery partners.

Whilst the Welsh Government acknowledges the principle of an equitable balance of control between the legislature and the executive, it is the Welsh Government's assessment that the current process allows the Senedd all the benefits identified in their inquiry that it would want from a legislative process. Before undertaking such reforms there would therefore need to be clear additional benefits identified which are not available within the context of the current process.

The Welsh Government notes the Committee's consideration of the position in Scotland. This current process provides for the Senedd to propose amendments following the laying of the Draft Budget that is equivalent to the legislative process for the Scottish Budget.

The Welsh Government's ambition to provide multi-year settlements whenever possible has been stated on many occasions. However the ability to provide longer-term funding certainty is dependent on the UK Government's spending rounds and not related to the Welsh Government's own budget process and any considerations of a legislative budget process.

Finance Bill

The Welsh Government agrees with the Finance Committee's view that a Finance Bill covering taxation and spending plans will raise a number of complexities and would need very careful consideration. It is also generally understood that Budget legislation is a method specifically for approving overall spending limits and tends to be a simplified legislative procedure that limits non-government amendments, with an accelerated timescale to ensure timely approval before the start of the financial year. Introducing other, potentially highly complex elements such as tax changes as part of the same legislative vehicle could either compromise the approval of spending plans before the start of the financial year, also impacting on the ability to provide funding certainty to partners and stakeholders, or could, conversely, reduce the time for proper scrutiny of tax changes.

The Welsh Government is already committed to using legislation where there is a demonstrable impact for doing so. As the Finance Committee has identified, the Welsh Government has issued a consultation on a proposal for a Bill for Year One of the next Senedd that will provide Welsh Ministers with a mechanism for making changes to the Welsh Tax Acts at short notice as required, while allowing for proper scrutiny by the Senedd. It is hoped that the Welsh Government and the Finance Committee can work collaboratively to bring this legislation forward and, following implementation, assess how well it meets Welsh tax legislation needs.

Alignment of Budget and Accounts

The Welsh Government continues to make progress to align budgeting and accounting boundaries to aid transparency and engagement of the Budget process. To date, 23 central government bodies are designated under the Government of Wales Act 2006 (Budget Motions and Designated Bodies) Order 2018 (as amended). It is aimed that this alignment exercise will be completed by March 2022.

Forecasting

For the first time the 2020-21 Draft Budget was accompanied by independent forecasts of devolved tax revenues from the Office for Budget Responsibility. The Welsh Government appreciates the Finance Committee welcoming the steps that have been taken with publication of taxation and borrowing plans and forecasts at the time of the outline Budget and the commitment to update these forecasts in-year and reporting on outturn.

Engagement

In line with the Finance Committee's own desire to engage with the public in Budget scrutiny, the Welsh Government is committed to improving wider transparency and understanding of spending priorities. This has included in recent years increased engagement and scrutiny prior to publication of the Welsh Government's Draft Budget. As part of this ongoing improvement, the continued input of the Committee on how Welsh Government engagement could be strengthened further is welcome.

Next Steps

Following discussions with the Finance Committee, the Welsh Government agreed to build on the steps taken last year and to hold a debate in Plenary before the summer recess, focusing on strategic issues. Further discussion on how improvements can be made to the current approach and the opportunity to further develop pre-Budget scrutiny would be welcomed.

The Welsh Government appreciates the consideration of the Finance Committee of the current position and, given the forthcoming election, agrees that consideration of any future changes is a matter for the sixth Senedd. As part of these future considerations, the Welsh Government would be open to considering establishing a joint body of the Government and Senedd, with invited independent experts as was the case in Scotland, to review the benefits and issues of introducing further reforms to the Budget process.